

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a Session of the Public Service  
Commission held at its office  
in Jefferson City on the 10th  
day of May, 1995.

In the matter of the request of )  
Capital City Water Company for a )  
variance from Commission Rule )  
4 CSR 240-13.020(9)(C). )

CASE NO. WO-95-6

ORDER GRANTING VARIANCE AND APPROVING DISCONTINUANCE OF WATER SERVICE  
AGREEMENT

On July 8, 1994, Capital City Water Company (Capital City or Company)<sup>1</sup> filed a Request for Variance, seeking a variance from Commission Rule 4 CSR 240-13.020(9)(C), which provides as follows: "Every bill for residential utility service shall clearly state -- Any previous balance which states the balance due for utility charges separate from charges for services not subject to commission jurisdiction." Capital City seeks a variance pursuant to 4 CSR 240-13.065(1).

In support for its request, Capital City states that its current billing system provides fully itemized, current period charges, printed as separate line item charges for water, taxes, the Missouri Primacy Fee, and city sewer, and explains that the charge for city sewer is for sewer service provided by the City of Jefferson City (City). The Company's current billing system is based on a single balance forward concept which is maintained as a total, non-itemized amount. To convert the existing billing system in order to accommodate the rule requiring itemized balance forward billing, the Company contends, will require

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<sup>1</sup>On March 20, 1995, Capital City Water Company changed its name to United Water Missouri Inc. Since the name of the Company was Capital City Water Company at the time its request for variance was originally filed, all references in this order shall be to Capital City Water Company. However, all requirements contained in the body of this order, as well as the directives contained in the ordered section of this order, shall be deemed to refer to United Water Missouri Inc.

extensive and expensive modifications to its billing programs, including program modifications of 55 programs requiring simple to moderate changes necessitating an estimated 4 to 8 hours of time each at estimated costs of between \$15,400 to \$30,800 dollars; 29 programs requiring moderate to extensive modifications necessitating an estimated 8 to 40 hours of time each at estimated costs of between \$16,240 to \$81,200 dollars; and 20 programs requiring extensive modifications necessitating an estimated 40 to 120 hours of time each at estimated costs of between \$56,000 to \$168,000 dollars. In addition, it is estimated that an additional \$25,000 to \$50,000 dollars will be needed for program compiles and system testing, resulting in a final projected estimated cost for itemized balanced forward billing ranging from a low of approximately \$118,240 to a high of \$341,200.

Capital City submits that the benefit to the 2,500 customers who do not pay their bill on time and therefore have a balance forward is outweighed by the cost of providing that information, as the cost is substantial and would ultimately have to be born by all of its customers. The Company stresses that the detailed amounts which comprise the single balance forward are available to the customer through a review of the customer's previous month's bill, or by contacting Capital City's Customer Service Department by telephone, and suggests that the availability of detailed balance forward information can be periodically explained to customers in an annual bill message. In addition, Capital City opines that termination of its billing arrangement with the City would not be in the best interest of the customers of either Capital City or the City.

On October 5, 1994, the Staff of the Missouri Public Service Commission (Staff) filed its first recommendation in this case. Staff stated that it had had discussions with Capital City indicating that the Company was currently involved in negotiations with the City to enter into

a water termination agreement, which would allow the City to arrange with Capital City to have the water service of the City's sewer customers discontinued when those customers are delinquent in payment of their sewer bills to the City. Staff noted that similar termination agreements have been accepted by the Commission for St. Louis County Water Company and Missouri-American Water Company, and stated that in its opinion execution of a similar water termination agreement would be acceptable grounds for granting the variance requested. Staff concluded that it would recommend Commission approval of the requested variance conditioned upon Commission acceptance of the proposed termination agreement.

On January 17, 1995, Capital City filed with the Commission an executed copy of a Discontinuance of Water Service Agreement entered into between Capital City and the City. On March 7, 1995, Staff filed a second recommendation in this case, in response to the filing of the executed water termination agreement. Staff maintains that the Discontinuance of Water Service Agreement executed by Capital City and the City contains a material change from the draft copy previously submitted to the Staff. Staff states that the draft copy of the agreement provided that the City would be responsible for any costs incurred by Capital City to modify delinquent notices, while in contrast the executed version provides that the parties would attempt to reach an agreement as to which party would be responsible for the added costs, and that if no agreement was reached, either party could terminate the agreement. Staff contends that the change represents a detriment to Capital City at this time in an unknown amount. As a result, Staff recommends that Commission acceptance of the Discontinuance of Water Service Agreement be conditioned on the premise that none of the potential costs at issue be recoverable in rates in any future case, and in turn recommends that Commission approval of the variance request be conditioned upon Commission acceptance of the proposed

water termination agreement. In addition, Staff recommends that if either party terminates the agreement in the future for any reason, the variance be cancelled and Capital City be required to comply with the Commission Rule 4 CSR 240-13.020(9)(C) within 60 days of any termination notice, and further recommends that the variance, if granted by the Commission, be reflected in a tariff filed by Capital City within 30 days of the effective date of the Commission's order approving the water termination agreement. Finally, Staff recommends that the Company respond to Staff's recommendation within 30 days.

Thereafter Capital City was informed that it had apparently not complied with all of the provisions of 4 CSR 240-13.065(2). By letter dated March 28, 1995, Capital City informed the Commission that the remaining requirements of 4 CSR 240-13.065(2) had been met. On March 29, 1995, Capital City filed a Response to Staff Memorandum. Capital City emphasizes that the draft of the termination agreement provided to Staff was just that -- a draft -- and explains that the parties subsequently agreed that the provision alluded to by Staff was too broad, as the City was required to bear all costs associated with Commission-mandated modifications to Capital City's delinquent notices, which could include required modifications which have nothing to do with the water termination agreement, and therefore could not reasonably be attributable to the City. In addition, Capital City notes that if its requested variance is granted, it would not incur any costs to modify its delinquent notices with respect to itemizing past due balances. As an adjunct to this point, Capital City urges that the condition recommended by Staff -- that none of the potential costs at issue be recoverable in rates in any future case -- is premature and not ripe for determination at this time, as these "potential costs" are not known, and the reason for their incurrence is purely speculative at this time. Capital City stresses that it cannot reasonably be required to

accept the disallowance of future costs when it does not know the magnitude of the costs or the reason why they were incurred, but also admits that Staff cannot reasonably be required to commit to a position at this time which would preclude it from challenging the propriety of future modification costs in future rate cases. Accordingly, Capital City contends that Staff's proposed disallowance of "potential costs" is unreasonable and should be rejected by the Commission.

The Commission has reviewed the Request for Variance, the Discontinuance of Water Service Agreement, Staff's recommendations, and Capital City's response, and determines that Capital City should be granted the variance it has requested, and that the Discontinuance of Water Service Agreement entered into by Capital City and the City should be approved. Capital City indicates that undertaking the necessary modifications to its billing system will be a costly endeavor. Staff does not dispute these cost estimates. While cost alone might not be sufficient to grant a variance, the Commission finds that under all of the circumstances in the present case, including Staff's claim that a termination agreement with the City would provide an acceptable ground for the variance, the variance requested herein is warranted. The Commission notes that it might well have considered granting the variance even in the absence of a water termination agreement, but need not decide this point given the present posture of this case.

The Commission stresses, however, that customer education of how to obtain an itemized balance forward is even more crucial in light of the existence of a water termination agreement. It is entirely possible that a customer may be delinquent in payment of his sewer bill but current with respect to his water bill, yet still have his water turned off for nonpayment of sewer charges. This may be especially confusing to the customer when he receives only one bill for both water and sewer service

provided by two separate entities. Thus the Commission will condition its grant of a variance upon the provision of an explanation by Capital City to its customers regarding the availability of itemized balance forward information during the next available billing cycle. In addition, the Commission trusts that Capital City will give due consideration to the required billing practices under Chapter 13 of the Code of State Regulations in any of its future planning with respect to the Company's billing system.

As previously indicated, the Commission has also reviewed the Discontinuance of Water Service Agreement and Staff's recommendation in relation thereto. The Commission finds that the agreement is generally of the type authorized by §393.015, RSMo 1994, and notes that the agreement contains provisions for appropriate notification of the City's sewer customers, and monetary compensation to Capital City for the cost of disconnections, reconnections, and lost water revenues. It is also similar to agreements previously approved by the Commission in Case No. WO-93-348, between St. Louis County Water Company and the St. Louis Metropolitan Sewer District, and in Case No. WO-93-298, between Missouri-American Water Company and the City of St. Joseph, Missouri. The Commission finds that the Discontinuance of Water Service Agreement between Capital City and the City is reasonable and in the public interest. However, because of the potential for customer confusion detailed earlier, the Commission is of the opinion that Capital City should include an explanatory message about the possibility of water service being discontinued for nonpayment of a sewer bill during the next available billing cycle. In fact, combining this notice with the notice regarding itemized balance forward information will maximize customer understanding and minimize the cost of the customer education. Finally, the Commission disagrees with Staff's recommendation that this order dispose of the question of whether potential costs at issue

be recoverable in rates in any future case. As was correctly stated by Capital City in its Response to Staff Memorandum, the existence and amount of the "potential costs" to which Staff refers are unknown at this time, as are the reasons for the incurrence of the costs. The Commission determines that it would be more appropriate to defer a decision on the proper ratemaking treatment to be afforded these future potential costs until an appropriate rate case seeking recovery thereof has been commenced.

Additionally, the Commission notes that Capital City states it has no objection to Staff's recommendation that the Company be required to comply with Commission Rule 4 CSR 240-13.020(9)(C) within 60 days in the event the agreement with the City is terminated. The Commission concurs, and will include such a requirement in its order. Staff also recommends that the variance, if granted, be reflected in a tariff filed by Capital City within 30 days of the effective date of the Commission's order approving the water termination agreement. For purposes of clarity, the Commission points out that Capital City is required to file at least two tariffs, one referencing the variance per 4 CSR 240-13.065(3), and one referencing the Discontinuance of Water Service Agreement. The Commission will require both tariffs to be filed as 30-day tariffs within 30 days of the effective date of this order.

**IT IS THEREFORE ORDERED:**

1. That the Request for Variance filed by Capital City Water Company on July 8, 1994, requesting a variance from the provisions of Commission Rule 4 CSR 240-13.020(9)(C), be and is hereby granted.

2. That the Discontinuance of Water Service Agreement between Capital City Water Company and the City of Jefferson City, Missouri, executed on January 12, 1995, and filed with the Commission on January 17, 1995, be and is hereby approved.

3. That in the event the aforesaid Discontinuance of Water

Service Agreement is terminated for any reason, the variance granted in Ordered Paragraph #1 shall be canceled, and Capital City Water Company shall comply with Commission Rule 4 CSR 240-13.020(9)(C) within sixty (60) days from the date of termination.

4. That Capital City Water Company be and is hereby ordered to provide notice of the availability of itemized balance forward information and the possibility of a discontinuance of water service for nonpayment of a sewer bill during the next available billing cycle. A copy of the notice should be submitted to the Commission on a timely basis thereafter.

5. That Capital City Water Company be and is hereby ordered to file with the Commission thirty-day tariffs within thirty (30) days of the effective date of this order, to reflect the variance granted in Ordered Paragraph #1, as required by 4 CSR 240-13.065(3), and to reflect the Discontinuance of Water Service Agreement approved in Ordered Paragraph #2.

6. That nothing in this order shall be considered a finding of the Commission of the reasonableness of any expenditures herein involved, the value for ratemaking purposes of any properties herein involved, or an acquiescence in the value placed upon said properties by Capital City Water Company. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded to any such expenditures or property in any later proceeding.

7. That this order shall become effective on May 23, 1995.

BY THE COMMISSION



David L. Rauch  
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Perkins,  
and Kincheloe, CC., Concur.  
Crompton, C., Dissents.