

**BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF
MISSOURI**

In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement a General Rate Increase for) **File No. WR-2024-0320**
Water and Sewer Service Provided in)
Missouri Service Areas.)

**INITIAL BRIEF
OF
PUBLIC WATER SUPPLY DISTRICT NOS. 1 AND 2 OF ANDREW COUNTY**

COME NOW Public Water Supply District Nos. 1 and 2 of Andrew County, ("PWSD" or "Water Districts"), pursuant to 20 CSR 4240-2.080 and the Commission's *Order Granting Motion for Extension and Amending Procedural Schedule* entered in this matter on January 31, 2025, files their Initial Brief in the above-referenced matter and respectfully states as follows:

I. INTRODUCTION

The Water Districts are each a political subdivision of the State of Missouri organized and existing pursuant to Chapter 247, RSMo. Since the Water Districts are not-for-profit corporations and are customers of Missouri-American Water Company ("Missouri-American" or "MAWC") which purchase water from MAWC for distribution and resale to their own customers, they are representatives of their customers since any increase in water costs must be passed on to their own rural customers.

In this case, the Water Districts have not taken a position on revenue requirement issues but instead have focused upon the Class Cost of Service ("CCOS") and Rate Design issues. The Water Districts would respectfully request that the Commission adopt the positions on these issues as stated herein.

II. CLASS COST OF SERVICE AND RATE DESIGN ISSUES

Issue 3. Class Cost of Service (CCOS)/Rate Design

a. CCOS

- i. What allocation factors should be used for allocating the revenue requirement among rate classes? What is the appropriate allocation of revenue requirement among the rate classes? Should the Commission utilize the Class Cost of Service Studies filed in this case to determine the appropriate allocation of the revenue requirement to each class? How should the revenues associated with special contracts be treated in developing the class cost of service?**

In this proceeding, the Commission Staff did not file a new Class Cost of Service Study, and instead stated that:

Staff did not prepare a CCOS study for MAWC's water and sewer operations in this case, because it appears with MAWC's submitted CCOS and the Staff prepared CCOS from the last rate case, there was not much difference in the cost allocations. Staff based its rates for MAWC's water and sewer operations on both the results of Staff's audit and the development of a cost of service ("COS") study for MAWC's water and sewer operations. (Ex. 217, Marek Direct/Rebuttal, p. 3)(footnote omitted)

The Water Districts also believe that the Commission should utilize the Staff's Class Cost of Service Study filed in the 2022 MAWC rate case as a guideline to determine the appropriate allocation of the revenue requirement to the various classes. (See Ex. 700 attached) The competent and substantial evidence in the record filed by the Staff in the 2022 MAWC rate case demonstrated that the Sales for Resale Class served by Rate B was paying substantially more than its cost of service. (See Ex. 700 attached)

In the 2022 MAWC rate case, the Commission adopted a settlement among the parties that took a very modest step toward moving the classes closer to their respective

cost of service.¹ In that case, the Sales for Resale Class volumetric rates were slightly reduced to begin to close the gap between the rate levels and the Sales For Resale Class Cost of Service.² However, additional steps should be taken in this proceeding. Since the Staff's CCOS shows that Rate B was the only class that was over-recovering its cost of service in File No. WR-2024-0303 (Tr. 163-165), the Commission should take another step in this proceeding and make a substantial downward adjustment in the current rates charged in Rate B to the Sales for Resale Class.

The Water Districts generally support the use of the allocation factors utilized in Staff's Class Cost of Service in File No. WR-2022-0303 which used the "base-extra capacity" method as outlined in the American Water Works Association Manual of Water Supply Practices, Principals of Water Rates, Fees, and Charges, Seventh Edition (AWWA M1), which is the method generally accepted by the industry and utilized in the past MAWC rate cases by both Staff and MAWC.

MECG/MIEC witness Jessica York and their counsel worked for many days with the Commission Staff in File No. WR-2022-0303 to correct errors in the initial cost study filed by Staff. (Tr. 113, 177) The primary error that was corrected was the inclusion of a "mains adjustment" which was a significant omission from the original Staff CCOS. (Tr. 116)

As Staff witness Melanie Marek explained during cross-examination, the Staff CCOS results demonstrated that for District 2, the Sales For Resale Class should have received a 21.6% rate reduction, even when the overall increase according to the Staff EMS

¹ See *Stipulation and Agreement as to Rate Design and Class Cost of Service*, File No. WR-2022-0303 (file 3/10/2023).

² Attachment A of *Stipulation and Agreement as to Rate Design and Class Cost of Service*, File No. WR-2022-0303 (file 3/10/2023).

Run was 17.8%, if the Staff's CCOS results were used to allocate the overall increase. (Tr. 163-164) For District 1, the Sales For Resale Class should have received a 17.7% rate reduction, when the overall increase for District 1 was 19.3% according to the Staff EMS Run. (Tr. 165)

COMPROMISE PROPOSAL

As stated above, it is the position of the Water Districts that the Commission should make a substantial downward adjustment in the current rates charged in Rate B to the Sales for Resale Class. However, the Water Districts also recognize that rate design principles require the use of gradualism in moving toward cost of service.

It has been 25 years since the Sales For Resale Class rates were dramatically increased by 268% when the Commission decided to use District-Specific Pricing to include the St. Joseph Treatment Plant in the rates of the St. Joseph area.³ This is the ninth Missouri-American rate case that has occurred since the year 2000—some were litigated; others settled,⁴ but the Sales for Resale Class is still above its cost of service as shown in the Staff's last class cost of service study. After all these years, the Water Districts do not believe it would be appropriate to continue the status quo by merely adopting an across the board percentage increase.

Nevertheless, the Water Districts would suggest another gradual step in closing the gap between Rate B and its cost of service. As a result, the Water Districts would urge the

³See *Dissenting Opinion of Vice-Chair M. Dianner*, pp. 3-4, File No. WR-2000-281 (filed August 31, 2000)

⁴Re Missouri-American Water Company Rate Cases: *Report And Order*, File No. WR-2000-281 (issued August 31, 2000); *Order Approving Stipulations and Agreements*, File No. WR-2003-0500 (issued April 6, 2004); *Report And Order*, File No. WR2007-0216 (issued October 4, 2007); *Report And Order*, File No. WR-2010-0131 (issued June 16, 2010); *Order Approving Non-Unanimous Stipulation And Agreement*, File No. WR-2011-0337 (issued March 7, 2012); *Report And Order*, File No. WR-2015-0301 (May 26, 2016); *Order Approving Stipulations And Agreements*, File No. WR-2017-0285 (issued May 2, 2018); *Order Approving Stipulation And Agreement*, File No. WR-2020-0344 (issued April 7, 2021); *Report And Order*, File No. WR-2022-0303 (issued May 3, 2023).

Commission to consider the compromise position discussed below that would move Rate B rates closer to their respective class cost of service as demonstrated by the Staff's CCOS in the previous rate case.

In this case, MAWC, Commission Staff, Public Counsel, MCEG, and Consumers Council of Missouri/AARPP filed a Revenue Requirement Stipulation and Agreement which recommends that the Commission increase MAWC's revenue requirement to \$580,000,000 (water - \$555,985,000 and sewer \$24,015,000).⁵ It is the Water Districts' understanding that this stipulation, if adopted, would increase the water revenues on a total company basis by approximately \$124,554,008, or approximately 28.9%. Under the revenue requirement stipulation, the current Water and Sewer Infrastructure Rate Adjustment ("WSIRA") tariff will be reset to zero.⁶ It is the Water Districts' belief that the WSIRA currently recovers approximately \$63,333,186 in revenues, or approximately 50.85% of the total stipulated increase.

As a compromise position, the Water Districts would recommend that the Commission allocate the rate increase as follows:

Rate B, Sales For Resale Class—14.45% increase after resetting WSIRA to zero (one-half of the system wide stipulated increase);

All Other Classes—Across the Board Equal Percentage Increase based upon the Remaining Revenue Requirement.

For Rate B, the rates would be maintained at the approximate level of the existing rates before the WSIRA was reset to zero. From the Water Districts' perspective, this proposal would be fair and reasonable under the circumstances of this case.

⁵ Revenue Requirement Stipulation And Agreement, p. 2, para. 4 (filed on March 17, 2025).

⁶⁶ Id. at 2; Ex. 12, LaGrand Direct, pp. 36-37.

OTHER PARTIES' CCOS POSITIONS

The Commission Staff has recommended that the Commission use the results of its previous CCOS study as a guide in allocating the rate increase. As explained above, the Water Districts agree with this position. However, the Commission Staff has recommended that the Commission authorize an equal percentage increase across all rates and districts. (Ex. 217, Marek Direct/Rebuttal, p. 6) Given the substantial need for adjustment of the Rate B rates, as discussed above, the Rate B class should not be allocated an equal percentage increase since this approach would merely maintain the status quo. Instead, the Commission should adopt the compromise proposal discussed above. For other classes, the Water Districts believe that an equal percentage increase of the remaining revenue requirement would be reasonable and appropriate under the circumstances of this case.

MAWC and MIEC/MECG have filed CCOS based upon based upon a future test year. (Tr. 166; Staff Position Statement, p. 4) As Staff witness Melanie Marek has testified, the CCOS filed by MAWC and MIEC/MECG should not be utilized in this case since these cost studies include estimated future expenses and revenues and are therefore inappropriate. (Ex. 217, Marek Direct, Rebuttal, p. 3; Staff Position Statement, p. 4; Tr. 166). The Commission has already determined that the use of a future test year in this case is not appropriate, and instead the “Commission concludes that the historic test year with adjustment should be adopted.”⁷ For this reason, it would not be appropriate to rely upon MAWC’s or MIEC/MECG CCOS that are based on future test year data.

3. Issue 3b. Rate Design: What are the appropriate rate structures and rate designs for MAWC customers? What are the appropriate customer charges? What are the appropriate commodity rates?

⁷ *Order Regarding Test Year*, File No. WR-2024-0320 (issued July 31, 2024).

The Water Districts take the position that the current rate design for Rate B should be maintained. The Water Districts take no position at this time on the rate design issues related to other customer classes.

OTHER CCOS AND RATE DESIGN ISSUES

The Water Districts take no position on the remaining CCOS and rate design sub-issues at this time, but reserve the right to take a position in their reply brief, if necessary.

WHEREFORE, Public Water Supply District No. 1 and 2 of Andrew County request that this Commission adopt the positions stated herein.

Respectfully submitted,

/s/ James M. Fischer

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, e-mailed or mailed, postage prepaid, this 4th day of April, 2025, to counsel of record for each party in accordance with the service list maintained in this proceeding by the Secretary of the Commission on EFIS.

/s/ James M. Fischer

James M. Fischer

FILED
March 27, 2025
Data Center
Missouri Public
Service Commission

Exhibit No. 700

PWSD – Exhibit 700
Testimony of Kari Roth,
Schedule KR-r5, File No. WR-2022-0303
Rebuttal
File No. WR-2024-0320

Missouri-American Water Company
WR-2022-0303
Staff Class Cost of Service Study District 1

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED June 30, 2022 UPDATED TO December 31, 2022

Customer Classification	Cost of Service		Cost of Service After Reallocation of Public Fire		Present Revenues		Proposed Revenues		Cost of Service	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent Increase
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		
Residential	\$ 181,264,686	63.1%	\$ 209,776,711	73.1%	\$ 175,102,487	72.8%	\$ 34,674,224	74.6%	\$ 209,776,711	19.8%
Commercial	43,780,700	15.2%	50,969,423	17.8%	45,597,239	18.9%	5,372,184	11.6%	50,969,423	11.8%
Industrial	6,114,034	2.1%	6,463,297	2.3%	4,886,354	2.0%	1,576,943	3.4%	6,463,297	32.3%
Other Public Authority	3,244,378	1.1%	3,841,733	1.3%	3,240,867	1.3%	600,866	1.3%	3,841,733	18.5%
Sales for Resale	6,515,381	2.3%	6,631,996	2.3%	8,055,469	3.3%	(1,423,473)	-3.1%	6,631,996	-17.7%
Private Fire Service	9,413,258	3.3%	9,413,258	3.3%	3,759,867	1.6%	5,653,391	12.2%	9,413,258	150.4%
Public Fire Service	36,763,981	12.8%								
Total Sales	287,096,417	100%	287,096,417	100%	\$ 240,642,283	100%	46,454,134	100%	287,096,417	19.3%
Other Revenues	3,709,065									
Total	\$ 290,805,482		\$ 287,096,417		\$ 240,642,283		\$ 46,454,134		\$ 287,096,417	19.3%
True-Up Estimate	12,971,611						12,971,611		12,971,611	
Total w/ True-Up	\$ 303,777,093						\$ 59,425,745		\$ 300,068,028	

Note: Present Revenues and Proposed Revenues from Staff's EMS Run.

Missouri-American Water Company
WR-2022-0303

Staff Class Cost of Service Study District 2

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TEST YEAR ENDED June 30, 2022 UPDATED TO December 31, 2022

Customer Classification	Cost of Service			Cost of Service After Reallocation of Public Fire			Present Revenues		Proposed Revenues		Cost of Service				
	Amount		Percent	Amount		Percent	Amount		Percent	Amount		Percent Increase			
	(1)	(2)	(3)	(4)		(5)	(6)		(7)	(8)		(9)			
Residential	\$	64,624,231	60.1%	\$	70,176,452	65.3%	\$	54,876,626	60.1%	\$	15,299,826	94.3%	\$	70,176,452	27.9%
Commercial		17,077,923	15.9%	\$	18,235,283	17.0%	\$	17,934,442	19.6%	\$	300,841	1.9%	\$	18,235,283	1.7%
Industrial		9,986,793	9.3%	\$	10,115,815	9.4%	\$	9,496,157	10.4%	\$	619,658	3.8%	\$	10,115,815	6.5%
Other Public Authority		3,908,433	3.6%	\$	4,187,234	3.9%	\$	3,938,759	4.3%	\$	248,475	1.5%	\$	4,187,234	6.3%
Sales for Resale		2,807,292	2.6%	\$	2,842,856	2.6%	\$	3,626,612	4.0%	\$	(783,756)	-4.8%	\$	2,842,856	-21.6%
Private Fire Service		1,967,066	1.8%	\$	1,967,066	1.8%	\$	1,434,399	1.6%	\$	532,667	3.3%	\$	1,967,066	37.1%
Public Fire Service		7,152,968	6.7%												
Total Sales		107,524,705	100%	\$	107,524,705		\$	91,306,995	100%		16,217,710	100%		107,524,705	17.8%
Other Revenues		1,713,635													
Total		\$ 109,238,340		\$	107,524,705		\$ 91,306,995			\$ 16,217,710			\$ 107,524,705		17.8%
True-Up Estimate		5,463,204								5,463,204			5,463,204		
Total w/ True-Up		\$ 114,701,544							\$	21,680,914			\$ 112,987,909		

Note: Present Revenues and Proposed Revenues from Staff's EMS Run.