

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

In the Matter of the Application of)	
Missouri-American Water Company for)	Case No. WO-2004-0116
Approval to Establish an Infrastructure System)	
Replacement Surcharge (ISRS))	

**BRIEF OF
MISSOURI ENERGY GROUP**

**BARNES-JEWISH HOSPITAL
EMERSON ELECTRIC COMPANY
SSM HEALTH CARE
ST. JOHN'S MERCY HEALTH CARE**

December 4, 2003

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COMES NOW, the Missouri Energy Group (“MEG”), pursuant to Public Service Commission (“PSC” or “Commission”) Rule 4 CSR 240-2.140 and the Notice Regarding Filing of Briefs of the Commission dated November 25, 2003 and submits its Brief on the contested issues in this case. The contested aspects of the Facilities Relocations issue, Deferred Income Tax issue, and the Rate Design issue were ultimately resolved by all parties before the start of the on-the-record presentation and will not be discussed herein.

BACKGROUND

A. On September 2, 2003, Missouri American Water Company (“MAWC”) filed an Application with the Commission requesting authorization of an Infrastructure System Replacement Surcharge (“ISRS”) pursuant to recently enacted statutes 393.1000-393.1006 RSMo (“ISRS Application”);

B. On September 15, 2003, the MEG applied to intervene in this case and such intervention was granted by Commission Order dated September 30, 2003;

C. On October 31, 2003, the Staff of the Missouri Public Service Commission (“Staff”) filed its “Recommendations Regarding Missouri-American Water Company’s Application for Establishment of Infrastructure System Replacement Surcharge” (“Staff’s Recommendations”);

D. On November 10, 2003, MAWC filed its “Response to Staff Report” (“MAWC Response);

E. On November 14, 2003, the MEG replied to MAWC’s Response (“MEG Reply”), as did all other parties to his case;

F. On November 21, 2003, all parties participated in an on-the-record presentation before the Commission, at which briefs were directed to be filed on December 4, 2003.

ARGUMENT

I. Accumulated Depreciation

Section 393.1000(a) RSMo states that the ISRS rate base should be calculated using: “The water corporation’s weighted cost of capital multiplied by the net original cost of eligible infrastructure system replacements, including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible infrastructure system replacements which are included in a currently effective ISRS;” Such calculation was performed by MAWC and was included in its ISRS Application filed on September 2, 2003. However, the Staff Recommendation included accumulated depreciation taken on other non-ISRS-eligible investment, in contradiction of the language of Section 393.1006.2 (2) RSMO which provides:

The staff of the commission may examine information of the water corporation to confirm that the underlying costs are in accordance with the provisions of section 393.1000 to 393.1006, and to confirm proper calculation of the proposed charge, and may submit a report regarding its examination to the commission not later than sixty days after the petition is filed. No other revenue requirement or ratemaking issues shall be examined in consideration of the petition or associated proposed rate schedules filed pursuant to the provisions of section 393.1000 to 393.1006.

A plain reading of the language of the statute indicates that the legislature, whether truly understanding the ramifications of its actions or not, in effect provided for single-issue ratemaking by this statute wording. Thus, Company's method of calculating accumulated depreciation is appropriate to determine the ISRS rate base under a strict reading of the statute language.

II. Accumulated Depreciation—Net Cost of Removal

Section 393.1006.4 RSMo sets out the factors that the Commission should consider in determining the appropriate pretax revenues. One of those factors, enumerated at paragraph (6) lists: "The current depreciation rates applicable to the eligible infrastructure system replacements."

Under the whole life net salvage value method approved by Commission Report and Order in Case WR-2000-844 on May 3, 2001, MAWC is using the correct net salvage value calculation. However, MAWC is incorrectly applying this calculation to non-eligible infrastructure. (LaConte, Tr. at 225-226) MAWC is correct when it states that its total net investment increases when a plant is retired (MAWC Response at 8 (B), p. 5). When a plant is retired, the gross amount of the plant is removed from the total gross plant account and the associated depreciated value is removed from the accumulated depreciation reserve account. The effect of this on the net plant amount is zero; however, the cost of the net salvage is charged to the accumulated depreciation reserve. When the accumulated depreciation reserve is lowered, the value of net plant is increased, but this doesn't occur until the plant is retired. The adjustment MAWC made to the accumulated depreciation account for net salvage is due to the removal of non-

eligible infrastructure. When the current, eligible infrastructure is retired, then MAWC should be allowed to earn a return on the increased net plant, but not before.

III. Property Tax

Section 393.1000(5) states that ISRS costs should include “property taxes that will be due within twelve months of the ISRS filing;” The ISRS Application was filed on September 2, 2003. Property taxes for property placed into service after January 1, 2003 are not due until December 31, 2004 (§137.075 RSMo), which does not fall within the twelve-month timeframe stated in the statute. Therefore, such property taxes should not be included in this ISRS Application.

IV. Conclusion

The accumulated depreciation requested by MAWC in its ISRS Application should be granted; however the treatment for net salvage value and property tax calculations requested by MAWC should be denied. The rate design proposed by MAWC should be accepted. The facilities relocation amount and the deferred income taxes proposed by MAWC should be accepted with the Staff’s adjustments.

Respectfully submitted,



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CERTIFICATE OF SERVICE

Pursuant to 4 CSR 240-2.080 of the Commission's Rules of Practice and Procedure, I hereby certify that I have this day caused an electronic copy of the foregoing to be served on all persons on the official service list in Case No. WO-2004-0116.

Dated at St. Louis, Missouri this 4th day of December, 2003:



Lisa C. Langeneckert