

**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION**

At a session of the Public Service  
Commission held at its office in  
Jefferson City on the 5th day of  
April, 2007.

In the Matter of the Petition of Missouri-American	)	
Water Company for Approval to Change Its	)	<b><u>Case No. WO-2007-0272</u></b>
Infrastructure System Replacement Surcharge	)	Tariff No. YW-2007-0496
(ISRS).	)	

**ORDER APPROVING INFRASTRUCTURE SYSTEM REPLACEMENT  
SURCHARGE, APPROVING TARIFF, AND DENYING, IN PART,  
PUBLIC COUNSEL'S REQUEST FOR ADDITIONAL NOTICE**

Issue Date: April 5, 2007

Effective Date: April 15, 2007

**Syllabus:** This order approves Missouri-American Water Company's Infrastructure System Replacement Surcharge, approves the Company's tariff, and denies, in part, the Office of the Public Counsel's request for additional customer notice.

On January 19, 2007, Missouri-American Water Company filed a petition with the Missouri Public Service Commission pursuant to Sections 393.1000, 393.1003 and 393.1006, RSMo; and 4 CSR 240-2.060(1) and 4 CSR 240-3.650, requesting an adjustment to its rates and charges through a change to its Infrastructure System Replacement Surcharge (ISRS) rate schedule to provide for the recovery of costs for infrastructure system replacement and relocations eligible for ISRS recognition. Section 393.1006.2(3) requires the Commission to act on MAWC's application no later than 120 days after it was filed. Consequently, the Commission must issue an order regarding the petition effective no later than May 19, 2007. With its application, MAWC filed a tariff sheet to implement the

surcharge. The Commission has suspended that tariff sheet until May 19, 2007, unless otherwise ordered.

On January 24, 2007, the Commission issued an order directing that notice of MAWC's petition be given to the county commissions in MAWC's service area and to the parties in MAWC's most recent general rate case. Additionally, the Commission directed its Information Office to provide notice to the media serving the counties in MAWC's service area and to the members of the General Assembly representing those counties. A date for interested parties to intervene was set. No applications to intervene were filed.

### **Annual Notice**

Accompanying MAWC's petition was a copy of the annual notice which MAWC proposed to send to its customers in compliance with 4 CSR 240-3.650. On January 29, 2007, the Office of the Public Counsel filed an objection to the customer notice and requested that the Commission direct MAWC to:

Include more specific information regarding what the ISRS charge is and what the money collected is to be used for. Public Counsel also believes that the notices should include a statement that this surcharge is a separate, additional fee from present rates for service and that the notices should show the percentage increase from the current ISRS as well as what percent of current rates the ISRS reflects. In addition, all notices should include MAWC contact information where customers may seek additional information regarding the ISRS.<sup>1</sup>

Public Counsel also believed that a copy of the information brochure explaining the ISRS should accompany the annual notice and should be sent to all customers.

On February 8, 2007, MAWC responded to Public Counsel's objections. MAWC stated that the notices that it has proposed are in compliance with the requirements of

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<sup>1</sup> Office of the Public Counsel Response to Proposed Customer Notice, filed 1-29-07.

4 CSR 240-3.650. In addition, MAWC stated that the notices are substantially similar to those that were provided in its three previous ISRS cases. Finally, MAWC argued that the additional notice requested by Public Counsel will increase the cost of the notices. MAWC moved the Commission to deny Public Counsel's additional notice requirements. In the alternative, MAWC requested that the Commission enter an order authorizing MAWC to send the proposed additional notice information with its June billing cycle in order to alleviate the additional costs associated with the notices.

The Commission has reviewed the responses regarding MAWC's customer notice and finds that MAWC has previously complied with 4 CSR 240-3.650(8)(A) by sending an initial customer notice when its initial ISRS was approved. Thus, the Commission determines that MAWC is not required by the Commission's rule to send an additional customer brochure.

The Commission further finds that the proposed annual customer notice, however, is not sufficient. Subsection (8)(B) of 4 CSR 240-3.650 requires that the company provide an "annual notice . . . explaining the continuation of its infrastructure system replacement program and the resulting ISRS[.]" The proposed notice does not explain the ISRS in sufficient detail. It merely states that an ISRS will continue and what the rates will be. It provides no explanation for the customer as to what an ISRS is or that the rates have changed. In addition, MAWC's contact information should be provided. The Commission determines that the annual notice proposed by MAWC is not adequate to comply with the rule. MAWC shall revise its notice to include a better explanation of the continuation of the ISRS and how the surcharge will be changed.

## **ISRS Tariff**

On March 20, 2007, the Staff of the Commission filed its recommendation. Based upon its investigation and calculations, Staff recommended that MAWC's ISRS rates be designed to recover additional annual ISRS revenues of \$2,580,388, as requested by the Company. Staff stated that although its determination of additional annual ISRS revenues was slightly higher than that proposed by MAWC, the difference was so small that it did not result in a need to change the Company's proposed rates.

Staff's calculations reflected MAWC's overall rate of return – 7.70 percent – agreed to in its most recent general rate case, WR-2003-0500, multiplied by MAWC's ISRS investment in replacement mains, associated valves and hydrants and facilities relocations (less contributions in aid of construction collected to offset the cost of such replacements and relocations) minus the associated interest expense based on the weighted cost of debt – 3.40 percent – agreed to in WR-2003-0500. In its calculations, Staff also reduced the ISRS investments by deferred income taxes and the associated accumulated depreciation. Additionally, Staff's determination of the ISRS revenues included the annual depreciation expense on the ISRS investment less any depreciation expense associated with plant retirements and contributions in aid of construction related to the replacement and relocation of facilities.

Staff stated that based on a review of the work orders and supporting documents for the projects included for recovery in MAWC's proposed ISRS filing, it believes that the projects meet the requirements of the governing statutes.

On March 22, 2007, MAWC filed its Notice of Agreement indicating that it agrees with the Staff's recommendations and requesting that the Commission issue an order

authorizing MAWC to implement the pending ISRS tariff sheet to be effective on May 19, 2007, or on the effective date of the Commission's order approving the tariff sheet if that date is sooner.

The Commission has reviewed Staff's Recommendation and Memorandum and MAWC's Notice of Agreement, which are hereby admitted into evidence. Based upon these pleadings, the Commission finds that MAWC's ISRS tariff sheet complies with Sections 393.1000, 393.1003, and 393.1006, RSMo. The Commission shall approve the tariff sheet effective on the effective date of this order.

**IT IS ORDERED THAT:**

1. The Office of the Public Counsel's request that Missouri-American Water Company revise its notice to customers is granted in part and denied in part.

2. Missouri-American Water Company shall revise its customer notices to include its company contact information and to provide an annual notice which explains the continuation of its infrastructure system replacement program and the resulting ISRS rate in compliance with Subsection (8)(B) of 4 CSR 240-3.650.

3. Tariff No. YW-2007-0496, submitted by Missouri-American Water Company on January 19, 2007, is hereby approved for service rendered on or after April 15, 2007.

The tariff sheet approved is:

**P.S.C. MO. NO. 6**

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**Fourth Revised SHEET NO. RT 18.0, CANCELLING Third Revised SHEET NO. RT 18.0**

4. This order shall become effective on April 15, 2007.
5. This case may be closed on April 16, 2007.

**BY THE COMMISSION**

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written in a cursive style.

Colleen M. Dale  
Secretary

( S E A L )

Davis, Chm., Murray, Gaw, Clayton,  
and Appling, CC., concur.

Dippell, Deputy Chief Regulatory Law Judge