

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

In the matter of the Petition of	)	
Missouri-American Water Company for	)	CASE NO. <u>WO-</u>
Approval to Change its Infrastructure	)	<u>YW-</u>
System Replacement Surcharge (ISRS).	)	

**MAWC's PETITION TO CHANGE ITS  
INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

COMES NOW Missouri-American Water Company ("MAWC"), pursuant to Sections 393.1000, 393.1003 and 393.1006 RSMo; 4 CSR 240-2.060(1), and 4 CSR 240-3.650 and for its Petition respectfully states as follows to the Missouri Public Service Commission ("Commission"):

**BACKGROUND**

1. Sections, 393.1000, 393.1003 and 393.1006 and Commission Rule 4 CSR 240-3.650 provide eligible water corporations with the ability to recover certain infrastructure system replacement costs outside of a formal rate case filing via an Infrastructure System Replacement Surcharge ("ISRS"). A petition must be filed with the Commission for review and approval before an adjustment can be made to a water corporation's rates and charges to provide for the recovery of the costs associated with eligible infrastructure system replacements.

**THE APPLICANT**

2. MAWC is a Missouri corporation with its principal office and place of business at 727 Craig Road, St. Louis, Missouri 63141. MAWC is a Missouri corporation in good standing. A Certificate of Good Standing from the Office of the Missouri Secretary of State was filed in Commission Case No. WM-2001-309 and is hereby incorporated by reference in accordance

with Commission rule 4 CSR 240-2.060 (1)(G). MAWC currently provides water service to the public in and around the cities of St. Joseph, Joplin, Brunswick, Mexico, Warrensburg, Parkville, Riverside, Jefferson City, and parts of St. Charles, Platte, Warren, Lincoln, Cole, Callaway, Pettis, Taney, Stone, Barry, Christian, Benton, Greene and Newton Counties Missouri, and most all of St. Louis County, Missouri. MAWC currently provides water service to approximately 452,000 customers. MAWC provides sewer service to approximately 4,000 customers near Parkville, Cedar Hill, Warren, Morgan, Cole, Callaway, Pettis, and Jefferson Counties, Missouri. MAWC is a "water corporation" and a "public utility" as those terms are defined in Section 386.020 and 393.1000 (7) RSMo. 2000, and is subject to the jurisdiction and supervision of the Commission as provided by law. Other than cases that have been docketed at the Commission, MAWC has no pending action or final unsatisfied judgments against it from any state or federal agency or court within the past three (3) years that involve customer service. MAWC has no annual report or assessment fees that are overdue.

3. Communications in regard to this Application should be addressed to:

John J. Reichart  
Corporate Counsel & Assistant Secretary  
Missouri-American Water Company  
727 Craig Road  
St. Louis, MO 63141  
314-996-2287  
314-997-2451 (facsimile)  
[John.Reichart@amwater.com](mailto:John.Reichart@amwater.com)

### **THE ISRS REQUEST**

4. MAWC, per this petition, requests an adjustment to its rates and charges through a change to its ISRS rate schedule to provide for the recovery of costs for infrastructure system

replacements and relocations eligible for ISRS recognition. The proposed ISRS rate schedule should reflect the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to MAWC's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements. MAWC also seeks to recover all state, federal and local income or excise taxes applicable to such ISRS income and to recover all other ISRS costs such as depreciation expense and property taxes due within 12 months of this filing.

5. The infrastructure system replacements for which MAWC seeks ISRS recognition are set forth on Appendix B, which is attached hereto and made a part hereof for all purposes. The infrastructure system replacements listed on Appendix B are either; a) mains and associated valves and hydrants installed as replacements for existing facilities that have worn out or were in a deteriorated condition; or, b) a main cleaning and/or relining project; or, c) infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain. The Company utilized both internal and external resources to install the mains. In instances where external sources were utilized, the RFP process was as follows: The American Water Procurement Department worked with MAWC Engineering personnel to identify contractors that were capable of installing water main across the state and provided a questionnaire regarding qualifications, safety, financial, equipment and manpower abilities to meet the anticipated workload identified utilizing the unitization

process to replace and or relocate water mains. From the responses received, Procurement provided a bid document with approximately 584 line items for the contractors to provide unit costs associated with each line item provided and then the pricing provided was evaluated against past projects to see if a cost advantage was recognized in order to validate the hiring of the contractor using this process. Once the evaluation was confirmed, Engineering and Supply Chain entered into a contract with the Contractor(s) to replace/relocate water mains utilizing this unitization pricing method. Appendix B also provides the ISRS information by Task Order (work order) and identifies and sub-totals facility relocations on behalf of the State of Missouri, on behalf of a political subdivision of the State of Missouri, on behalf of the United States and on behalf of an entity other than the United States, State of Missouri or a political subdivision of the State of Missouri. Customers affected by the proposed ISRS benefit from the ISRS projects because 1) the program accelerates the replacement of aging water mains, 2) reduces the frequency of water service interruptions and 3) improves service reliability. Additionally, there were no financing arrangements directed specifically to the ISRS projects.

6. The infrastructure system replacements listed on Appendix B are eligible for ISRS treatment as they are water utility plant projects that: a) replace and/or extend the useful life of existing infrastructure; b) currently are in service and used and useful (in service date is provided); c) did not increase revenues by directly connecting to new customers since all ISRS projects represented replacements of existing facilities or relocations of existing facilities; d) were not included in MAWC's rate base in its most recently completed general rate case; e) costs related to such projects have not been reimbursed to the utility; and f) were not included in any other MAWC ISRS filing.

7. The Company sometimes receives reimbursement from either private developers or governmental agencies. In the case of a private developer, the Company will enter into an agreement that requires the developer to advance to the Company the money based on an estimated cost to relocate facilities. Once the project is complete, the Company prepares a reconciliation of the actual cost to the estimated cost. If the actual cost exceeds the estimate, the developer is required to reimburse the Company. If the actual cost is less than the estimate, then the Company will refund the difference to the developer.

In the case where a governmental agency requires a relocation of Company facilities, no advance funding is received. Once the project is complete, the Company will bill the governmental agency for the amount of the cost of the relocated facilities that were located in easements.

In all cases, reimbursements are based on actual construction costs.

8. The infrastructure system replacements listed on Appendix B for which ISRS recognition is requested, were performed within the boundaries of St. Louis County, Missouri. St. Louis County, Missouri has a charter form of government and is inhabited by more than one million people.

9. MAWC had its last general rate proceeding decided by Commission Order issued on March 7, 2012, effective March 16, 2012 in Case No. WR-2011-0337.

10. This Petition is MAWC's request to change the existing ISRS tariff. The current ISRS rates were approved by Commission order issued June 7, 2013 with an effective date of June 21, 2013 in case WO-2013-0406.

11. Attached hereto as Appendix C is the list of infrastructure retirements and related annual depreciation expense associated with the retirements. Appendix C provides the original cost of the retired asset, depreciation rate, and the date the asset was removed from service.
12. Attached hereto as Appendix A is the proposed rate schedule and supporting documents proposed by MAWC in order to change the established ISRS and to provide for the adjustment of its rates and charges to reflect recovery of eligible infrastructure costs. This proposed rate schedule, on an annualized basis, will produce ISRS revenues of \$2,389,096 or an increase of 0.9% based on the base revenue level approved by the Commission in its most recently completed general rate proceeding.
13. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes current state and federal income tax rates of 5.21327% and 33.17536%, respectively. These rates represent the current statutory rates.
14. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes the regulatory capital structure and return as approved by the Commission in Case No. WR-2011-0337 for application to ISRS filings. Refer to Appendix D.
15. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a weighted cost rate for debt of 3.09%, as calculated in the capital structure referenced in paragraph 14 above.

16. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a weighted cost rate for preferred stock of .02%, as calculated in the capital structure in paragraph 14 above.
17. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a weighted cost of common equity of 5.06%, as calculated in the capital structure in paragraph 14 above. A cost of common equity of 10% was used in the capital structure as determined in the stipulation in the last rate case, Case No. WR-2011-0337.
18. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule applies a current composite property tax rate of .56% to the aforesaid eligible infrastructure system replacements in St. Louis County, Missouri. The property tax rate is based on property tax payments through December 31, 2012.
19. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes depreciation rates currently applicable to the aforesaid eligible infrastructure system replacements in St. Louis County, Missouri as determined by the Commission in Case No. WR-2011-0337.
20. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes customer class billing determinants as utilized in designing the rates for the St. Louis County district during MAWC's most recently completed rate proceeding.
21. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule identifies the classes of customers benefited by the aforesaid eligible water utility plant projects.

22. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes the customer class cost-of-service study filed with the Commission for the St. Louis County district during Case No. WR-2011-0337. Therefore, the class cost-of-service study from Case No. WR-2011-0337 was used in this ISRS case to determine the recovery by customer class of the appropriate pre-tax ISRS revenues. The proposed ISRS is being prorated between affected customer classes based on the class cost-of service study as indicated above.
23. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes the rate design methodology recognized by the Commission for the Metro St. Louis district during Case No. WR-2011-0337.
24. The ISRS on an annualized basis produces revenues of at least one (1) million dollars but not in excess of 10 percent (10%) of the base revenue approved by the Commission in Case No. WR-2011-0337.

#### **ADDITIONAL INFORMATION**

25. MAWC will post information on its website to inform customers of the ISRS. The ISRS information will be posted to the Company's website upon the revised ISRS charge appearing on customer's bills. Refer to Appendix E for an example of the information to be included on the website.
26. Instructions and talking points regarding the ISRS that will be provided to personnel at MAWC's call center will be based upon the information provided on the website referenced in Paragraph 27 of this Petition. Refer to Appendix F for a list of the instructions to be provided to personnel at MAWC's Call Center.



27. MAWC will distribute an annual notice to affected customers each year that an ISRS is in effect explaining the continuation of its infrastructure system replacement program and the resulting ISRS surcharge. See Appendix G for an example of this notice.
28. The ISRS charge will be clearly identified on the customer's billing statement. It will appear as a separate charge under ISRS. See Appendix H for an example of a customer bill showing how the ISRS will be described on customers' bills.
29. MAWC will distribute to its customers an initial (one-time) informational brochure (bill insert) explaining the Infrastructure System Replacement Surcharge. See Appendix I for an example of this notice.

WHEREFORE, pursuant to 393.1006.2 (3) Applicant respectfully requests the Commission provide notice of this filing in accordance with Commission Rule 4 CSR 240-3.650(7) and, thereafter, issue an Order - and approve any implementing tariff sheets - bearing an effective date of no later than December 28, 2013 authorizing:

- a. The Applicant to recover the cost of eligible infrastructure system replacement (as listed on Appendix B) per a change to MAWC's ISRS (Refer to pages 1 and 3 of Appendix A). This ISRS recognition to be accomplished via an adjustment to MAWC's rates and charges by reflecting the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to MAWC's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements which are eligible for the ISRS, including recognition of accumulated deferred income taxes

and accumulated depreciation associated with the aforesaid infrastructure system replacements; and,

- b. Granting such other relief as may be necessary and appropriate to accomplish the purposes of Sections 393.1000 through 393.1006, RSMo.

Respectfully Submitted,



John J. Reichart MBN #59479  
Corporate Counsel  
Missouri-American Water Company  
727 Craig Road  
St. Louis, MO 63141  
314-996-2277  
314-997-2451 (facsimile)

Certificate of Service

I hereby certify that two, true and correct copies of the above and foregoing document was sent by U.S. Mail, postage prepaid, and sent via electronic mail on this 30<sup>th</sup> day of August, 2013, to:

The Office of the Public Counsel  
Governor State Office Building, 6<sup>th</sup> Floor  
P.O. Box 7800  
Jefferson City, MO 65102-7800  
lewis.mills@ded.mo.gov

General Counsel  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 650102  
kevin.thompson@psc.mo.gov

  
John J. Reichart

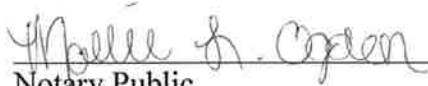
AFFIDAVIT

STATE OF MISSOURI    )  
                                  )  
COUNTY OF ST. LOUIS    )        ss

I, Greg Weeks, state that I am an Vice President for Missouri-American Water Company ("MAWC"), that I have read the above and foregoing document; that the statements contained therein are true and correct to the best of my information, knowledge and belief; and, that I am authorized to make this statement on behalf of MAWC.



Subscribed and sworn to before me this 30 day of August, 2013.

  
Notary Public

My Commission Expires:

August 2, 2016

