

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

In the Matter of the Application of Missouri-American)
Water Company for Waiver of Service Connection) **File No: WE-2010-0360**
Charges for Customer in the St. Charles District)

STAFF'S RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"),
by and through its attorney and, for its *Recommendation*, states to the Missouri Public
Service Commission ("Commission") as follows:

1. On June 9, 2010, Missouri-American water Company ("Company") filed a
motion to waive the service connection charge for a customer in its St. Charles District.

2. On June 11, 2010, the Commission directed the Staff to file a
recommendation or a pleading setting out a date by which it will file its recommendation.

3. The Staff has reviewed and investigated the Company's application and
Staff believes the conditions specified in the Company's tariff to waive the connection
charge exist and therefore recommends that the Commission approve the waiver of new
service connection charge with a 1 ½ inch service connection, as stated in Staff's
Memorandum, attached as Exhibit 1 to this Recommendation.

4. The Staff further recommends that, after receiving Commission's
approval, the Company should file a revised tariff sheet that includes this customer's
waiver on the tariff sheet list.

5. Finally, the Staff recommends that the Commission order that it makes no
finding that would preclude the Commission from considering the ratemaking treatment

to be afforded any matters pertaining to the granting of the requested waiver in any later proceeding.

WHEREFORE, Staff recommends the Commission issue an Order that approves the Company's application for waiver of service connection charge for a customer in its St. Charles District; that the Commission include in the Order that the Company should file a revised tariff sheet that includes this customer's waiver on the tariff sheet list; and that the Commission's Order make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matter pertaining to the granting of the requested waiver in any later proceeding.

Respectfully submitted,

/s/ Rachel M. Lewis
Rachel M. Lewis
Deputy General Counsel
Missouri Bar No. 56073

Attorney for the
Staff of the Missouri
Public Service Commission
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record on this 29th day of June, 2010.

/s/ Rachel M. Lewis

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

AFFIDAVIT OF JAMES A. MERCIEL, JR.

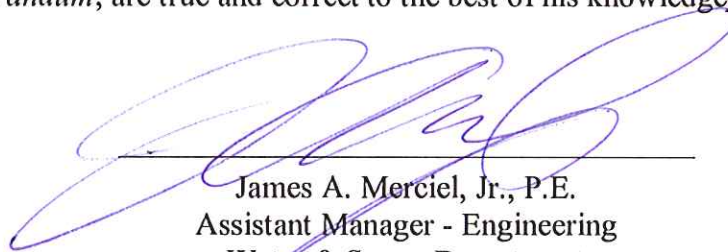
STATE OF MISSOURI)

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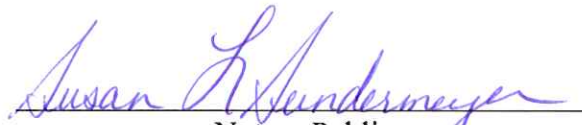
Case No. WE-2010-0360

COUNTY OF COLE)

James A. Merciel, Jr., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the following *Memorandum*; (3) that he has knowledge of the matters set forth in the following *Memorandum*; and (4) that the matters set forth in the following *Memorandum*; are true and correct to the best of his knowledge, information and belief.


James A. Merciel, Jr., P.E.
Assistant Manager - Engineering
Water & Sewer Department
Utility Operations Division

Subscribed and sworn to before me this 29th day of June 2010.


Notary Public



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WE-2010-0360 Missouri-American Water Company

FROM: Jim Merciel – Water & Sewer Department

<u>/s/ Jim Busch</u>	<u>6/29/2010</u>
Water and Sewer Department	Date

<u>/s/ Rachel Lewis</u>	<u>6/29/2010</u>
General Counsel's Office	Date

SUBJECT: Staff Recommendation Regarding Waiver of Connection Fee – Tariff Rule 4(Q)

DATE: June 29, 2010

BACKGROUND

On June 9, 2010, Missouri-American Water Co. (MO Am or Company) filed an *Application for Waiver of Service Connection Charges and Motion for Expedited Treatment* (Application), in which it requests authority to waive the connection charge for a customer by the terms of an approved applicable tariff rule.

In its Application, the Company states that the involved customer is a Taco Bell restaurant, located at 1630 Jungerman Road in St. Peters. This current customer is rebuilding and expanding its building, and as such the customer will need a new larger service connection, for which a connection charge would normally apply as provided in the Company's tariff. However, this customer has the opportunity to connect to another water utility that does not have a connection charge, namely the City of St. Peters. The Company thus believes that if it is able to waive the specified connection charge by the terms of its tariff, then it will be able to keep this customer.

STAFF'S INVESTIGATION

As stated by the Company in its Application, the customer needs a 1½ inch service connection, at a cost of \$3,608.59. Although the costs of residential-size service connections are specified in its applicable tariff, larger meter sizes are to be installed at actual cost. This is as specified in Rule 4(m) on Sheet No. 12 of the Company's "Missouri Cities" tariff, applying to its St. Charles and several other service districts, a copy of which was included with its Application. This stated cost is the estimate of what the Company is currently experiencing for this meter and connection size according to an internal Company memo dated January 10, 2008, a copy of which was also included with its application.

Rule 4(Q) on Sheet No. 13A of its "Missouri Cities" tariff, a copy of which was included with the Company's Application, provides that the connection charge may be waived if several conditions apply. Those conditions are that 1) competition exists between water utilities for the customer(s), 2) the addition of customers for whom connection charges would be waived would not result in a positive revenue requirement, and 3) a positive net income would be achieved within a five (5) year period. Although strictly by its language the tariff contemplates the addition of new customers with added revenue, the Staff believes it is reasonable and appropriate to apply this tariff rule to this existing customer who is expanding a commercial facility, and for which any change in revenue would involve a reduction of existing revenue if the Company loses this customer to another utility.

The Company stated in its Application that this customer's water bill averages \$183 per month, for a 5-year revenue amount of \$10,980, exceeding the requested waiver of a \$3,608.59 connection charge.

After discussion with the Company as well as the architect working on this project for Taco Bell, the Staff agrees that the waiver is reasonable, though the Staff is using some slightly different numbers than those in the Company's application. First, the Staff bases its evaluation on water usage averaging 51,500 gallons per month for this customer and the calculated amount of the bill that is actually for water service, excluding any state or local taxes and other charges that may be added onto utility bills. Second, the Company has a pending rate increase case, WR-2010-0131, for which new rates have been finalized but do not take effect until July 1, 2010. The Staff has included two evaluations based on existing rates and for new rates proposed to become effective. Third, although the tariff rule seems to contemplate a simple revenue amount for involved customer(s), there are direct costs incurred gallon-for-gallon in sending water to any customer, as opposed to costs that are allocated to water usage but are really not directly related. The direct costs are electricity for pumping and chemical treatment. The Staff has taken these costs into consideration based on its numbers from the current rate case. Using rates that will become effective on July 1, 2010, the Staff expects a revenue amount from this customer of \$10,977 over a five (5) year period based on those water rates or if the direct power and production expenses are deducted, a usable revenue amount of \$5,106 for the same period of time. Both of these numbers exceed the Company's \$3,608.59 service connection cost estimate. A workpaper prepared by the Staff is included with this memorandum as Attachment A.

According to both the Company and the customer's architect, the large service connection is needed for fire protection. A fire protection system will not cause water usage to increase. However, since the customer is constructing a newer and better restaurant, it presumably will be able to attract and serve more customers, which could increase its water usage a small amount. Any such increase would further justify the waiver of connection fee.

STAFF'S FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Upon review, the Staff believes it reasonable to waive the connection charge in order to give this customer the incentive to remain as a customer of MO Am. The customer has the option of connecting to the City of St. Peters water system, with no connection charge, although that would require construction of a service line across the street. If MO Am is able to waive the connection charge, then it makes financial sense for Taco Bell to remain a customer.

The Staff believes that the conditions specified in the Company's tariff to waive the connection charge exist, and therefore recommends that the Commission approve waiver of new service connection charge with a 1½ inch meter for this customer. The applicable tariff sheet, Sheet No. 13A of the Company's "Missouri Cities" tariff, has space to record any waivers granted. Therefore, the Staff also recommends the Company, after such approval by the Commission, file a revised tariff sheet that includes this customer's waiver on the tariff sheet list.

The Company has no past due annual assessments through fiscal year 2010, nor past due annual reports through calendar year 2009. Jim Merciel of the Water and Sewer Department verified this information using the Commission's posted records for each of these activities. As stated, MO Am has a rate case pending before the Commission, WR-2010-0131. It also has a formal complaint filed by a customer, WC-2010-0215, and a case seeking a variance with regard to discontinuance of service, WE-2010-0136. None of these cases will have any effect upon the waiver requested in this case. Additionally, approval of this waiver will have no impact upon any of these cases or any other matter before the Commission.

The Staff Recommends the Commission grant an order that:

1. Approves the waiver of connection fee, as requested, for a 1½ inch meter for Taco Bell, 1630 Jungerman Road, St. Peters, MO;
2. Requires the Company to file a new tariff Sheet No. 13A with identical rule language and reflecting the inclusion of this waiver; and,
3. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the requested waiver in any later proceeding.

Attachment: A - Staff Workpaper Showing Customer Revenue

WE-2010-0360
Missouri-American Water Co.
Rule 4Q Waiver Request

Company Rates		Meter Size	Existing Rates	Proposed Rates WR-2010-0131
customer charge		5/8 "	\$ 8.40	\$ 9.65
		1 1/2 "	\$ 16.25	\$ 18.66
commodity charge per 1,000 gallons			\$ 2.7780	\$ 3.1901
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Customer revenue		5/8 " existing rates	1 1/2 " existing rates	1 1/2 " proposed rates
monthly usage, gallons	51,500	\$ 152.72	\$ 159.32	\$ 182.95
annual revenue		\$ 1,832.60	\$ 1,911.80	\$ 2,195.40
5 year revenue		\$ 9,163.02	\$ 9,559.02	\$ 10,977.01
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add in	production cost	\$ 1.90 per 1,000 gal	\$ 97.85	\$ 97.85
	5-year production cost		\$ 5,871	\$ 5,871
net revenue			\$ 3,688.02	\$ 5,106.01
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Company's cost of 1 1/2 " service connection				\$ 3,608.59