

**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION**

At a session of the Public Service  
Commission held at Harris-Stowe  
State University in St. Louis,  
Missouri on the 8th day of July,  
2009.

In the Matter of the Petition of Missouri-American	)	
Water Company for Approval to Change its	)	<u>File No. WO-2009-0379</u>
Infrastructure System Replacement Surcharge	)	Tariff No. JW-2009-0751
(ISRS)	)	

**ORDER APPROVING INFRASTRUCTURE SYSTEM REPLACEMENT  
SURCHARGE AND REJECTING TARIFF**

Issue Date: July 8, 2009

Effective Date: July 18, 2009

**Background**

On April 21, 2009, Missouri-American Water Company ("MAWC") filed a petition with the Missouri Public Service Commission pursuant to Sections 393.1000, 393.1003 and 393.1006, RSMo Cum. Supp. 2008; and 4 CSR 240-2.060(1) and 4 CSR 240-3.650, requesting adjustment to its rates and charges through a change to its Infrastructure System Replacement Surcharge ("ISRS") rate schedule to provide recovery of costs for infrastructure system replacement and relocations eligible for ISRS recognition. MAWC indicates that its proposed rate schedule will produce, on an annualized basis, ISRS revenues of \$2,285,334. This amount represents an increase of 1.5% based upon the base revenue level approved by the Commission in its most recently completed general rate proceeding. MAWC also represents that its proposed

adjustment included an adjustment of \$259,477 to reflect an under collection from previous ISRS surcharges.

Section 393.1006.1(2) requires that the Commission publish notice of MAWC's ISRS filing. Therefore, on April 24, the Commission directed that notice be sent to the St. Louis County Commission, members of the General Assembly representing St. Louis County, and to the parties in MAWC's last general rate case. Notice was also made available to the media serving St. Louis County. In that same order, the Commission directed that any person wishing to intervene in this matter file an application to intervene no later than May 7. No person, group or entity requested intervention.

Section 393.1006.2(3) requires that the Commission act upon MAWC's ISRS application no later than 120 days after it was filed. That means that the Commission must act on or before August 19. Section 393.1006.2(2) requires the Staff of the Commission to file a report regarding MAWC's ISRS application no later than 60 days after it was filed. Thus, Staff's report was due June 19.

With its application, MAWC filed a tariff to implement the surcharge effective on May 21. On April 29, the Commission suspended that tariff until August 19, unless sooner approved, to allow adequate time to examine MAWC's proposed ISRS and tariff.

### **Staff Recommendation**

Staff filed its report on June 19, indicating that its Auditing and Water and Sewer Departments have examined MAWC's ISRS application. Based on the results of its examination, Staff agrees with and has adopted the methodology utilized by the

Company for the calculation of the ISRS revenue requirement. Staff recommended the following:

- (1) Inclusion of additional accumulation of the depreciation reserve and deferred income tax reserve through the month of the date the ISRS rates from this case will be effective,
2. Inclusion of additional ISRS plant and associated revenue requirement items for investment that is placed in service and can be examined by the Staff prior to the effective date of the ISRS rates from this case,
3. Replacement of any estimated costs included in the ISRS plant balances with actual incurred amounts, and
4. Accrual of depreciation expense in the month ISRS plant was placed in service.

Staff is proposing to include additional accumulated depreciation and deferred income tax reserves through the month of the effective date to better reflect the actual levels that will exist for these items at that time. Staff also proposes to include the additional ISRS plant and associated revenue requirement items to better reflect the actual level of ISRS investment that is in service and has been reviewed by the Staff at the date the rates from this case become effective.

The Staff has used an estimate of the ISRS plant closings for April and May and will replace these estimates with actual balances and recalculate the associated revenue requirement items prior to implementation of the rates from this case. Based on its review of the work orders supporting the ISRS plant additions, the Staff noted that MAWC has included some estimated costs, pending receipt of actual contractor invoices. The Staff proposes that these estimates be replaced with actual incurred amounts so that the ISRS plant reflects only actual cost.

Finally, in accordance with a new Company policy that became effective January 1, 2009, MAWC is no longer recording depreciation on plant additions during the month the items were placed in service. The Staff proposes to include a full month of depreciation expense during the month the addition was placed in service in the determination of the depreciation reserve. The Staff believes this treatment better synchronizes the calculation of depreciation expense with the in service date of the associated ISRS plant addition. This treatment is also consistent with the calculations used by MAWC in previous ISRS filings and the calculations in the recent ISRS filings by other Companies.

Based on its investigation and calculations as of June 19, Staff concluded that the Company's ISRS rates should be designed to recover annual ISRS revenues of \$2,558,291. Staff's calculations reflect MAWC's filed capital structure and a 10% return on equity as agreed to in its most recent general rate case, Case No. WR-2009-0311. Staff's calculations also reflect MAWC's current depreciation rates, as ordered in Case No. WR-2007-0216. Staff's calculations reflect the actual ISRS investment placed in service in October through March and the estimated investment for April and May, which will be replaced with actual amounts prior to the effective date of rates in this case. Staff's recommended ISRS revenue requirement is in excess of the Company's initial request due to the inclusion of additional ISRS plant for April and May of 2009.

Staff ultimately recommends that the Commission issue an order that:

1. Finds that MAWC's filed Petition is in compliance with the requirements of sections 393.1000 to 393.1006 RSMo (Cumm Supp 2008);
2. Approves MAWC's Petition to implement ISRS rate schedules; and

3. Approves the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the amount of \$2,558,291, subject to replacement of estimated ISRS plant with actual balances and recalculation of the associated revenue requirement items.

The Commission ordered any party wishing to respond to Staff's recommendation or request a hearing do so no later than 8:00 a.m. on June 25. On June 24, MAWC filed a Notice of Agreement accepting Staff's recommendations. MAWC also requested expedited treatment with processing its ISRS application. On July 2, Staff updated its calculation, as planned; using actual amounts for ISRS investment placed in service in April and May, and recalculated the associate revenue requirement items. Staff determined that MAWC is entitled to receive ISRS surcharge revenues in the revised amount of \$2,652,705.

No party, other than MAWC, filed a response to Staff's report. No party requested an evidentiary hearing

### **Decision**

Based on MAWC's application, and Staff's report regarding that application, the Commission finds that MAWC's filed Petition is in compliance with the requirements of sections 393.1000 to 393.1006. The Commission concludes that MAWC should be permitted to establish an ISRS sufficient to recover appropriate annual revenues of \$2,652,705. MAWC will be authorized to file an ISRS rate for each customer class consistent with the rates set out in Staff's Report. Because the authorized revenues and rates differ from those contained in the tariff previously submitted by MAWC, that tariff will be rejected. MAWC will, however, be authorized to file a new tariff consistent with this order.

**THE COMMISSION ORDERS THAT:**

1. Missouri-American Water Company is authorized to establish an Infrastructure System Replacement Surcharge sufficient to recover appropriate annual revenue of \$2,652,705.

2. Missouri-American Water Company is authorized to establish an Infrastructure System Replacement Surcharge rate for each of its customer classes as indicated in Staff's Report.

3. The tariff sheet filed by Missouri-American Water Company on April 24, 2009, and assigned tariff number JW-2009-0751, is rejected. The tariff sheet rejected is:

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

---

**8<sup>th</sup> Revised Sheet No. RT 18.0, Canceling 7<sup>th</sup> Revised Sheet No. RT 18.0**

4. Missouri-American Water Company is authorized to file a new tariff recovering the revenue, and implementing the rates, authorized in this order.

5. This order shall become effective on July 18, 2009.

**BY THE COMMISSION**



Colleen M. Dale  
Secretary

( S E A L )

Clayton, Chm., Davis, Jarrett,  
and Gunn, CC., concur

Stearley, Senior Regulatory Law Judge