

**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>File No. WO-2021-0343</u></b>
Infrastructure System Replacement Surcharge	)	Tariff No. JW-2021-0261
(ISRS)	)	

**STAFF RECOMMENDATION**

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

1. On June 28, 2021, Missouri-American Water Company (“MAWC” or “Company”) filed its *Petition to Establish An Infrastructure System Replacement Surcharge & Motion for Approval of Customer Notice* (“*Petition*”).

2. MAWC’s *Petition* requests to establish an Infrastructure System Replacement Surcharge (“ISRS”) and approve rates and charges for ISRS-eligible infrastructure systems replacements and relocations made during the period of January 1, 2021, through July 31, 2021.

3. On June 30, 2021, the Commission set a deadline for intervention of July 21, 2021 (the June 30<sup>th</sup> Order). The Commission further directed Staff to file a recommendation on MAWC’s *Petition* no later than August 27, 2021.

4. Missouri Industrial Energy Consumers (“MIEC”) filed its *Application to Intervene* on July 7, 2021; MIEC’s application has not yet been addressed by the Commission.

5. Commission Rule 20 CSR 4240-3.650(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.

6. Based on its examination and calculations as detailed in its attached Memorandum, Staff recommends the Commission approve incremental ISRS surcharge revenues in the amount of \$7,524,173.

**WHEREFORE**, Staff recommends the Commission issue an Order in this case that (1) Rejects MAWC's ISRS tariff sheet (JW-2021-0261) P.S.C. MO No. 13 16<sup>th</sup> Revised Sheet No. RT 10 Cancelling 15<sup>th</sup> Revised Sheet No. RT 10, filed on June 28, 2021; (2) approves Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$7,524,173; and (3) order MAWC to file a revised 16<sup>th</sup> Revised Sheet No. RT 10 Cancelling 15<sup>th</sup> Revised Sheet No. 10, that reflects Staff's calculated ISRS rate.

Respectfully submitted,

**/s/ Mark Johnson**

Mark Johnson, Mo. Bar No. 64940

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Attorney for the Staff of the  
Missouri Public Service Commission

### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and/or counsel of record on this 27<sup>th</sup> day of August, 2021.

**/s/ Mark Johnson**

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. WO-2021-0343, Tariff No. JW-2021-0261

**FROM:** Keith D. Foster, Utility Regulatory Supervisor, Auditing Department  
Caroline Newkirk, Senior Utility Regulatory Auditor, Auditing Department  
Matthew J. Barnes, Senior Utility Regulatory Auditor, Water and Sewer  
Department

/s/ Kimberly K. Bolin 08/27/2021  
Auditing Department / Date

/s/ Curt B. Gateley 08/27/2021                      /s/ Mark Johnson 08/27/2021  
Water and Sewer Department / Date                      Staff Counsel's Office / Date

**SUBJECT:** Staff Report and Recommendation Regarding the Petition of Missouri-American  
Water Company for Approval to Establish an Infrastructure System Replacement  
Surcharge ("ISRS")

**DATE:** August 27, 2021

### BACKGROUND

On June 28, 2021, Missouri-American Water Company ("Company" or "MAWC") filed its *Petition to Establish an Infrastructure System Replacement Surcharge* ("Petition") with the Missouri Public Service Commission ("Commission"). The Company submitted its Petition pursuant to the provisions of Sections 393.1000, 393.1003, and 393.1006 and Commission Rule 20 CSR 4240- 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. Instead, these investments in infrastructure are recovered through an ISRS. This is the first ISRS filing since the Company's most recent general rate case, Case No. WR-2020-0344.

In the current case, MAWC submitted its Petition to reflect ISRS investment that had been placed into service for the period January 1, 2021, to May 31, 2021, with estimated ISRS costs through July 31, 2021, also included. MAWC estimated in its Petition that it was entitled to ISRS revenues

in this case of \$9,585,414, or an increase of approximately 2.8% based on the base revenue level approved by the Commission in its most recent rate case.

On June 30, 2021, the Commission issued its *Order Directing Notice, Setting Intervention Deadline, Directing Filing, and Suspending Tariff* establishing July 21, 2021, 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 August 27, 2021.

### **STAFF INVESTIGATION**

Commission rule 20 CSR 4240-3.650(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 eligible for 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 being based upon ISRS-eligible plant additions producing a revenue requirement of at least one (1) million dollars. In addition, the cumulative amount of ISRS revenues that will result from this petition does not exceed ten percent of the base revenue levels of \$348 million approved by the Commission in the most recent MAWC general rate case, Case No. WR-2020-0344.

In its Petition, MAWC filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of January 1, 2021, through May 31, 2021. In its initial filing, MAWC estimated an amount for June 2021 and July 2021 additional plant investment as part of its request. MAWC provided supporting documentation for the investments made in January 2021 through May 2021 in response to Staff Data Request No. 2 on July 20, 2021. MAWC subsequently provided Staff with additional documentation to support additions placed into service in June 2021 on July 29, 2021. The final batch of supporting documentation for additions placed into service in July 2021 was provided by MAWC on August 13, 2021. Also on August 13, 2021, MAWC provided Staff with updated work papers to include the actual ISRS investment through July 2021.

As part of its examination of MAWC's Petition, Auditing Staff reviewed supporting workpapers, descriptions of ISRS projects, MAWC's accounting entries, and a sample of invoices representing approximately 66.67% of total ISRS investment costs, as well as other applicable documentation, such as work order authorizations. Staff communicated with MAWC personnel to clarify MAWC's Petition when necessary.

### **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 operating income equal to MAWC's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements that are eligible for the ISRS, including recognition of net 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 requirements are water utility plant projects that 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 did 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, Case No. WR-2020-0344;
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.

The Company's Petition indicates that its proposed rate schedule (including estimated amounts for June and July 2021) will "produce ISRS revenues of \$9,584,414, or an increase of 2.8% based on the base revenue level approved by the Commission in its most recently completed general rate proceeding" on an annualized basis. Also, the Petition stated that "the ISRS proposal includes an adjustment of \$2,477,981, to reflect an under collection from previous ISRS surcharges." Subsequently MAWC submitted updated workpapers which contain actual costs for June and July of 2021 in place of the estimates, where the adjustment for under collection from ISRS reconciliation was updated to \$875,282, resulting in an updated ISRS revenue requirement of \$7,524,237.

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

With the exception of the items listed and discussed in further detail below, Staff agrees with the methodology utilized by MAWC in the calculation of the ISRS revenue requirement for the purpose of this ISRS filing. In its calculation of the ISRS revenue requirement Staff utilized the following approaches:

1. Replacement of estimated costs included in the ISRS plant balances included in the Company's direct filing with actual costs for that period.
2. Removal of various non-ISRS eligible costs as described below.

During the course of its review, Staff discovered three amounts that were included by MAWC in its proposed ISRS recovery that did not match the supporting invoices for a total of \$710. Staff removed these costs from its calculation of the water utility plant projects. This exclusion resulted in a \$64 net reduction to MAWC's revenue requirement.

With this change, Staff's recommended ISRS revenue requirement for MAWC in this petition is \$7,524,173 or an increase of 2.2% based on the base revenue level approved by the Commission in its most recently completed general rate proceeding.

### **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-2020-0344, and the ISRS revenues allocated to each affected customer class. Staff agreed with and used the Company's methodology for calculating the ISRS rates, based on Staff's calculation of the ISRS revenue requirement. The ISRS rates are reflected in Appendix A1 to this Memorandum.

### **ASSESSMENTS AND ANNUAL REPORTS**

In accordance with established practice regarding the submission of Staff recommendations to the Commission, Staff reviewed the payment history for MAWC's annual Commission assessment fees and the status of MAWC's annual report filings. Based on its review of this information, Staff found that MAWC is current on its quarterly assessment payments and is not delinquent for prior year's assessments. In addition, MAWC does not have any past due annual reports.

### **STAFF RECONCILIATION**

Commission rule 20 CSR 4240-3.650(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. The Commission approved overall pre-tax ISRS revenue of \$3,429,008 in MAWC's last ISRS filing, Case No. WO-2020-0410, of which \$2,117,603 was authorized to be collected prior to the effective date of rates of MAWC's last general rate proceeding, where the ISRS surcharge was reset. As of July 31, 2021, MAWC has collected \$1,242,321 of this ordered ISRS revenue. This demonstrates that MAWC has under-collected ISRS revenues by \$875,282. As a result of the reconciliation, Staff recommends including this amount of under-collected ISRS revenues in MAWC's ISRS rates.

### **STAFF'S CONCLUSIONS**

Based upon its investigation and calculations, Staff concludes the Company's ISRS rates should be designed to recover annual ISRS revenues of \$7,524,173. Staff's calculations reflect the overall weighted average cost of capital of 8.71% (tax grossed up rate of return) and MAWC's current depreciation rates, as reflected in the Stipulation and Agreement approved and ordered by the Commission on April 7, 2021, in Case No. WR-2020-0344, MAWC's last general rate case. Staff's calculations reflect the actual ISRS eligible investment placed in service from January 1, 2021, through July 31, 2021. In addition, no property taxes have been included in Staff's calculation as there will be no property tax liability from MAWC due within the next 12 months related to this ISRS investment.

Staff based its conclusions on an examination of work orders and supporting documentation for the projects included for recovery in MAWC's proposed ISRS filing, as well as from a review of the Stipulation and Agreement in Case No. WR-2020-0344. As a result it is Staff's conclusion that 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'S RECOMMENDATION**

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

1. Rejects MAWC's ISRS tariff sheet (JW-2021-0261) filed on June 28, 2021;
2. Approves Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$7,524,173;
3. Order MAWC to file a revised ISRS tariff sheet, 16<sup>th</sup> Revised Sheet No. RT 10 Cancelling 15<sup>th</sup> Revised Sheet No. RT 10, that reflects Staff's calculated ISRS rate.



Missouri-American Water Company  
Case No. WO-2021-0343  
Staff's ISRS Rate Design Calculation  
St. Louis District

	<b>ISRS Recovery</b>		<b>Rate per 1000 Gal.</b>
	<b>Revenue Requirement</b>	<b>Billing Determinants Sales (000 Gal) (1)</b>	
Rate A	\$ 7,492,169	31,771,914	\$ 0.23581
Rate B	\$ 11,500	1,579,721	\$ 0.00728
Rate J	\$ 20,503	3,959,678	\$ 0.00518
	<b><u>\$ 7,524,173</u></b>	<b><u>37,311,313</u></b>	

(1) Per billing determinants in Case WR 2020-0344

<b>Proposed ISRS Rate Design Per 1,000 Gallons</b>			
	<u>Current Rate</u>	<u>Adjustment to Current Rate (2)</u>	<u>Proposed Rate Use on Tariff</u>
<b>Rate Per 1000 Gal</b>			
Rate A	\$ -	\$ 0.23581	\$ 0.23581
Rate B	\$ -	\$ 0.00728	\$ 0.00728
Rate J	\$ -	\$ 0.00518	\$ 0.00518

(2) Calculated per above

<b>Proposed ISRS Rate Design Per 100 Gallons</b>			
	<u>Current Rate</u>	<u>Adjustment to Current Rate</u>	<u>Proposed Rate Use on Tariff</u>
<b>Rate Per 100 Gal</b>			
Rate A	\$ -	\$ 0.02358	\$ 0.02358
Rate B	\$ -	\$ 0.00073	\$ 0.00073
Rate J	\$ -	\$ 0.00052	\$ 0.00052

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

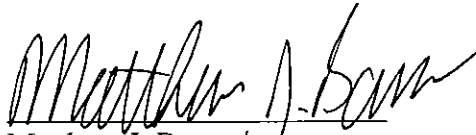
In the Matter of the Joint Application of )  
The Public Water Supply District No. 2 of ) Case No. WO-2021-0343  
St. Charles County, Missouri and the City of ) Tariff No. JW-2021-0261  
Wentzville, Missouri for Approval of an )  
Amendment to their Intergovernmental )  
Territorial Agreement )

**AFFIDAVIT OF MATTHEW J. BARNES**


STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

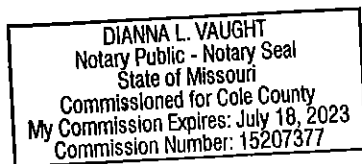
**COMES NOW** Matthew J. Barnes, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

  
Matthew J. Barnes

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 27<sup>th</sup> day of August, 2021.

  
NOTARY PUBLIC



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


In the Matter of the Joint Application of	)	
The Public Water Supply District No. 2 of	)	<u>Case No. WO-2021-0343</u>
St. Charles County, Missouri and the City of	)	<u>Tariff No. JW-2021-0261</u>
Wentzville, Missouri for Approval of an	)	
Amendment to their Intergovernmental	)	
Territorial Agreement	)	

**AFFIDAVIT OF KEITH D. FOSTER**

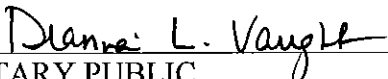
STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

**COMES NOW** Keith D. Foster, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Keith D. Foster

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 27<sup>th</sup> day of August, 2021.

  
\_\_\_\_\_  
NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: July 18, 2023 Commission Number: 15207377
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**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of	)	
The Public Water Supply District No. 2 of	)	<u>Case No. WO-2021-0343</u>
St. Charles County, Missouri and the City of	)	<u>Tariff No. JW-2021-0261</u>
Wentzville, Missouri for Approval of an	)	
Amendment to their Intergovernmental	)	
Territorial Agreement	)	

**AFFIDAVIT OF CAROLINE NEWKIRK**

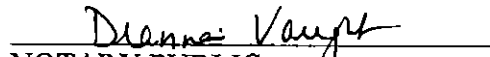
STATE OF MISSOURI     )  
  )  
COUNTY OF COLE        )     ss.

**COMES NOW** Caroline Newkirk, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form*; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

  
Caroline Newkirk

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 27<sup>th</sup> day of August, 2021.

  
NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: July 18, 2023 Commission Number: 15207377
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