

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

In the Matter of Missouri-American Water Company )  
for a Certificate of Convenience and Necessity )  
Authorizing it to Install, Own, Acquire, Construct, ) **File No. WA-2012-0066**  
Operate, Control, Manage, and Maintain Water and )  
Sewer Systems in Christian and Taney Counties, )  
Missouri. )

**STAFF'S STATEMENT OF POSITION**  
**IN CASE NOS. WA-2012-0066 & SA-2012-0067**

**I. CERTIFICATES OF CONVENIENCE AND NECESSITY**

Should MAWC be granted certificates of convenience and necessity to provide water and sewer service to the requested territory, which includes the Village of Saddlebrooke?

*Yes. The Commission should grant certificates of convenience and necessity to provide water and sewer service to the requested territory, which includes the Village of Saddlebrooke.*

- A. Is it reasonable and necessary that the Commission impose conditions on any such approval?

*Yes it is reasonable and necessary for the Commission to impose conditions on any such approval, however, those conditions should also be reasonable and related to the approval of a certificate of convenience and necessity.*

- B. If so, what conditions should be imposed?

*The Commission should grant a certificate of convenience and necessity with the 16 conditions proposed by Staff in Staff's Recommendation, specifically in Staff's Memorandum, labeled as Appendix A, under the section titled "Staff's Recommendations."*

- a. As a condition of approval, should the approved rates reflect the fully allocated embedded cost of service or alternative concepts?
- i. Should Corporate Overheads be included in the Saddlebrooke cost of service on an incremental or fully allocated basis?

*Staff supports the inclusion of Corporate Overheads to be included on an incremental basis instead of fully allocated basis. Staff and MAWC have included an amount of incremental corporate allocations into Saddlebrooke's cost of service based upon the expected level of additional costs to be charged to Saddlebrooke as a result of the Application case.*

- ii. Should income taxes recovered from the Saddlebrooke district be included on a stand-alone or fully allocated basis?

*Staff supports the income taxes being included as a stand-alone basis instead of being consolidated with American Water Works income taxes and allocated to MAWC. Staff recommends a stand-alone federal income tax rate of 15%, based on Saddlebrooke's net operating income of \$12,819 for water and \$8,604 for sewer. The Internal Revenue Service tax rate is based on the amount of net operating income and Saddlebrooke's net operating income for water and sewer is less than \$50,000, therefore the federal tax rate that is appropriate to use in this case is 15%.*

- b. As a condition of approval, if rates are based on net original cost and an excess capacity adjustment, should a commitment be necessary from MAWC to continue to apply the excess capacity adjustment for a reasonable period of time?

*Yes. Absent a capacity adjustment, current customers would overpay in rates for the capital cost of excess plant capacity. Staff described in detail its capacity adjustments for various plant components in Staff's Recommendation, and will continue to examine the need for capacity adjustments in the future based on customer levels, water/sewer usage levels, and circumstances of plant components that exist at those future times.*

**Staff Witness: Jim Merciel**

- c. As a condition of approval, should a commitment be necessary from MAWC that it will never seek to increase rates to other MAWC districts so that the Saddlebrooke water or sewer district may be served at below-cost rates?

*No. This issue should be decided in MAWC's next general rate case. It is too far reaching to get a commitment from any party, including MAWC to never seek an increase based on hypothetical information on one system.*

## II. RATES

- A. Should the rates to be charged by MAWC within the subject territory approximate the cost of service associated with providing service to that territory?

Yes.

- B. In assessing the cost of service:

- a. What tax rate should be used?

*Staff recommends a stand-alone federal income tax rate of 15%, based on Saddlebrooke's net operating income of \$12,819 for water and \$8,604 for sewer. The Internal Revenue Service tax rate is based on the amount of net operating income and Saddlebrooke's net operating income for water and sewer is less than \$50,000, therefore the federal tax rate that is appropriate to use in this case is 15%.*

- b. What return on equity should be used?

*Staff recommends an ROE of 9.45%.*

**Staff Witness: Paul Harrison**

- c. Should rate base be based upon net original cost or the purchase price?

*Rate base should be based upon net original cost, with appropriate capacity adjustments for ratemaking. Net original cost should neither be inflated nor written down based on a system sale price or purchase price.*

**Staff Witness: Paul Harrison**

- d. If rate base is based upon net original cost, under what conditions should plant held for future use be added to rate base in future rate cases?

*Plant held for future use should be added to rate base as that plant becomes "used and useful" and utilized to provide service to customers, based on judgment of what is needed at the time the evaluation is made.*

**Staff Witness: Jim Merciel**

- e. Should rate base include the \$31,000 in future capital improvements not yet in service designed to address security, reliability and DNR non-compliance letters?

*Yes. If a certificate of convenience and necessity case involves the acquisition of an existing system, then the proposed utility is not in a position to undertake improvements to the system because that utility does not own it and thus cannot perform work or undertake improvements. As a result, proposed plant additions that are not yet in service and associated estimated costs are necessary in determining adequate and appropriate rates for systems not yet regulated by the Commission, as is the case for Saddlebrooke.*

**Staff Witness: Jim Merciel**

- f. Should the rate include expenses associated with incremental or full corporate allocations?

*Incremental. Staff and MAWC have included an amount of incremental corporate costs in Saddlebrooke's cost of service based upon the expected level of additional costs to be charged to Saddlebrooke as a result of the acquisition.*

**Staff Witness: Paul Harrison**

- C. What initial rates should be used by MAWC to serve the subject territory? Should the initial rates be based on estimated and actual costs associated strictly with Saddlebrooke, or by using existing rates approved for use in other service districts?

*The initial rates should be based on Saddlebrooke's stand alone cost of service based on estimated and actual costs associated strictly with Saddlebrooke. Staff's proposes the following initial rates in this matter:*

*Water Service*

*Customer Charge -- \$14.62 per month*

*Commodity Charge -- \$2.73 per 1,000 gallons usage*

*Sewer Service*

*Customer Charge -- \$13.76 per month*

*Commodity Charge -- \$4.59 per 1,000 gallons monthly usage based on usage during the months of December, January, and February*

**Staff Witnesses: Paul Harrison & Jim Merciel**

**WHEREFORE**, Staff respectfully submits *Staff's Statement of Position* for the Commission's information and consideration.

Respectfully submitted,

**/s/ RACHEL M. LEWIS**

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 21st day of June, 2012.

**/s/ RACHEL M. LEWIS**