

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

In the Matter of the Petition of Missouri-American	)	
Water Company for Approval to Establish an	)	<b><u>Case No. WO-2017-0297</u></b>
Infrastructure System Replacement Surcharge	)	Tariff No. JW-2017-0238
(ISRS)	)	

**STAFF RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, states as follows:

1. On May 15, 2017, Missouri-American Water Company (“MAWC”) filed its *Petition to Establish an Infrastructure System Replacement Surcharge and Tariff Revision*.

2. By this filing, MAWC requests an adjustment to its ISRS rates and charges for ISRS-eligible infrastructure system replacements and relocations made during the period of February 2016 through June 2017.

3. On May 16, 2017, the Commission set a deadline for intervention of May 31, 2017. The commission further directed Staff to file a recommendation on MAWC’s application no later than July 14, 2017. Missouri Industrial Energy Consumers (“MIEC”) filed its *Application to Intervene* on May 30, 2107; MIEC’s application was granted by the Commission on June 8, 2017.

4. Commission Rule 4 CSR 240-3.650(11) states that the staff of the Commission may examine information of a water utility to confirm the underlying costs related to the proposed ISRS and to confirm proper calculation of the proposed charge.

5. On June 30, 2017, MAWC filed its *Motion for Extension of Time, and, to the Extent Required, Request for Variance, and Motion for Expedited Treatment*

requesting that Staff be granted a two-week extension, until July 28, 2017, for the filing of its recommendation. The extension would allow MAWC time to supply Staff with paperwork on June 2017 expenditures. The Commission granted the request for extension on June 30, 2017.

6. Based on its examination and calculations as detailed in its *Memorandum*, Staff recommends the Commission approve incremental ISRS surcharge revenues in the amount of \$8,244,930. Please see Staff's Appendix B for the ISRS rate for each customer class.

**WHEREFORE**, Staff recommends the Commission issue an Order in this case that: 1) rejects MAWC's ISRS tariff sheet P.S.C. MO. No. 13, 8<sup>th</sup> Revised Sheet No. RT 10, Cancelling 7<sup>th</sup> Revised Sheet N. RT 10, pending in Tariff File No. JW-2017-0238, filed on May 15, 2017; and 2) approve the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the incremental pre-tax revenue amount of \$8,224,930 as shown in Staff's Appendix A.

Respectfully submitted,

**/s/ Casi Aslin**

Casi Aslin

Missouri Bar No. 67934

Attorney for the Staff of the  
Missouri Public Service Commission

P.O. Box 360

Jefferson City, Mo 65102

(573) 751-8517 (Telephone)

(573) 751-9285 (Facsimile)

[casi.aslin@psc.mo.gov](mailto:casi.aslin@psc.mo.gov)

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 28<sup>th</sup> day of July, 2017.

**/s/ Casi Aslin**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. WO-2017-0297, Tariff Tracking No. JW-2017-0238  
Missouri-American Water Company

FROM: /s/ Caroline Newkirk 7/28/2017  
Auditing Department Date

/s/ Matthew Barnes 7/28/2017  
Water and Sewer Department Date

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

DATE: 7/28/2017

### BACKGROUND

On May 15, 2017, 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, 393.1006, RSMo, and Commission Rules 4 CSR 240-2.060(1) and 4 CSR 240-3.650. These sections 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, or “ISRS”. This is the first ISRS filing since the Company’s most recent general rate case, Case No. WR-2015-0301. MAWC submitted its application to reflect ISRS investments for the period from February 2016 through April 2017, with pro-forma ISRS costs updated through June 30, 2017. MAWC estimated in its Application that it was entitled to an incremental increase of ISRS revenues in this case of \$7,928,510.

On May 16, 2017, the Commission issued its **Order Directing Notice, Setting Intervention Deadline and Directing Filing**, establishing May 31, 2017 as the deadline to intervene in the instant case. The Commission directed Staff to file a report regarding its examination of the ISRS filing no later than July 14, 2017. On May 30, 2017, Missouri Industrial Energy Consumers (MIEC) filed an application to intervene and the application to intervene was granted by the Commission on June 8, 2017. On June 30, 2017 the Commission issued an **Order Granting Motion for Extension of Time**, directing Staff to file a report no later than July 28, 2017.

### STAFF’S INVESTIGATION

Commission Rule 4 CSR 240-3.650(2) states, “... an eligible water utility may file a petition with the commission to establish or change ISRS rate schedules that will allow for the adjustment of its rates and charges to provide for the recovery of costs for eligible infrastructure

system replacements; provided that an ISRS, on an annualized basis, must produce ISRS revenues of at least one (1) million dollars, but not in excess of ten percent (10%) of the subject utility's base revenue level approved by the commission in the utility's most recent general rate proceeding." This filing meets the criteria of at least one (1) million dollars and does not exceed ten percent of the base revenue levels of \$285,680,272 approved by the Commission in the last MAWC rate case.

In this Application, MAWC filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of February 2016 through June 2017. The ISRS recovery requested for May and June 2017 plant additions was included on an estimated basis at the time MAWC's Application was filed. Documentation supporting actual ISRS plant addition costs for May and June was supplied by MAWC during the course of Staff's review and audit in this case.

As part of its examination of MAWC's application, Auditing Staff reviewed supporting workpapers, invoices, and other applicable documentation, such as work order authorizations. Staff also communicated with MAWC personnel to clarify MAWC's application when necessary.

The following documentation was provided to Staff on the following dates:

- May 16, 2017 – MAWC's work papers provided for the months of February 2016 thru April 2016.
- June 15, 2017 – Work order authorization information "screenshots" for February 2016 to April 2017.
- June 28, 2017 – A sample of invoices for February 2016 to April 2017
- June 28, 2017 – Work order information "screenshots" & work order detail spreadsheets for May 2017
- July 7, 2017 – A sample of invoices for May 2017
- July 11, 2017- Work order information "screenshots" & work order detail spreadsheets for June 2017
- July 20, 2017- A sample of invoices for June 2017

## **THE PETITION**

As stated in its Petition, MAWC "seeks to establish an ISRS rate 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 operation 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 seek 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 represented 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, File No. WR-2015-0301;
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 a deteriorated condition; or
2. Main cleaning and/or relining projects; or
3. Infrastructure 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.

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

In its Petition, the Company requests 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 \$7,928,510 or an increase of 4.0% based on the base revenue level approved by the Commission in its most recently completed general rate proceeding" on an annualized basis.

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

Except for the items 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. Replacement of any estimated costs included in the ISRS plant balances reflected in the Company's original filing with actual incurred amounts;
2. The inclusion of deferred taxes up through August 15, 2017, as explained below.
3. Correction of transposition error on February 2016 Invoice for \$2,215 that should have been \$2,115 (\$100 difference)
4. Rounding errors on depreciation expense and accumulated depreciation amounts
5. Removal of two work orders

- a. R17-025B2.17-P-0002 “Bank repair where bank erosion due to Meramec River flooding caused main to be exposed which would cause the main to deteriorate and fail.” Staff does not agree that costs to repair a bank for which a main has become exposed due to flooding and for which the main is believed to be subject to future damage falls under the ISRS guidelines of “worn out or deteriorated”.
- b. R17-02C1.16-P-1840 “Central Plant 30” Effluent Valve Replacement at Vault B located at 901 Hog Hollow Rd”. According to the statute, the costs associated with “Mains, and associated valves and hydrants, installed as replacements for existing facilities that have worn out or are in deteriorated condition” qualify for ISRS inclusion. It is Staff’s position that for the cost of a valve replacement to qualify for ISRS treatment it must be associated with a main that is also being replaced.

Staff is proposing to include additional deferred income tax reserves through August 15, 2017 in this ISRS case to better reflect the actual levels that will exist for these items at the time new ISRS rates go into effect as a result of this Application. In its original filing, the Company included additional depreciation reserves through August 1, 2017.

The Company has included as an offset to the current ISRS, accumulated depreciation and deferred taxes from the previous ISRS cases. Staff concurs that these amounts should be included, but Staff proposes to include accumulated depreciation and deferred taxes up through August 15, 2017.

### **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-2015-0301, and the ISRS revenues allocated to each affected customer class. Staff discovered that there was a difference in the volumetric rate of 23,906 gallons between the Company’s workpapers and the volumetric rates the Commission approved in Case No. WR-2015-0301. This was due to the Company inadvertently double counting Rate K in the filing. Rate K was eliminated in the last rate case and those volumes were already included in Rate A. This minor difference does not change Staff’s proposed ISRS rate. Staff has utilized the Company’s methodology for calculating the ISRS rates, based on the Company’s calculation of the revenue requirement. The ISRS rates are reflected in Appendix A to this Memorandum.

### **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 found that MAWC is current on its quarterly assessment payments and has no

delinquencies for prior years' assessments. In addition, MAWC does not have any past due annual reports.

### **STAFF RECONCILIATION**

Commission Rule 4 CSR 240-3.650(17) requires if an over or under recovery of ISRS revenues exists after the ISRS has been reset to zero, the amount of over or under recovery should be included in the water utility's next ISRS filing. Staff performed this reconciliation and found MAWC under-collected ISRS revenue by \$2,484,500, which is identical to the amount of under-collection calculated by the Company. As a result of the reconciliation, Staff recommends including this amount of undercollected ISRS revenue in MAWC's ISRS rates.

### **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 \$8,224,930. The Staff's calculations reflect the overall pre-tax weighted average cost of capital of 10.35% (tax grossed up rate of return) and MAWC's current depreciation rates, all according to the Stipulation and Agreement as ordered by the Commission in Case No. WR-2015-0301, MAWC's last general rate proceeding. Staff's calculations reflect the actual ISRS investment placed in service from February 2016 through June 2017.

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, as well as from a review of the Stipulation and Agreement in Case No. WR-2015-0301. As a result, it is Staff's opinion the project costs incorporated within this ISRS filing meet the requirements of the governing statutes as summarized previously in this Memorandum in the discussion of the Company's Petition.

### **STAFF RECOMMENDATIONS**

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

1. Rejects MAWC's ISRS tariff sheet (JW-2017-0238) P.S.C MO No. 13 8th Revised Sheet No. RT 10 cancelling 7th Revised Sheet No. RT 10 filed on May 15, 2017;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$8,224,930



Appendix A

Missouri-American Water Company  
Case No. WO-2017-0297  
ISRS Rate Design Calculation  
St. Louis District

Additional ISRS Revenues:

	<b>ISRS Recovery Revenue Requirement</b>	<b>2015 Bill Analysis Sales (100 Gal) (1)</b>	<b>Rate per 100 Gal.</b>
Rate A & Oth	\$8,165,117	356,076,502	\$0.02293
Rate B	25,471	16,546,804	\$0.00154
Rate J	<u>34,342</u>	41,995,540	\$0.00082
	<u>\$8,224,930</u>		

(1) Per billing determinants per the company view of the stipulation approved per Commission order in Case WR 2015-0301

	Current Rate	Adjustment to Current Rate (2)	Proposed Rate Use on Tariff
<b>Rate Per 100 Gal</b>			
Rate A & Oth	\$0.00000	\$0.02293	\$0.02293
Rate B	\$0.00000	\$0.00154	\$0.00154
Rate J	\$0.00000	\$0.00082	\$0.00082

(2) Calculated per above

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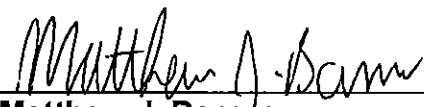
In The Matter of Missouri-American	)	
Water Company for Approval to Establish an	)	<b><u>Case No. WO-2017-0297</u></b>
Infrastructure System Replacement Surcharge	)	Tariff No. JW-2017-0238
(ISRS)	)	

**AFFIDAVIT**

State of Missouri    )  
                                  ) ss.  
County of Cole        )

**COMES NOW** Matthew J. Barnes, and on her oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Recommendation; and that the same is true and correct according to his best knowledge and belief.

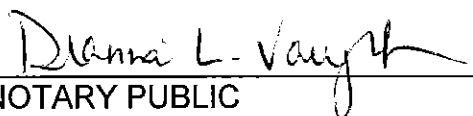
Further the Affiant sayeth not.

  
\_\_\_\_\_  
Matthew J. Barnes

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 28<sup>th</sup> day of July, 2017.

DIANNA L. VAUGHT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: June 28, 2019  
Commission Number: 15207377

  
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NOTARY PUBLIC

