

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

In the matter of the Petition of Missouri-)
American Water Company for Approval) **File No. WO-2015-0211**
to Change its Infrastructure System)
Replacement Surcharge (ISRS).)

**STAFF RECOMMENDATION TO REJECT TARIFF AND PROPOSED INCREASE
TO THE INFRASTRUCTURE REPLACEMENT SURCHARGE**

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and hereby files its recommendation to reject the revised Tariff Sheet filed February 27, 2015, for an increase as requested in Missouri-American’s Infrastructure System Replacement Surcharge (“ISRS”). For its recommendation to reject the request as filed, Staff asserts the following:

1. On February 27, 2015, Missouri-American Water Company (MAWC or “Company”) filed a Petition to Change its Infrastructure System Replacement Surcharge (“Application”) with the Missouri Public Service Commission (“Commission”) to implement a change in MAWC’s Infrastructure System Replacement Surcharge (ISRS) pursuant to §§ 393.1003 and 393.1006, RSMo 2013. MAWC’s February 27, 2015 ISRS Application represented its 15th request to change or establish its ISRS and reflected proposed ISRS revenues for plant investments made during the period October 1, 2014 through January 2015, trued up through March 31, 2015. MAWC in its application to the Commission states that this ISRS “will produce ISRS revenues of \$1,919,991.00 or an increase of 0.7% based on the base revenue level approved by the Commission in the most recently completed general rate proceeding.¹” MAWC also states “the ISRS...(is)

¹ See *Application*, page 6, filed February 27, 2015.

not in excess of 10 percent (10%) of the base revenue approved by the Commission in Case No. WR-2011-0337.² This Application was docketed as File No. WO-2015-0211.

2. 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. The Staff "may submit a report regarding its examination to the Commission no later than sixty days" after the petition is filed. In accordance with this rule and with the Commission's March 5, 2015 Order, Staff submits its *Memorandum*, incorporated herein as Appendix A.

3. Staff asserts that the revenue increase requested by MAWC in this ISRS filing is in violation of the 10% cap established by §393.1003 RSMo. Section 393.1003 has three requirements that must be met for a water corporation to establish an ISRS. These requirements are related to the timing of the ISRS filing in relation to the utility's general rate proceeding and to the size (both minimum and maximum) of the annual ISRS revenues³. At issue in this application is the maximum amount of revenues that an ISRS can produce.

4. Section 393.1003 imposes a cap on the size of a water corporation's ISRS to 10% of the base revenues ordered by the Commission in its last rate case ("10% base revenue cap"). Section 393.1003(1) states:

Notwithstanding any provisions of chapter 386 and this chapter to the contrary, as of August 28, 2003, a water corporation providing water service in a county with a charter form of government and with more than

² *Id.* page 8.

³ See *In the Matter of the Application of Laclede Gas Co. v. The Office of Public Counsel*, 417 S.W.3d 815, 821 (2014) "The ISRS surcharge is subject to limits, both on the lower end and the upper end, on the revenues that it will produce in relation to the last-approved base rate amount. **The Commission may not approve an ISRS that falls outside those limits**" (emphasis added).

one million inhabitants may file a petition and proposed rate schedules with the commission to establish or change ISRS rate schedules that will allow for the adjustment of the water corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements made in such county with a charter form of government and with more than one million inhabitants; provided that an ISRS, on an annualized basis, must produce ISRS revenues of at least one million dollars **but not in excess of ten percent of the water corporation's base revenue level approved by the commission in the water corporation's most recent general rate proceeding.** (emphasis added).

5. The Staff calculated that MAWC's maximum cumulative or total ISRS revenue the Commission may approve to comply with and keep under the Section 393.1003(1) 10% base revenue cap at \$25,892,662, which reflects 10% of base revenue authorized in case WR-2011-0337 of \$258,926,618 (\$25,892,662 10% cap less current ISRS of \$25,637,873 = \$254,789.)⁴

6. MAWC began collecting its current ISRS on September 25, 2012. Since that date the Commission has approved increases in MAWC's ISRS in four subsequent decisions. Due to the statutorily-mandated 10% base revenue cap, it is Staff's position that the maximum the Commission can allow MAWC to increase its ISRS in this docket is \$254,789.

WHEREFORE, Staff recommends that the Commission issue an Order in this case rejecting the application of MAWC as compliant with §393.1003(1) in that it violates the 10% cap requirement, rejecting the proposed tariff as filed by MAWC, adopt Staff's proposed ISRS revenue increase of \$254,789, or in the alternative setting this matter for hearing.

⁴ As the Western District Court of Appeals found in *In the Matter of the Application of Laclede Gas Co. v. The Office of Public Counsel*, 417 S.W.3d 815, 823 (2014) "the phrase 'an ISRS' also is used in a manner that refers to the initial ISRS and all changes thereto as a **single entity**." Therefore, Staff's use of a cumulative total on the calculation of total annualized ISRS subject to the 10% cap is consistent with the Court's finding above.

Respectfully submitted,

/s/ Cydney D. Mayfield

Cydney D. Mayfield

Missouri Bar Number 57569

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by First Class United States Mail, postage prepaid, on this 28th day of April, 2015, to the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

/s/ Cydney D. Mayfield

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WO-2015-0211, Tariff Tracking No. YW-2015-0267
Missouri-American Water Company

FROM: Mark L. Oligschlaeger, Regulatory Review, Utility Services - Auditing Unit

/s/ Mark L. Oligschlaeger 04/28/15 /s/ Cydney Mayfield 04/28/15
Auditing Unit/ Date Staff Counsel's Office/ Date

/s/ James M. Russo 04/28/15
Water & Sewer Unit Date

SUBJECT: Staff Report and Recommendation Regarding MAWC's Petition to Change its
Infrastructure Replacement Surcharge

DATE: April 28, 2015

BACKGROUND

On February 27, 2015, Missouri-American Water Company (MAWC or "Company") filed a Petition to Change its Infrastructure System Replacement Surcharge ("Application") with the Missouri Public Service Commission ("Commission") to implement a change in MAWC's Infrastructure System Replacement Surcharge (ISRS). MAWC's February 27, 2015 ISRS Application represented its 15th request ("ISRS 15") and reflected proposed ISRS revenues for plant investments made during the period October 2014 through March 2015. This Application was docketed as Case No. WO-2015-0211. MAWC's first ISRS was filed on September 2, 2003 in Case No. WO-2004-0116 ("ISRS 1"). MAWC's current ISRS became effective on September 25, 2012 ("ISRS 10") in Case No. WO-2012-0401.

Sections 393.1000, 393.1003 and 393.1006 ("ISRS statute") and Commission Rule 4 CSR 240-3.650 provide eligible water corporations with the ability to recover certain ISRS costs outside of a formal rate proceeding. The recovery is accomplished through a surcharge, or an extra fee added to MAWC's regular customer bills for the provision of water utility service.

In its December 17, 2014 *Order Approving Stipulation and Agreement and Approving Tariff* in File No. WO-2015-0059 the Commission ordered that MAWC was entitled to receive cumulative infrastructure system replacement surcharge revenues in the amount of \$25,637,873, for ISRS 10 through ISRS 14, including \$8,986,785 specifically for ISRS 14. This Order became effective on December 31, 2014. MAWC's current ISRS and subsequent ISRS changes that are currently being charged to customers is shown below:

MAWC's CURRENT ISRS

New ISRS (ISRS 10)	\$3,736,587
ISRS change (ISRS 11)	\$5,827,176
ISRS change (ISRS 12)	\$2,973,943
ISRS change (ISRS 13)	\$4,113,382
ISRS change (ISRS 14)	<u>\$8,986,785</u>
MAWC's total current ISRS	\$25,637,873

ISRS Legislation General Requirements:

R.S.Mo. Section 393.1003 has three requirements that must be met for a water corporation to establish an ISRS. These requirements are related to the timing of the ISRS filing in relation to the utility's general rate proceeding and to the size (both minimum and maximum) of the annual ISRS revenues.

The first requirement reflected in Section 393.1003 imposes a cap on the size of a water corporation's ISRS to 10% of the base revenues ordered by the Commission in its last rate case ("10% base revenue cap"). Section 393.1003(1) states:

Notwithstanding any provisions of chapter 386 and this chapter to the contrary, as of August 28, 2003, a water corporation providing water service in a county with a charter form of government and with more than one million inhabitants may file a petition and proposed rate schedules with the commission to establish or change ISRS rate schedules that will allow for the adjustment of the water corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements made in such county with a charter form of government and with more than one million inhabitants; *provided that an ISRS, on an annualized basis, must produce ISRS revenues of at least one million dollars but not in excess of ten percent of the water corporation's base revenue level approved by the commission in the water corporation's most recent general rate proceeding.* (emphasis added).

The Staff calculated that MAWC's maximum cumulative or total ISRS revenue the Commission may approve to comply with and keep under the Section 393.1003(1) 10% base revenue cap is **\$25,892,662**, which reflects 10% of base revenue authorized in Case No. WR-2011-0337 of \$258,926,618.

MAWC began collecting its current ISRS beginning with ISRS 10 on September 25, 2012. Since that date the Commission has approved increases in MAWC's ISRS in ISRS 11, ISRS 12, ISRS 13 and ISRS 14. As shown in the above chart, the total current ISRS being charged to MAWC's customers is \$25,637,873 on an annualized basis. Due to the statutorily-mandated

10% base revenue cap, the maximum the Commission can allow MAWC to increase its ISRS in this docket is **\$254,789** (\$25,892,662 10% cap less current ISRS of \$25,637,873.)

A second general requirement of the ISRS statute is found in Section 393.1003.2 wherein it states:

The commission shall not approve an ISRS for a water corporation in a county with a charter form of government and with more than one million inhabitants that has not had a general rate proceeding decided or dismissed by issuance of a commission order within the past three years, unless the water corporation has filed for or is the subject of a new general rate proceeding.

The Commission's order deciding MAWC's last general rate proceeding, Case No. WR-2011-0337 was issued on March 7, 2012. MAWC's current ISRS began with ISRS 10 which was approved effective September 25, 2012 and this current ISRS application falls within the three-year window allowed by Section 393.1003.2.

Finally, Section 393.1003.3 states:

In no event shall a water corporation collect an ISRS for a period exceeding three years unless the water corporation has filed for or is the subject of a new general rate proceeding; provided that the ISRS may be collected until the effective date of new rate schedules established as a result of the new general rate proceeding, or until the subject general rate proceeding is otherwise decided or dismissed by issuance of a commission order without new rates being established.

MAWC began collecting its ISRS beginning with ISRS 10 on September 25, 2012. MAWC will not be allowed to collect its current ISRS past September 25, 2015 unless it files a general rate proceeding by or prior to that date.

Scope of Staff's ISRS Examination

The scope of Staff's ISRS examination is mandated by Section 393.1006 (2) (2) which states:

The staff of the commission may examine information of the water corporation to confirm that the underlying costs are in accordance with the provisions of sections 393.1000 to 393.1006, and to confirm proper calculation of the proposed charge, and may submit a report regarding its examination to the commission not later than sixty days after the petition is filed. No other revenue requirement or ratemaking issues shall be examined in consideration of the petition or associated proposed rate schedules filed pursuant to the provisions of sections 393.1000 to 393.1006.

The Staff reviewed the accuracy of MAWC's calculation of the ISRS revenue requirement components used to calculate the overall proposed ISRS revenue requirement. In general, this part of the Staff's examination includes a review of MAWC's compliance with the ISRS statute as a review of MAWC's calculation of the appropriate capital structure and capital cost rates, income tax rates, return on plant, depreciation expense, property taxes, depreciation reserve, and deferred income taxes.

The Staff also conducted an examination of a selected group of MAWC's ISRS work orders on Monday, April 27, 2015 at MAWC's St. Louis Missouri facilities. Based on this examination the Staff concludes that MAWC has an ISRS revenue requirement that, absent the 10% base revenue cap would exceed the maximum allowable ISRS increase in this docket of \$254,789. Therefore the Staff recommends that the Commission increase MAWC's current ISRS of \$25,637,873 by the \$254,789 maximum allowed by the 10% base revenue cap for a total ISRS of \$25,892,662.

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, No. WR-2011-0337, 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 Appendix B to this Memorandum.

RECOMMENDATION

Based upon the rationale stated above, Staff recommends the Commission issue an order in this case that:

1. Rejects MAWC's ISRS tariff sheet revised Tariff Sheet filed February 27, 2015;
2. Approves the Staff's recommended ISRS surcharge revenues in the incremental amount of annual pre-tax revenues of \$25,892,662 including ISRS revenues of \$254,789 for MAWC's currently proposed ISRS 15; and,
3. Authorizes MAWC to file a revised ISRS tariff sheet P.S.C. MO. No. 13, 6th Revised Sheet No. RT 10, Canceling 5th Revised Sheet No. RT 10 pending in Tariff File No. YW-2015-0267, to be effective June 27, 2015 that reflects the rates for each customer class as reflected in Appendix B.

Missouri-American Water Company
Case No. WO-2015-0211
ISRS Rate Design Calculation
St. Louis District

Additional ISRS Revenues:

	ISRS Recovery Revenue Requirement	Sales (CCF)	Rates per CCF	Rates per 100 gallons
Rate A & K	\$ 254,075	48,612,209	\$ 0.0052	\$ 0.00070
Rate B	\$ 306	2,365,075	\$ 0.0001	\$ 0.00002
Rate J	\$ 408	5,752,615	\$ 0.0001	\$ 0.00001
Total	\$ 254,789			

New ISRS Rate:

	Current Rate per CCF	Proposed Rate per CCF
Rate A & K	\$ 0.5325	\$ 0.5377
Rate B	\$ 0.0247	\$ 0.0248
Rate J	\$ 0.0137	\$ 0.0138

	Current Rate per 100 gallons	Proposed Rates per 100 gallons
Rate A & K	\$ 0.07115	\$ 0.07185
Rate B	\$ 0.00333	\$ 0.00335
Rate J	\$ 0.00180	\$ 0.00181

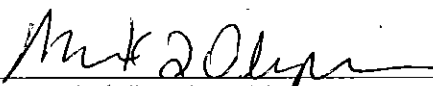
BEFORE THE PUBLIC SERVICE COMMISSION
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Missouri-American Water Company for) Case No. WO-2015-0211
Approval to Change its Infrastructure)
System Replacement Surcharge (ISRS))

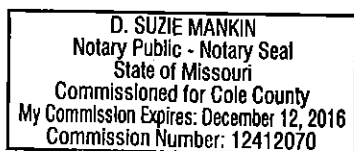
AFFIDAVIT OF MARK L. OLIGSCHLAEGER


STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.


Mark L. Oligschlaeger

Subscribed and sworn to before me this 28th day of April, 2015.




Notary Public

