

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

In the Matter of the Petition of Missouri- )  
American Water Company for Approval to )  
Change its Infrastructure System Replacement )  
Surcharge (ISRS) )  
 )

Case No. WO-2008-0249  
Tariff File No. JW-2008-0450

**RECOMMENDATION FOR APPROVAL OF APPLICATION**

**COMES NOW** the Staff of the Missouri Public Service Commission (Staff), by and through Counsel, and for its Recommendation For Approval of Application (Recommendation), states the following to the Missouri Public Service Commission (Commission).

1. On January 29, 2008 (unless noted otherwise, all dates herein refer to the year 2008), Missouri-American Water Company (MAWC) filed a petition to change its Infrastructure System Replacement Surcharge (ISRS), pursuant to the provisions of Sections 393.1000, 393.1003 and 393.1006, RSMo, and Commission Rules 4 CSR 240-2.060(1) and 4 CSR 240-3.650.

2. On February 1, the Commission issued its **Order Suspending Tariff** which suspended MAWC's proposed ISRS tariff sheet until May 28 and issued its **Order Directing Notice and Setting Intervention Date** which established February 21 as the date by which applications to intervene in the instant case were to be filed. No requests to intervene were filed by the established deadline, nor have any been filed since.

3. On February 26, the Commission issued its Order Directing Filing which directed the Staff to examine MAWC's proposed ISRS and to file a report regarding that examination no later than March 31.

4. The Staff's report of its examination of MAWC's proposed ISRS and its recommendations to the Commission regarding this case are set out in the Staff's Official Case File Memorandum (Memorandum), which is included as Appendix A attached hereto. The Staff's recommendations are set out on Page 4 of its Memorandum, and the Staff's work papers related to its examination of the Company's petition are included as attachments to the Staff's Memorandum.

**WHEREFORE,** the Staff respectfully requests that the Commission issue an order consistent with the recommendations set out on Page 4 of the Staff's Memorandum.

Respectfully Submitted,

/s/ **Keith R. Krueger**

Keith R. Krueger  
Deputy General Counsel  
Missouri Bar No. 23857

Attorney for the Staff of the  
Missouri Public Service Commission

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**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of this Staff Recommendation has been provided, either by first-class mail, by electronic mail, by facsimile transmission or by hand-delivery, to each attorney and/or party of record for this case on this 31st day of March 2008.

**/s/ Keith R. Krueger**

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

**AFFIDAVIT OF JAMES M. RUSSO**

STATE OF MISSOURI     )

) SS

CASE NO. WO-2008-0249

COUNTY OF COLE     )

COMES NOW James M. Russo, being of lawful age, and on his oath states the following: (1) that he is a member of the Staff of the Missouri Public Service Commission; (2) that he participated in the preparation of this Staff Recommendation and the documents included in the attached appendix; (3) that he has knowledge of the matters set forth in this Staff Recommendation and the documents included in the attached appendix; and (4) that the matters set forth in this Staff Recommendation and the documents included in the attached appendix are true and correct to the best of his knowledge, information and belief.



James M. Russo  
Rate & Tariff Examination Supervisor  
Water and Sewer Department

Subscribed and sworn to before me this 27<sup>th</sup> day of March, 2008.

  
Notary Public

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

**APPENDIX A**

**STAFF MEMORANDUM & ATTACHMENT**

**CASE NO. WO-2008-0249**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. WO-2008-0249 Missouri-American Water Company

FROM: James M. Russo – Project Coordinator, Water & Sewer Department  
Stephen M. Rackers – Auditing Department

<u>/s/ James M. Russo</u>	<u>03/27/08</u>
Project Coordinator	Date
<u>/s/ Keith R. Krueger</u>	<u>03/27/08</u>
General Counsel's Office	Date

SUBJECT: Staff Report and Recommendation Regarding the Petition of Missouri-American Water Company to Change its Infrastructure System Replacement Surcharge

DATE: March 27, 2008

### BACKGROUND

On January 29, 2008 (unless noted otherwise, all dates herein refer to the year 2008), Missouri-American Water Company ("Company" or "MAWC") filed its **Petition to Change its Infrastructure System Replacement Surcharge** ("Petition") with the Missouri Public Service Commission ("Commission"). The Company submitted its Petition pursuant to the provisions of Sections 393.1000, 393.1003 and 393.1006, RSMo, and Commission Rules 4 CSR 240-2.060(1) and 4 CSR 240-3.650. Sections 393.1000, 393.1003 and 393.1006, in conjunction with Commission Rule 4 CSR 240-3.650, provide eligible water corporations with the ability to recover certain infrastructure system replacement costs without the need to file a formal rate case. Such costs are recovered through an Infrastructure System Replacement Surcharge ("ISRS").

On February 1, the Commission issued its **Order Suspending Tariff**, in which it suspended the tariff sheet MAWC filed in Tariff File No. JW-2008-0450, until May 28. Also on this date, the Commission issued its **Order Directing Notice and Setting Intervention Date**, in which it established February 21 as the date by which applications to intervene in the instant case were to be filed. No requests to intervene were filed.

On February 26, the Commission issued its **Order Directing Filing**, in which the Commission also directed the Staff to examine MAWC's proposed ISRS and to file a report regarding that examination no later than March 31.

### **STAFF'S INVESTIGATION**

As noted at the beginning of this Memorandum, Staff members from the Auditing and Water & Sewer Departments participated in the Staff's investigation of the Petition. All Staff participants as well as their respective supervisors and the assigned attorney from the General Counsel's Office were provided the opportunity to review and comment on this Memorandum prior to its filing. Stephen M. Rackers of the Auditing Department created the initial draft of this Memorandum, and comments received from the reviewers were incorporated into that draft in developing this final version of the Memorandum.

The Staff's investigation of the Petition included a review of the Petition and the supporting documentation, Chapter 393 RSMo, and Commission Rule 4 CSR 240-3.650(2), as well as additional data provided by MAWC. In conjunction with this investigation, the Staff also reviewed information regarding the payment history for MAWC's annual assessment fees and the status of MAWC's annual report submissions, which are discussed later in this Memorandum.

### **THE PETITION**

Specifically, as stated in its Petition, MAWC "requests an adjustment to its rates and charges through a change to its ISRS rate schedule to provide for the recovery of costs for infrastructure system replacements and relocations eligible for ISRS recognition. The proposed ISRS rate schedule should reflect the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to MAWC's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements. MAWC also seeks to recover all state, federal, and local income or excise taxes applicable to such ISRS income and to recover all other ISRS costs such as depreciation expense and property taxes due within 12 months of this filing."

In its Petition, MAWC indicates that all of the eligible infrastructure system replacements meet the following criteria:

1. They replace and/or extend the useful life of existing infrastructure;
2. They are currently in service and used and useful;
3. They do not increase revenues by directly connecting to new customers since all ISRS projects represent replacements of existing facilities or relocations of existing facilities;
4. They were not included in MAWC's rate base in its most recently completed general rate case, Case No. WR-2007-0216;
5. The costs related to such projects have not been reimbursed to the utility; and
6. They were not included in any other MAWC ISRS filing.

MAWC also indicates that the water utility plant projects on which it seeks to base the ISRS consist only of the following:

1. Mains and associated valves and hydrants installed as replacements for existing facilities that have worn out or were in deteriorated condition;
2. Main cleaning and/or relining projects; and
3. Facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.

The Staff notes that any reimbursements MAWC received for these projects have been recognized as a reduction of the ISRS investment in the calculation of the ISRS revenue requirement.

In its Petition, the Company requested an adjustment to its rates and charges through the implementation of an ISRS rate schedule. The Company indicates that its proposed rate schedule will "produce ISRS revenues of \$2,700,422 or an increase of 2.01% based on the base revenue level approved by the Commission in its most recently completed general rate proceeding" on an annualized basis. The amount proposed by the Company includes an offset due to the overcollection of revenues associated with the prior ISRS.

### **STAFF'S REVENUE CALCULATION**

Staff agrees with and has adopted the methodology utilized by the Company for the calculation of the ISRS revenue requirement and the associated tariffs for purposes of this ISRS filing. The ISRS rates proposed by the Staff reflect its calculation of the ISRS revenue requirement that recognizes revisions to the Company's calculation, as discussed below. The tariffs implementing Staff's revenue requirement should be effective May 28, or sooner, reflecting the effective date of the Commission's order approving the tariff.

### **THE ISRS RATE SCHEDULES**

The proposed ISRS rate schedules include a volumetric rate for each affected customer class, with the rate to be determined through the use of the customer class billing determinants from the Company's last rate case (Case No. WR-2007-0216) and the ISRS revenues allocated to each affected customer class. The ISRS rate schedule proposed by the Staff, reflecting its revenue requirement calculation, is shown as Attachment B to this Memorandum.

### **STAFF'S CONCLUSIONS**

Based on its investigation and calculations, the Staff believes the Company's ISRS rates should be designed to recover additional annual ISRS revenues of \$2,670,761. The Staff's revisions to the Company's proposed amount reflect changes to the calculation of deferred income taxes and



property taxes, as well as an update of the amount of the offset due to the revenue overcollection associated with prior ISRS. As noted previously, the Staff's calculations are shown in Attachment A to this Memorandum.

Based on a review of the supporting documents for the projects included for recovery in the Company's proposed ISRS filing, the Staff believes the projects meet the requirements of the governing statutes, as summarized previously in this Memorandum in the discussion of the Company's Petition.

### **ASSESSMENTS AND ANNUAL REPORTS**

In accordance with established practice regarding the submission of Staff recommendations to the Commission, the Staff reviewed the payment history for MAWC's annual assessment fees and the status of MAWC's annual report filings. Based on its review of this information, the Staff notes that MAWC is current on its quarterly payments for its fiscal year 2008 assessment and has no delinquencies for prior assessments. Likewise, MAWC does not have any past due annual reports.

### **STAFF'S RECOMMENDATIONS**

Based on the above, the Staff recommends that the Commission issue an order that:

1. Approves MAWC's Petition to implement revised ISRS rate schedules;
2. Approves the Staff's determination that the Company is authorized to receive ISRS revenues in the amount of \$2,670,761 on an annual basis, as shown in Attachment A hereto; and
3. Approves Staff's determination of the revised ISRS tariff sheet pending in Tariff File No. JW-2008-0450, to be effective as of May 28, or sooner, reflecting the effective date of the Commission's order approving that tariff sheet.

**Missouri-American Water Company**  
**Case No. WO-2008-0249**  
**ISRS Revenue Requirements Calculation**  
**St. Louis District**

**Staff  
Calculation**

**ISRS Activity:**

**Water Utility Plant Prjcts.--Replmnt. Mains, and Ass. Valves & Hydrants (RM) RSMo 393.1000 (8a):**

Task Orders Placed in Service (TOPS):	
Replacement Mains and Associated Valves and Hydrants	\$ 20,009,539
Net Contributions in Aid of Construction	20,100
Deferred Taxes	(95,537)
Accumulated Depreciation	(132,727)

<b>Total Net 393.1000 (8a)</b>	<b>19,801,374</b>
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**Water Utility Plant Projects--Main Cleanings and Relinings (RM) RSMo 393.1000 (8b):**

Task Orders Placed in Service (TOPS):	
Main Cleanings and Relinings	0
Net Contributions in Aid of Construction	0
Deferred Taxes	0
Accumulated Depreciation	0

<b>Total Net 393.1000 (8b)</b>	<b>0</b>
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**Water Utility Plant Projects--Facilities Relocations (FR) RSMo 393.1000 (8c):**

Task Orders Placed in Service (TOPS):	
Relocated Facilities	4,042,071
Net Contributions in Aid of Construction	(543,770)
Deferred Taxes	(21,931)
Accumulated Depreciation	(17,634)

<b>Total Net 393.1000 (8c)</b>	<b>3,458,735</b>
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Total ISRS Rate Base	23,260,110
Overall Rate Of Return per Last Order	7.87%
Utility Operating Income Required	1,830,571
Income Tax Conversion Factor	1.623077
Revenue Requirement Before Interest Deductibility	2,971,158

Total ISRS Rate Base	23,260,110
Embedded Cost of Debt per Last Order	3.250%
Interest Expense Deduction	755,954
Combined Federal and State Income Tax Rate	38.388630%
Income Tax Reduction due to Interest	290,200
Tax Conversion Factor	1.623077
Revenue Requirement Impact - Interest Deductibility	471,017

Total Revenue Requirement on Capital	2,500,141
Depreciation Expense	347,174
Property Taxes	218,752
Less Over Collection from Previous ISRS	(395,311)

<b>Total ISRS Revenues</b>	<b>\$ 2,670,755</b>
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**Allocation of Revenue by Class**

Mains less than or equal to 12"	Rate A & Oth	\$ 2,204,949
Mains greater than 12"	Rate A & Oth	380,615
	Total Rate A & Oth	2,585,564
	Rate J	47,084
	Rate D	11,147
	Rate B	26,966

<b>Grand Total Revenues Collected in Proposed ISRS</b>	<b>\$ 2,670,761</b>
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Missouri-American Water Company  
Case No. WO-2008-0249  
Issue: Tariff Rates

	ISRS Recovery Revenue Requirement	2006 Bill Analysis Sales (CCF) (1)	Rate per CCF	Rate per 1000 Gal
Rate A & Other	\$ 2,585,564	57,279,237	0.0451	0.0602
Rate B	\$ 26,966	2,389,846	0.0113	0.0150
Rate D	\$ 11,147	1,927,376	0.0058	0.0077
Rate J	\$ 47,084	8,140,929	0.0058	0.0077
	<u>\$ 2,670,761</u>			

(1) Per billing determinants approved in determining rates per Commission order in Case WR 2007-0216