

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WO-2013-0443 – Agreement to Sell and Deliver Water for Resale
Missouri-American Water Company and Chariton Public Supply Water District No. 2

FROM: James M. Russo – Water & Sewer Unit

/s/ Jim Busch 5/13/13
Manager – Water & Sewer Unit

/s/ Amy E. Moore 5/13/13
Staff Counsel's Office Date

SUBJECT: Staff Recommendation for the Commission approval of the Agreement to Sell and Deliver Water For Resale

Date: May 13, 2013

OVERVIEW AND PROCEDURAL BACKGROUND

On April 1, 2013, Missouri-American Water Company (MAWC or Company) filed its *Application for the Approval of Agreement and Tariff* (Application), in which it seeks approval of an Agreement to Sell and Deliver Water for Resale (Agreement) between MAWC and the Chariton County Public Water Supply District #2 (District). MAWC and the District are collectively referred to as “Parties” hereafter. The Company included a copy of the Agreement and a proposed tariff sheet PSC MO No. 13 Original Sheet No. RT28 (Tariff Sheet), as Appendices A and B, respectively.

MAWC currently provides water service generally to the public in and around the cities of Brunswick, Jefferson City, Joplin, Mexico, Parkville, Riverside, St. Joseph and Warrensburg, and parts of Barry, Benton, Callaway, Christian, Cole, Greene, Lincoln, Newton, Platte, St. Charles, Taney and Warren Counties, Missouri, and most all of St. Louis County, Missouri. MAWC also provides sewer service to areas in and near the cities of Cedar Hill and Parkville as well as Callaway, Christian, Cole, Jefferson, Morgan, Pettis and Taney Counties, Missouri. The District is a public water supply district existing under, and by virtue of, the laws of the State of Missouri and provides water service to areas within Chariton County, including areas bordering the city of Brunswick. MAWC, as an investor owned utility, is subject to the jurisdiction of the Public Service Commission (Commission). The District, as a public water supply district, is not subject to the jurisdiction of the Commission.

The agreement entered into between the Company and the District provides for an agreed-upon delivery of water from the Company to the District from four points of delivery for a term of twenty (20) years. The agreed-to commodity charge is fixed for the initial five years of the agreement and will then be adjusted in each calendar year on the contract anniversary date by a factor agreed to by the parties. The parties agreed that the yearly adjustment in the commodity charge would not exceed 10%.

On April 2, 2013, the Commission issued its *Order and Notice*, which, among other things, set April 12, 2013, as the date by which interested parties could intervene in this case. On April 10, 2013, AG Processing Inc. a Cooperative (AGP) filed an *Application to Intervene of AG Processing INC a Cooperative* stating, among other things, that AGP's interest in proceedings affecting the rates, terms and

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conditions of water services from MAWC have been previously recognized by the Commission in allowing AGP's intervention in prior MAWC rate and tariff-related proceedings. The filing further stated that AGP has actively participated in such cases. On April 22, 2013, the Commission issued its *Order Granting Intervention*.

STAFF'S REVIEW OF THE APPLICATION

Staff has reviewed a copy of the Agreement, the current Brunswick water plant's daily flow capacity, maximum day and average day output of water, the anticipated maximum day and average day water to be provided to the District, and the variable cost of water produced at the Brunswick water plant.

The plant flow capacity for the Brunswick water plant is rated at 75 gallons per minute (gpm) per filter. The plant has four filters, which results in a total of 300 gpm with all four filters in use. The Company can safely and adequately supply the District water in addition to supplying its existing customers without exceeding the current capacity of the water plant. The maximum day plant usage would be approximately 45% of capacity with all four filters in service and approximately 60% of capacity with one filter out of service.

The expense accounts used by the Company in determining the variable cost of water production ** _____ **. Staff agrees that these are the correct accounts to be used in calculating the variable cost of water production. The Company stated in its response to Staff Data Request Number 7 that the net marginal cost of water production in the Brunswick operating district was determined to be ** _____ **. Staff also calculated the net marginal cost of water production using data from the last rate case filed by the Company (Case Number WR-2011-0337) and determined the net marginal cost of water production to be approximately ** _____ **. Both of these calculations are significantly lower than the initial commodity rate set out in the contract of ** _____ **. The additional revenues collected by the Company between the difference in the contract rate and the variable cost of production will reduce the amount of monies required to be collected in a future rate proceeding from the other customers in the Brunswick District.

STAFF'S CONCLUSION AND RECOMMENDATION

Staff determines that the Agreement entered into between MAWC and the District is in the public interest. Staff specifically recommends that the Commission approve the Agreement and Tariff Sheet.

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