

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

In the Matter of the Petition of Missouri-American )	
Water Company for Approval of an Infrastructure )	<b><u>Case No. WO-2013-0406</u></b>
System Replacement Surcharge (ISRS) )	<u>Tariff No. YW-2013-0376</u>

**STAFF'S RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Recommendation*, due this date by Order of the Commission dated April 29, 2013, and hereby recommends that the Commission issue an order that:

1. Finds that MAWC's filed petition is in compliance with the requirements of §§ 393.1000 to 393.1006 RSMo;
2. Approves MAWC's Petition to implement ISRS rate schedules with the adjustments to revenue requirement described in Staff's accompanying technical memorandum;
3. Approves the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the amount of \$5,441,344 as shown in Attachment A to Staff's technical memorandum; and
4. Approves the compliance filing of MAWC's revised ISRS tariff sheet P.S.C. MO. No. 13, 2<sup>nd</sup> Revised Sheet No. RT 10, Canceling 1<sup>st</sup> Revised Sheet No. RT 10 pending in Tariff File No. YW-2013-0376, to be effective on July 27, 2013.

**WHEREFORE**, Staff prays that the Commission will accept the foregoing as its recommendation herein.

Respectfully submitted,

**/s/ Kevin A. Thompson**

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Missouri Bar Number 36288  
Attorney for the Staff of the  
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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 hand delivery or by First Class United States Mail, postage prepaid, on this 2<sup>nd</sup> day of May, 2013, on 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/ Kevin A. Thompson**

**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
File No. WO-2013-0406 - Missouri-American Water Company

FROM: /s/ James J. Russo 05/02/2013  
Water and Sewer Department Date

/s/ Amanda C. McMellen 05/02/2013  
Auditing Department Date

/s/ Kevin Thompson 05/02/2013  
Staff Counsel's Office Date

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

DATE: May 2, 2013

**BACKGROUND**

On February 28, 2013, 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. Sections 393.100, 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 March 4, 2013, the Commission issued its **Order Suspending Tariff, Notice of Contested Case, And Order Directing Filings And Publication Of Notice**, in which it established March 11, 2013 as the date by which applications to intervene in the instant case were to be filed. There were no applications to intervene filed by March 4, 2013, nor to date. The Commission directed Staff to file a report regarding its examination of the ISRS filing no later than April 29, 2013. Staff filed and the Commission granted an extension for filing the report until May 2, 2013. The Commission also suspended MAWC's tariff sheet, YW-2013-0376, until July 27, 2013.

**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.

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 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-2011-0337;
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 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 \$5,288,318 or an increase of 3.1% above 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 exclusion of \$57,750 of property taxes that related to ISRS eligible investments made subsequent to January 1, 2013, on which property taxes will not be paid until December 2014, over twelve months following the ISRS filing; and
3. The inclusion of deferred taxes up through the effective date of this ISRS as explained below.

Staff is proposing to include additional deferred income tax reserves through the month of the effective date of rates in this ISRS case to better reflect the actual levels that will exist for these items at that time. In its original filing, the Company included and Staff agrees with reflecting additional depreciation reserves through the month of the effective date of rates in this ISRS case.

### **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, File 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 majority of the ISRS rates, but has determined such rates based on the Staff’s calculation of the revenue requirement as reflected in Attachment 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 payments for its fiscal year 2013 assessment and has no delinquencies for prior years’ assessments. In addition, MAWC does not have any past due annual reports.

### **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 \$5,441,344. The Staff's calculations are shown in Attachment B to this Memorandum. These calculations reflect MAWC's capital structure as filed in its last rate case, a 10% return on equity and MAWC's current depreciation rates, all according to the Stipulation and Agreement as ordered by the Commission in File No. WR-2011-0337. Staff's calculations reflect the actual ISRS investment placed in service from August 2012 through March 2013.

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 File No. WR-2011-0337, the ISRS filings from File Nos. WO-2009-0379 and WO-2010-0190, WO-2011-0106, as well as various emails with Company personnel. As a result, the Staff believes 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. Finds that MAWC's filed petition is in compliance with the requirements of sections 393.1000 to 393.1006 RSMo;
2. Approves MAWC's Petition to implement ISRS rate schedules with the above adjustments to revenue requirement;
3. Approves the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the amount of \$5,441,344 as shown in Attachment B; and
4. Approves the compliance filing of MAWC's revised ISRS tariff sheet P.S.C. MO. No. 13, 2<sup>nd</sup> Revised Sheet No. RT 10, Canceling 1<sup>st</sup> Revised Sheet No. RT 10 pending in Tariff File No. YW-2013-0376, to be effective on July 27, 2013.

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

<u>ISRS Activity:</u>	<b>Total for ISRS-11 Filing</b>
<b><u>Water Utility Plant Projects--Replacement Mains, and Associated Valves and Hydrants (RM) RSMo 393.1000 (8a):</u></b>	
<u>Task Orders Placed in Service (TOPS):</u>	
STLC-Replacement Mains and Associated Valves and Hydrants	\$ 50,381,279
Net Contributions in Aid of Construction	0
Deferred Taxes	(9,617,477)
Accumulated Depreciation	(470,153)
<b>Total Net 393.1000 (8a)</b>	<b>40,293,649</b>
<b><u>Water Utility Plant Projects--Main Cleanings and Relinings (RM) RSMo 393.1000 (8b):</u></b>	
<u>Task Orders Placed in Service (TOPS):</u>	
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>	
<u>Task Orders Placed in Service (TOPS):</u>	
STLC-Relocated Facilities	1,768,253
Net Contributions in Aid of Construction	(1,062,361)
Deferred Taxes	(134,750)
Accumulated Depreciation	(16,894)
<b>Total Net 393.1000 (8c)</b>	<b>554,248</b>
<b><u>Accumulated Depreciation and Deferred Taxes on Investment in Current ISRS</u></b>	
Depreciation for ISRS-10 Case No. WO-2012-0401	(322,317)
Deferred Taxes ISRS-10 Case No. WO-2012-0401	(478,920)
<b>Total</b>	<b>(801,237)</b>
<b>Total ISRS Rate Base</b>	<b>40,046,660</b>
<b>Overall Rate Of Return per Last Order</b>	<b>8.17%</b>
<b>UOI Required</b>	<b>3,271,812</b>
<b>Income Tax Conversion Factor</b>	<b>1.623077</b>
<b>Revenue Req. Before Interest Deductibility</b>	<b>5,310,403</b>
<b>Total ISRS Rate Base</b>	<b>40,046,660</b>
<b>Embedded Cost of Debt per Last Order</b>	<b>3.090%</b>
<b>Interest Expense Deduction</b>	<b>1,237,442</b>
<b>Combined Federal and State Income Tax Rate</b>	<b>38.388630%</b>
<b>Income Tax Reduction due to Interest</b>	<b>475,037</b>
<b>Tax Conversion Factor</b>	<b>1.623077</b>
<b>Revenue Req Impact - Interest Deductibility</b>	<b>771,022</b>
<b>Total Revenue Requirement on Capital</b>	<b>4,539,381</b>
<b>Depreciation Expense</b>	<b>683,203</b>
<b>Property Taxes</b>	<b>218,759</b>
<b>Add Under Collection from Previous ISRS</b>	<b>0</b>
<b>Total ISRS Revenues</b>	<b>\$ 5,441,344</b>
<b>Allocation of Revenue by Class</b>	
Mains less than or equal to 12"	Rate A & Oth \$ 4,789,144
Mains greater than 12"	Rate A & Oth 587,436
	Total Rate A & Oth 5,376,580
	Rate J 37,306
	Rate B 27,458
<b>Grand Total Revenues Collected in Proposed ISRS</b>	<b>\$ 5,441,344</b>

Missouri-American Water Company  
 File No. WO-2013-0406  
 ISRS Rate Design Calculation  
 St. Louis District

Additional ISRS Revenues:

	ISRS Recovery Revenue Requirement	Sales (CCF)	Rates per CCF	Rates per 1,000 gallons
Rate A & K	\$ 5,376,580	48,622,466	\$ 0.1106	\$ 0.1478
Rate B	\$ 27,458	2,365,075	\$ 0.0116	\$ 0.0155
Rate J	\$ 37,306	5,752,615	\$ 0.0065	\$ 0.0087
Total	\$ 5,441,344			

New ISRS Rate:

	Current Rate per CCF	Rates per 1,000 gallons
Rate A & K	\$ 0.0742	\$ 0.1848
Rate B	\$ 0.0026	\$ 0.0142
Rate J	\$ 0.0014	\$ 0.0079

	Current Rate per 1,000 gallons	Rates per 1,000 gallons
Rate A & K	\$ 0.0992	\$ 0.2470
Rate B	\$ 0.0034	\$ 0.0189
Rate J	\$ 0.0019	\$ 0.0106



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

In the Matter of the Petition of Missouri- )  
American Water Company for Approval of ) File No. WO-2013-0406  
an Infrastructure System Replacement )  
Surcharge (ISRS) )  
)

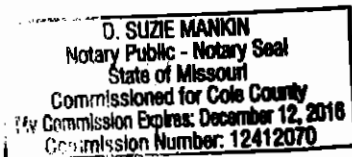
AFFIDAVIT OF AMANDA C. McMELLEN

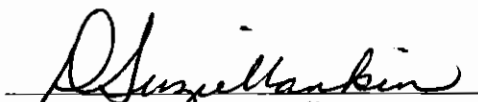
STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

Amanda C. McMellen, of lawful age, on her oath states: that she 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 her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.

  
AMANDA C. McMELLEN

Subscribed and sworn to before me this 2<sup>nd</sup> day of May, 2013.



  
Notary Public

