

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

In the Matter of Missouri-American )  
Water Company's Request for Authority to )  
Implement a General Rate Increase for )  
Water and Sewer Service Provided in )  
Missouri Service Areas. )

**Case No. WR-2010-0131**

**THE OFFICE OF THE PUBLIC COUNSEL'S POSITION STATEMENT**

COMES NOW the Office of the Public Counsel (Public Counsel) and states its position on the issues in this case as follows:

**REVENUE REQUIREMENT**

**Rate of Return Issues**

Capital Structure: What capital structure, Missouri-American Water Company (MAWC) stand alone or American Water consolidated, should be used for determining MAWC's rate of return?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Long Term Debt Cost: What cost of long term debt should be used for determining MAWC's rate of return?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Return on Common Equity: What return on common equity should be used for determining MAWC's rate of return?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

### **Rate Base Issues**

Cedar Hill Sewage Treatment Plant: Should any portion of the capital costs and depreciation expense associated with the capacity expansion project of Cedar Hill Sand Creek sewage treatment facility be disallowed for ratemaking in this proceeding?

It is Public Counsel's position that the capital costs associated with the capacity expansion project of Cedar Hill Sand Creek sewage treatment facility should be excluded from rate base. Public Counsel's position is that the recovery of the capital costs should come from future customers as contributions in aid of construction as they begin taking service from the system.

Cash Working Capital: What is the appropriate amount to be included in MAWC's rate base for cash working capital?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Rate Base for Security AAO Deferral: Should the unamortized balance of deferred Security AAO costs be included in rate base?

It is Public Counsel's position that the unamortized balance of Security AAO deferred costs should be excluded from rate base.

Accumulated Deferred Income Taxes Associated with the Security AAO: Should accumulated deferred income taxes associated with the Security AAO be included as an offset to rate base? Does this change if the unamortized balance of the security AAO is not included in rate base?

It is Public Counsel's position that the accumulated deferred income taxes associated with the tax versus book expensing of the Security AAO deferred costs should be included as an offset to rate base whether or not the unamortized balance of Security AAO deferred costs is excluded from rate base.

OPEB Contribution to External Fund (related to St. Louis County Water Company Amount): Should the regulatory asset, associated with the unrecovered St. Louis County Water Company FAS106 transition cost be included in rate base?

It is Public Counsel's position that the FASB SFAS No. 106 accrual of the former St. Louis County Water Company booked as a deferred asset while it was still operating under the Commission authorized pay-as-you-go method should be excluded from rate base.

Comprehensive Planning Study: Should the costs incurred by MAWC as part of its Comprehensive Planning Study be included in rate base?<sup>1</sup>

Public Counsel position is no rate base or expense recovery as Company's requested recovery has not be adequately supported and the infrastructure to which it relates in not in-service and not used and useful. In the alternative, Public Counsel proposes that the CPS costs be booked as Construction Work in Process (CWIP) so that as the future IT systems are placed in-service the costs can be assigned to the proper asset accounts and audited in subsequent rate cases.

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<sup>1</sup> This issue is subject to ongoing settlement discussions and may be resolved before hearing.

Business Transformation Costs: What is the appropriate accounting treatment for costs currently being incurred by MAWC for implementing its Business Systems conversion?<sup>2</sup>

(See Answer for Comprehensive Planning Study above)

Pension and OPEB Trackers (related to Service Company costs): Should the current MAWC Pension and OPEB Trackers be extended to include the Service Company Pension and OPEB costs?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Tank Painting Tracker: Should the existing tank painting tracker be continued? Should the balance of the current Tank Painting Tracker be included in rate base?

It is Public Counsel's position that the existing tank painting tracker should be discontinued and any remaining asset or liability balance should be excluded from rate base.

## **Revenue Issues**

Customer Water Usage Normalization (Usage per Customer per Day): What is the appropriate method to use to normalize customer water usage?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

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<sup>2</sup> This issue is subject to ongoing settlement discussions and may be resolved before hearing.

Revenue Normalization (Weather): What is the appropriate test year, weather-normalized revenue to be used for purposes of this case?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Revenue Associated with Economic Development Contracts: Should an adjustment to revenues be made related to the Contract rates paid by Triumph Foods, LLC and Nestle/Purina in St. Joseph pursuant to the Economic Development Rider tariff?

It is Public Counsel's Position that the Triumph Foods special contract should be reviewed in this case. It is also Public Counsel's Position that imputation of some or all of the discounted revenues of Triumph Foods should be used to offset a potential increase for other customers in the district.

Metropolitan St. Louis Sewer District (MSD) Contract Revenue: What is the appropriate amount of compensation MAWC should receive for the billing data provided by MAWC to MSD?

It is Public Counsel's position that the amount of compensation MAWC should receive for the billing data provided to MSD should be based on a fully distributed allocation of the costs it takes MAWC to produce the data.

## **Expense Issues**

Amortization of OPEB Assets (related to St. Louis County Water Company and Service Company): What is the appropriate level of expense to be included in MAWC's cost of service

for recovery of the regulatory asset created by OPEBs associated with the Service Company and the former St. Louis County Water Company?

It is Public Counsel's position that no expense recovery of the cost deferral booked by the former St. Louis County Water Company should be authorized and Public Counsel supports the Staff of the Missouri Public Service Commission (Staff) position regarding MAWC's requested recovery of the regulatory asset created by OPEBs associated with the Service Company.

Tank Painting Expense: What is the appropriate level of tank painting expense to be included in MAWC's cost of service?

Public Counsel supports Staff's recommendation of including a two year average of costs (i.e., 2008 and 2009) adjusted for a three year amortization of any remaining asset or liability related to the discontinuance of the current tank painting tracker.

Fuel & Power Expense (related to Ameren Rate Increase): Should the test year fuel and power expense be adjusted to reflect any increase to be authorized AmerenUE in its current rate case?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Rate Case Expense: What is the appropriate level of rate case expense to be included in MAWC's cost of service? Should rate case expense be normalized or amortized and should prior rate case expense be recovered in this rate case?

It is Public Counsel's position that the normalized annual level of rate case expense to include in MAWC's cost of service should consist of one-half of the costs actually incurred by

MAWC to process the instant case; excluding costs associated with prior cases before the Commission, outside consultants, outside legal representation, unsupported costs and accruals.

Depreciation Expense: What are the appropriate depreciation rates and resulting depreciation expense to be authorized in this case?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Bad Debt Expense: What is the appropriate level of bad debt expense to be included in MAWC's cost of service?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

## **ADEQUACY OF SERVICE AND OTHER ISSUES**

### Main Extensions:

(A) Are the existing tariff provisions and company policies appropriate for customer charges, contributions and refunds for main extensions?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

(B) Are the existing tariff provisions and company policies appropriate for developer charges, contributions and refunds for main extensions?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

(C) How should the construction of main extensions beyond that necessary for service in a new development or projects be apportioned?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Residential Fire Sprinkler Service: Are the current tariff provisions and company policies appropriate for adequate residential fire sprinkler service?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Sufficiency of Fire flow, related infrastructure maintenance, improvements and quality of service

(Riverside issues):

(A) Is the water service provided by MAWC in the Riverside District safe and adequate?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

(B) How should contributions made by the City of Riverside to MAWC for water system improvements/expansion be treated for ratemaking purposes?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.



Metering of certain large volume customers in St. Joseph District: Should MAWC be required to install and maintain additional metering for the five large, industrial customers and the Water Districts in its St. Joseph District? If so, how should the additional costs associated with installing and reading such meters, as well as analyzing the data from such meters, be recovered?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

## **RATE DESIGN/COST OF SERVICE/OTHER ISSUES**

Class Cost of Service Studies: What is the appropriate basis upon which to allocate costs within a district to each customer class?

It is Public Counsel's position that a class cost of service study should apportion the total cost of activities and facilities used in providing service among customer classes based on cost allocations that reflect the underlying customer characteristics that drive costs.

(A) Should there be a small mains adjustment?

Yes. It is Public Counsel's Position that there should be a reduction in the allocation of the cost of smaller mains to large customers in the Joplin, St Joseph and St Louis districts. It is also Public Counsel's position that the level of reductions should be those reflected in Public Counsel's class cost of service study.

(B) What is the appropriate basis upon which to allocate purchase power expense?

It is Public Counsel's position that purchase power expense should be allocated on the same basis as pumping, based on Base Day and Max Day Extra Capacity.

(C) What is the appropriate basis upon which to allocate corporate costs?

(See Answer to Part (D) below)

(D) What is the appropriate basis upon which to allocate administrative and general (A&G) costs?

It is Public Counsel's position that the appropriate allocation basis is as follows:

<b>Acct.</b>	<b>Administrative and General</b>	<b>Allocation Basis</b>
920	Admin. and General Salaries	Cost of Service
921	Office Supplies and Expenses	Cost of Service
922	Admin. Expenses Transferred	Cost of Service
923	Outside Services Employed	Cost of Service
924	Property Insurance	Gross Plant
925	Injuries and Damages	Labor
926	Employee Pensions & Benefits	Labor
927	Franchise Requirements	Rate Base
928	Regulatory Commission Expense	Rate Base
930	Misc. General Expenses	Cost of Service
931	Rents	Cost of Service
932	Maintenance of General Plant	Net Non General Plant

(E) What is the appropriate basis upon which to allocate revenues and/or costs associated with the Economic Development Rider Contract Customers?

For purposes of determining revenue neutral shifts, it is Public Counsel's position that the costs associated with the Economic Development Rider Contract Customers should be assigned to the Industrial customer class and the revenue associated with the Economic Development

Rider Contract Customers should be valued at full tariff rates and assigned to the Industrial customer class.

Inter-District Support or Revenue Contribution: Should any district provide a revenue support or a subsidy so that another district may be provided service that is priced below that district's cost of service? If so, which district(s) should receive support and which district should be required to provide that support?

It is Public Counsel's position that district revenues should be aligned with district costs.

Phase-In:

(A) Is a phase-in of rates appropriate or lawful?

It is Public Counsel's position that a phase-in is both appropriate and lawful. Public Counsel would support a phase-in of the needed district increases over three years with the phase-in structured to collect 50% of district deficiencies in the first year, with the balance and carrying costs to be recovered in approximately equal amounts in the remaining years.

(B) Which, if any, districts should have their rate increase phased in?

Public Counsel would support a phase-in of rates in the Warren County district and the Brunswick district.

(C) How should any carrying cost associated with a phase-in deferral be recovered and from whom?

It is Public Counsel's position that carrying costs should be paid by the respective district to MAWC at a rate equal to the MAWC's Allowance for Funds Used During Construction (AFUDC) rate.

Rates:

(A) Commodity Charge

i) Should the commodity charge be set as a declining block rate or should the commodity charge be uniform for all levels of usage?

Public Counsel proposed no changes to the structure of block rates. It is Public Counsel's position that if block rate structures are changed, such movement should be moderate and based on a case by case consideration of the bill impacts that would result.

(ii) Should commodity rates be uniform across all classes in a district?

No. Public Counsel proposed no changes to the existing structure of block rates.

(B) Customer Charge

i) What is the appropriate way to establish the customer charge?

It is Public Counsel's position that the customer charge should reflect investments and expenses directly related to the number of customers by class including meters, services, operations and maintenance, and depreciation expenses related to meters and services, meter reading and arguably some portion of customer records expense.

ii) Should the customer charge be uniform across the districts?

It is Public Counsel's position that the customer charge should not be uniform across all districts.

(C) How should any rate increases or decreases resulting from this case be spread or allocated?

It is Public Counsel's position that customer classes should move toward district specific cost of service by first implementing a revenue neutral shift among classes and second spreading any net increase or decrease in district revenue to the classes as an equal percentage. It is also Public Counsel's position that class increases resulting from revenue neutral shifts should be capped at 5% in order to mitigate the combined impact of a large district increase coupled with interclass shifts.

Low Income Provision: Should MAWC be authorized to include a low income provision in its tariffs?

It is Public Counsel's position that a low income provision should not be included in MAWC's tariffs at this time. Public Counsel is willing to participate in a working group directed to develop information and to discuss this and additional options (such as lowering the overall customer charge or water conservation programs which may provide similar results) for consideration in MAWC's next rate case.

MSD Rate: What is the appropriate rate to charge MSD for customer usage information?

It is Public Counsel's position that the amount of compensation MAWC should receive for the billing data provided to MSD should be based on a fully distributed allocation of the costs it takes MAWC to produce the data.

Consolidated Tariff:

(A) Should existing tariff rules and regulations be consolidated into one tariff?

It is Public Counsel's position that the tariffs should not be combined. Additionally, it is Public Counsel's position that existing tariffs should not be modified to include a policy of cash only payments from customers that have had an NSF as has been included in the proposed consolidated tariff. It is also Public Counsel's position that existing tariffs should not be modified to include the language appearing on Tariff Sheet 52 of the proposed consolidated tariff which addresses Municipal and County authority.

(B) Miscellaneous fees

It is Public Counsel's position that the fee for water use from a MAWC hydrant should be district specific and cost based. For other miscellaneous services, it is Public Counsel's position that one set of cost based fees should apply to the St. Louis Metro district and Warren County Water district. Public Counsel also believes a different set of cost based miscellaneous service fees should apply to all other water districts. It is Public Counsel's position that the cost based rates should be those shown in Schedule BAM REB-2.

**WHEREFORE**, Public Counsel respectfully submits its Position Statement on the issues in this case.

Respectfully submitted,

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**/s/ Christina L. Baker**

By: \_\_\_\_\_

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to the following this 12<sup>th</sup> day of May 2010:

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