

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

In the Matter of Missouri-American)	
Water Company's Request for Authority)	Case No. WR-2007-0216 and
To Implement a General Rate Increase)	SR-2007-0217
For Water Service Provided in Missouri)	
Service Areas)	

In the Matter of Missouri-American)	
Water Company's Filing of Revised Sewer)	Case No. ST-2007-0443
Tariff Sheets to Implement a Capacity)	Tariff Nos. JS-2007-0713
Charge for Missouri-American's Warren)	and JS-2007-0714
County and Jefferson County Sewer)	
Districts)	

**PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW
AND FINAL JUDGMENT**

The Commission, having held a hearing on August 14, 2007 and having reviewed the transcript of that hearing, the Joint Recommendation of certain parties, the briefs and the legal arguments of the parties, issues its Final Judgment in the above-captioned matter.

FINDINGS OF FACT

1. Missouri-American Water Company (the Company) is owned by American Water Works Company.

2. The Company provides water service to the Company's Joplin District, which is a separate district from the other six (6) water districts to which the Company provides water service in its Missouri system. Each such district has its own water supply and distribution system. No water is transported from one district to another district.

3. District specific pricing (DSP) is a rate allocation method under which different rate schedules are applied to customers in each of the various districts of the

system served by the Company based on separately determined specific costs of providing service in each district. Under DSP, the costs that are incurred specifically by one of the Company's districts are assigned to that district. However, the common costs that the Company incurs, which are not specifically costs incurred by any one district, are allocated among the several operating districts.

4. This Commission has adopted the theory of district specific pricing.

5. A Joint Recommendation has been filed by certain parties to this case.

6. The City of Joplin filed a List of Disputed Issues consisting of these disputed areas.

7. The first disputed issue was the proper normalized chemical expense for the City of Joplin.

8. At the hearing held on August 14, 2007, the Company's witness, Mr. Ed Grubb, Manager of Rates and Regulation for the Central Region and of American Water Works Company and Assistant Treasurer of the Missouri-American Water Company, testified that a mistake had been made regarding the chemical expense adjustment for the Joplin District and that the revenue requirement for the City of Joplin should have been reduced by \$236,416.00.

9. The change to the chemical expense for the City of Joplin and the resulting revenue requirement has been endorsed by the Company, the Office of the Public Counsel and the Staff of the Commission.

10. The second disputed issue involves the corporate expenses incurred by the Company and allocated to the Joplin District.

11. Customer account expense is driven solely and entirely upon various customer accounts within the Company.

12. The customer call center expense is allocated from the corporate headquarters of American Water Works Company to the Company based upon number of customers.

13. Customers initiate calls to the call center and the call center assists customers in resolving their problems.

14. Call center costs are generated to serve customers and to respond to customer complaints.

15. Shared services are allocated from American Water Works Company to the Company based upon the number of customers.

16. Customer account expenses are directly and, solely, determined based upon the number of customers in a district.

17. Depreciation expense relates to the equipment owned by corporate headquarters and used by those corporate assets.

18. Depreciation expense is based upon assets and their age.

19. "Other taxes," as described in the Joint Recommendation, are allocated by American Water Works Company to the Company based upon the number of customers.

20. The third disputed issue is the proper calculation of payroll and payroll taxes in the course of annualizing expenses.

21. The payroll of \$290,000.00 for the test year was annualized close to \$80,000.00 in the Joint Recommendation.

CONCLUSIONS OF LAW

While the Commission enjoys broad discretion in setting rates for utilities, those rates have to be just and reasonable. *State ex rel. Utility Consumer Council v. Public Service Commission*, 585 S.W.2d 41, 49 (Mo. banc 1979); Section 393.140(5), RSMo 2000. A just and reasonable rate is never one that grants undue or unreasonable preference to or imposes undue prejudice or disadvantage on persons or localities. *State ex rel. Joplin v. Public Service Commission*, 186 S.W.3d 290, 296 (Mo. App. W.D. 2005); Section 393.130.3, RSMo Cum. Supp. 2006. A just and reasonable rate covers the cost of service and a reasonable return on assets dedicated to public use. *State ex rel. Washington Union v. Public Service Commission*, 272 S.W. 971, 972 (Mo. banc 1927). It is the purpose of the Commission to “secure and equality of service in rates for all who need or desire their services and are similarly situated.” *Reinhold v. Fee Fee Truck Sewer*, 664 S.W.2d 599, 604 (Mo. App. E.D. 1984).

It is the role of this Commission to establish an appropriate rate, including all the supporting calculations therein, for MAWC’s operations across the State of Missouri. Under Section 393.140(5), RSMo 2000, the rates must not be “unjust, unreasonable, unjustly discriminatory or unduly preferential” and must be “just and reasonable.” Section 383.140(5), RSMo 2000.

I.

Chemical Expense

No party has objected to the recalculation of the revenue requirements for the Joplin District of MAWC through the chemical expense adjustment proposed by the Company. In light of the unanimity with respect to the chemical adjustment for the

Joplin District, and lack of any opposition thereto, this Commission adopts the change and reduces the revenue requirement of the City of Joplin by \$236,416.00.

II.

Allocation of Corporate Expenses

The revenue requirements for the Joplin District of MAWC include the direct costs incurred by the District and the corporate expenses allocated to the Joplin District. In the course of allocating such corporate expenses, the Joint Recommendation unjustly discriminates against the City of Joplin by using improper allocation factors effectively shifting revenue costs away from ratepayers in St. Louis County and St. Charles County, and shifting them to ratepayers in the Joplin District. The use of the proper allocation factors to allocate corporate customer account expense, administrative and general expenses, depreciation expense, and other tax expenses results in a fair and appropriate revenue requirement for the various districts, including the Joplin District. It is

...the province and duty of the commission, in determining reasonable rates, to allocate and treat costs (including taxes) in the way in which, in the Commission's judgment, the most just and sound result is reached.

State ex rel. City of West Plains v. Public Service Commission, 310 S.W.2d 925, 933 (Mo. banc 1958) (emphasis added).

For these reasons, the allocation factors proposed by the City of Joplin's witness, Leslie Jones, in her testimony are adopted by this Commission as being the appropriate allocation factors for the various costs referenced herein. Witness Jones is the only witness who testified to having experience in allocating costs in her normal course of work, outside of rate cases. The calculation of rates and revenue impacts in Exhibits JOP-2, Spreadsheet E, are adopted by this Commission.

The payroll allocation factor for the allocation of customer accounts is rejected by this Commission, and the logically connected and supported allocation of customer account expense to the various districts based upon customer numbers is adopted by this Commission. The cumulative effect of the corporate allocation based upon customer numbers to the customer account is documented in Exhibit JOP-2, Spreadsheet A, required by this Commission to be filed on August 22, 2007. These are the appropriate allocations and this Commission adopts the same.

Administrative and General Corporate Expenses

The allocation of the Belleville Lab is not in dispute in this matter. The allocation of workers' compensation, OPEBs, pension, injuries and damages expenses have been allocated based upon payroll. There is no dispute that payroll is the proper allocation method for those employee-related expenses of the Company.

Call Center Expenses

The testimony of Mr. Ed Grubb, from the Company, clearly delineates that customer number is the proper method of allocating the call center expense. Further, the call center expense is allocated from American Water's corporate headquarters to the Company. The basis of that allocation from the national corporation to the Company is based upon number of customers.

It is important that costs be consistently allocated upon a rational basis. A call center is a completely customer-driven expense. Customers initiate calls to the call center and the call center assists customers in resolving their problems.

The Staff's position is to use payroll to allocate the call center cost. However, the Staff's position is internally inconsistent in that the corporate allocation of the call center

cost to the Company is based upon customer numbers and the Staff allocation from the Company to districts is not based upon customer numbers.

The rational consistency of using the customer allocation factor is compelled by the fact that call center costs are generated to serve customers and to respond to customer complaints. This mandates that we allocate call center costs based upon number of customers.

Shared Services

Shared services are allocated from corporate headquarters to the Company headquarters based upon the number of customers. The Company's rationale for that allocation of shared services is compelling. As MAWC's witness, Mr. Ed Grubb, noted:

“What generates, and what, you know, we're here to serve is the customers. **The customers is the main allocator and that's the company's position.** The customers are the main focus of providing service to them, you know, the cost to provide that service.”

(Tr. Vol. 14, 166:6-11).

Those shared service costs, a component of administrative and general expenses, should be allocated based upon the number of customers just as the corporate allocations from the national corporation to the Company were. By allocating national expenses to MAWC, and then allocating those same expenses from MAWC to the various districts using the same method, consistency is maintained. Accordingly, the Commission determines that the shared services shall be allocated based upon customer numbers.

Remaining Administrative and General Expenses

The remaining administrative and general expenses shall be allocated based upon customer number. As the Company's witness Mr. Grubb noted, the purpose of these

administrative costs is to serve the customers. The number of customers is the most appropriate basis for allocating corporate administrative and general expenses to the districts. The testimony of Leslie Jones indicated that where expenses are related to employees, such as workers' compensation or pensions, they should be allocated based upon payroll. But these expenses, with the exceptions noted previously, all relate to providing service to customers and not to benefits for the employees. Therefore, where expenses are based upon customer service or response, such as call center or other shared services, the corporate costs should be allocated based upon number of customers. This is the most fair and rational method of allocation.

Depreciation Expense

Depreciation expense has been allocated to the districts based upon utility plant and service pursuant to the Company's proposed allocation method. Staff, however, has chosen to allocate depreciation expense based upon payroll expense. Payroll expense has no rational relationship to depreciation expense. Depreciation expense is based upon assets and their age. Payroll expense has no connection to either assets or age of assets.

Joplin witness Jones proposed using length of mains as the appropriate allocation factor. This factor is rationally related to the depreciation expense. Since assets produce the depreciation expense, that expense should be allocated based on assets. The best method of allocation should always be the focus of the Commission. The length of mains is the most appropriate method for allocating depreciation expense and is adopted by the Commission.

Other Taxes

The current allocation method is net plant; however, the “other taxes” relate more specifically to customers than to the plant values. Other taxes should be allocated based on customers. This is a more rational allocation since it is the method by which such taxes are allocated from corporate to the company accounts. To maintain consistency, such expenses should be similarly allocated to the various districts. For that reason, the Commission directs that the other taxes be allocated based upon number of customers.

Summary of Allocations

These allocation methods are most appropriate and result in consistency and reasonableness in direct correlation to the cost drivers generating the allocated expenses. The effect of such changes is contained in the spreadsheets attached to Joplin’s filing pursuant to this Commission’s Order, admitted as Exhibit JOP-2. These allocations are adopted by this Commission.

III.

Payroll Annualization

The payroll annualization from corporate to the various districts is incorrect. The creation of the massive increased annualization of payroll attributed to the Joplin District is inexplicable and has no basis. Accordingly, this Commission removes it from Joplin’s rate base in the Joint Recommendation.

FINAL ORDER

This Commission adopts the allocations proposed by the City of Joplin, to implement the resulting rates, and modifies the rates submitted in the Joint Recommendation as reflected in Joplin’s Exhibit JOP-2, Spreadsheet E.

Dated: _____

Public Service Commission of the
State of Missouri