

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

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

**STAFF RECOMMENDATION**

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

1. On April 21, 2009 Missouri-American Water Company (MAWC) filed its *Petition to Change its Infrastructure System Replacement Surcharge (ISRS)* (Petition) to adjust “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”, (see *Petition* at 3), pursuant to §§ 393.1000, 393.1003, and 393.1006 and Commission Rules 4 CSR 240-2.060(1) and 3.650. 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 twelve (12) months of said filing. *Id.*

2. On April 29, 2009, the Commission issued its *Order Suspending Tariff* suspending MAWC’s 8<sup>th</sup> Revised Sheet under assigned tracking number JW-2009-0751 until August 19, 2009, pursuant to § 393.1006.2(3) RSMo (Cumm Supp 2008).

3. The Commission simultaneously filed its *Order Directing Filing* directing Staff to examine MAWC’s proposed ISRS and file its report no later than June 19, 2009.

4. Pursuant to § 393.1006.2(4) RSMo (Cumm Supp 2008) dictates that “[i]f the commission finds that a petition complies with the requirements of sections 393.1000 to 393.1006, the commission shall enter an order authorizing the water corporation to impose an ISRS that is sufficient to recover appropriate pretax revenues, as determined by the commission pursuant to the provisions of sections 393.1000 to 393.1006.”

5. Attached hereto as Appendix A is Staff’s Memorandum, wherein Staff states that it has examined MAWC’s Petition. 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, as shown in Attachment A hereto, subject to replacement of estimated ISRS plant with actual balances and recalculation of the associated revenue requirement items.
4. Also attached as Appendix B is Staff’s ISRS Rate Design Calculation.

**WHEREFORE,** the Staff respectfully requests that the Commission issue an order consistent with the recommendations set out in the Staff’s Memorandum.

Respectfully submitted,

/s/Shelley Syler Brueggemann  
Shelley Syler Brueggemann  
Deputy General Counsel  
Missouri Bar No. 52173

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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 emailed to all counsel of record this 19<sup>th</sup> day of June, 2009.

**/s/Shelley Syler Brueggemann**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. WO-2009-0379 - - - Missouri-American Water Company

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

/s/ Stephen M. Rackers

Auditing Department

6/19/2009

Date

/s/ Shelley Brueggemann

General Counsel's Office

6/19/2009

Date

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

DATE: June 19, 2009

### BACKGROUND

On April 21, 2009, 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 provision 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 April 22, 2009, the Commission issued its **Order Directing Notice and Setting Intervention Date**, in which it established May 7, 2009 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 date, nor have any been filed since.

On April 29, 2009, the Commission issued its **Order Suspending Tariff** in which it suspended MAWC's tariff sheet, JW-2009-0751, until August 19, 2009. Also on April 29, 2009, the Commission issued its **Order Directing Filing** in which it directed the Staff to examine MAWC's proposed ISRS, and to file a report regarding that examination no later than June 19, 2009.

## **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 into 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 filings, 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 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-2008-0311;
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 are either:

1. Mains and associated valves and hydrants installed as replacements for existing facilities that have worn out or were in deteriorated condition; or
2. Main cleaning and/or relining projects; or
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 \$2,285,334 or an increase of 1.5% based on the base revenue level approved by the Commission in its most recently completed general rate proceeding" on an annualized basis. This ISRS proposal includes an adjustment of \$259,477 to reflect an under collection from previous ISRS surcharges.

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

Except for the exceptions listed and discussed below, the Staff agrees with and has adopted the methodology utilized by the Company for the calculation of the ISRS revenue requirement for purposes of this ISRS filing. Staff's calculations utilized:

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.

### **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-2008-0311, and the ISRS revenues allocated to each affected customer class. The Staff has utilized the Company's methodology for calculating the ISRS rates, but has determined such rates based on the Staff's calculation of the revenue requirement as reflected in Attachment B to this Memorandum.

### **STAFF'S CONCLUSIONS**

Based on its investigation and calculations, the Staff concludes that the Company's ISRS rates should be designed to recover annual ISRS revenues of \$2,558,291. The Staff's calculations are shown in Attachment A to this Memorandum. These 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 based its conclusions on an examination of work orders and supporting documents for the projects included for recovery in the Company's proposed ISRS filing, a review of the Stipulation and Agreement in Case Nos. WR 2007-0216 and WR-2008-0311 and various discussions with Company personnel. As a result, 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 and that the associated ISRS revenue requirement has been correctly calculated and appropriately reflects this investment and the terms agreed to in prior rate case stipulations.

### **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 2009 assessment and has no delinquencies for prior years' 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. 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, as shown in Attachment A hereto, subject to replacement of estimated ISRS plant with actual balances and recalculation of the associated revenue requirement items.



**Missouri-American Water Company**  
**ISRS Revenue Requirements Calculation**  
**St. Louis District**

<u>ISRS Activity:</u>	<u>ISRS REVENUE REQUIREMENT</u>
<b><u>Water Utility Plant Projects--Replacement Mains, and Associated Valves and Hydrants (RM) RSMo 393.1000 (8a):</u></b>	
Task Orders Placed in Service (TOPS):	
STLC-Replacement Mains and Associated Valves and Hydrants	\$ 19,883,795
Net Contributions in Aid of Construction	(18,336)
Deferred Taxes	(3,574,558)
Accumulated Depreciation	(194,348)
<b>Total Net 393.1000 (8a)</b>	<b>\$ 16,096,553</b>
<b><u>Water Utility Plant Projects--Main Cleanings and Relinings (RM) RSMo 393.1000 (8b):</u></b>	
Task Orders Placed in Service (TOPS):	
STLC-Main Cleanings and Relinings	0
Net Contributions in Aid of Construction	0
Deferred Taxes	0
Accumulated Depreciation	0
<b>Total Net 393.1000 (8a)</b>	<b>0</b>
<b><u>Water Utility Plant Projects--Facilities Relocations (FR) RSMo 393.1000 (8c):</u></b>	
Task Orders Placed in Service (TOPS):	
STLC-Relocated Facilities	\$ 2,946,880
Net Contributions in Aid of Construction	(889,068)
Deferred Taxes	(368,835)
Accumulated Depreciation	(32,914)
<b>Total Net 393.1000 (8c)</b>	<b>\$ 1,656,063</b>
<b>Total ISRS Rate Base</b>	<b>\$ 17,752,616</b>
<b>Overall Rate Of Return per Last Order</b>	<b>8.01%</b>
<b>UOI Required</b>	<b>1,421,271</b>
<b>Income Tax Conversion Factor</b>	<b>1.623077</b>
<b>Revenue Req. Before Interest Deductability</b>	<b>\$ 2,306,832</b>
<b>Total ISRS Rate Base</b>	<b>\$ 17,752,616</b>
<b>Embedded Cost of Debt per Last Order</b>	<b>3.207%</b>
<b>Interest Expense Deduction</b>	<b>569,411</b>
<b>Combined Federal and State Income Tax Rate</b>	<b>38.388630%</b>
<b>Income Tax Reduction due to Interest</b>	<b>218,589</b>
<b>Tax Conversion Factor</b>	<b>1.623077</b>
<b>Revenue Req Impact - Interest Deductability</b>	<b>\$ 354,787</b>
<b>Total Revenue Requirement on Capital</b>	<b>\$ 1,952,045</b>
<b>Depreciation Expense</b>	<b>302,538</b>
<b>Property Taxes</b>	<b>44,231</b>
<b>Add Under Collection from Previous ISRS</b>	<b>259,477</b>
<b>Total ISRS Revenues</b>	<b>\$ 2,558,291</b>
<b>Allocation of Revenue by Class</b>	
Mains less than or equal to 12"	Rate A & Oth \$ 2,291,462
Mains greater than 12"	Rate A & Oth \$ 245,884
	Total Rate A & Oth \$ 2,537,345
	Rate J \$ 13,475
	Rate B \$ 7,471
<b>Grand Total Revenues Collected in Proposed ISRS</b>	<b>\$ 2,558,291</b>

**Missouri-American Water Company**  
**Case No. WO-2009-0379**  
**ISRS Rate Design Calculation**  
**St. Louis District**

	ISRS Recovery Revenue Requirement	Sales (CCF)	Rate per CCF	Rate per 1,000 Gallon
Rate A & Other	\$ 2,537,345	53,911,327	\$ 0.0471	\$ 0.0628
Rate B	\$ 7,471	2,482,523	\$ 0.0030	\$ 0.0040
Rate J	<u>\$ 13,475</u>	6,194,592	\$ 0.0022	\$ 0.0029
Total	\$ 2,558,291			

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

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

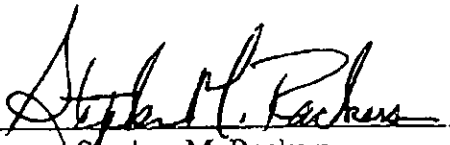
Case No. WO-2009-0379

**AFFIDAVIT OF STEPHEN M. RACKERS**

STATE OF MISSOURI

COUNTY OF St. Louis City ss.

**COMES NOW** Stephen M. Rackers, of lawful age, 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 the foregoing 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 and belief.

  
Stephen M. Rackers

Subscribed and sworn to before me this 18<sup>th</sup> day of June, 2009.

JEREMY HAGEMeyer  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for St. Louis County  
My Commission Expires: March 05, 2013  
Commission Number: 09668582

  
Notary Public

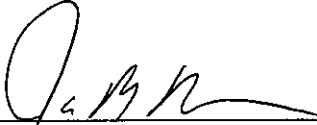
**BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

**AFFIDAVIT OF JAMES M. RUSSO**

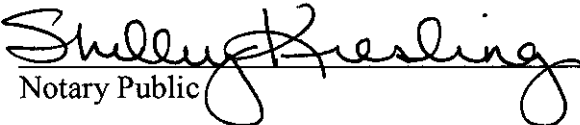
STATE OF MISSOURI     )  
COUNTY OF COLE     ) SS

CASE NO. WO-2009-0379

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 Attachment B which is attached to this Staff Recommendation; (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 & Sewer Department

Subscribed and sworn to before me this 18<sup>th</sup> day of June, 2009.

  
\_\_\_\_\_  
Notary Public

