

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 6th day of
April, 2016.

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)
File No. WR-2015-0301

**ORDER APPROVING NON-UNANIMOUS
STIPULATION AND AGREEMENT**

Issue Date: April 6, 2016

Effective Date: April 6, 2016

On July 31, 2015, Missouri-American Water Company (“MAWC”) submitted tariff sheets proposing a general rate increase of \$51 million. On March 10, 2016, the Staff of the Commission, on behalf of the parties, filed a list of issues to be heard by the Commission during evidentiary hearings to be held from March 14, through March 25, 2016. Before the start date of the hearings, the Commission was informed that an agreement was imminent. Based on such, the Commission cancelled the first two days of hearings, then subsequently cancelled the first week of hearings.

On March 16, 2016, MAWC, the Staff of the Commission, the Office of the Public Counsel, the Missouri Industrial Energy Consumers and the Missouri Division of Energy filed a Non-Unanimous Revenue Stipulation and Agreement resolving a number of issues, including agreement on an increase of \$30.6 million in the company’s annual revenue requirement on a total company basis (Revenue Requirement Stipulation). With the exception of the Missouri Industrial Energy Consumers, these same signatories filed a

second Non-Unanimous Partial Stipulation and Agreement.¹ On March 21, 2016, the Commission held an on-the-record presentation during which the parties fielded questions about settlement positions.

Between the two agreements, the following issues were resolved: 1) Affiliate Transactions rulemaking; 2) cost of capital and capital structure; 3) revenue stabilization mechanism proposal; 4) the Atrazine settlement proceeds; 5) environmental cost adjustment mechanism proposal; 6) rate base treatment of Emerald Pointe pipeline; 7) Arnold plant amortization; 8) non-residential revenues; 9) miscellaneous charges; 10) business transformation program costs; 11) service company costs; 12) advertising expense; 13) the capitalization of certain O&M depreciation expense; 14) cash working capital; 15) chemical expense; 16) corporate franchise tax expense; 17) district allocations; 18) dues and donations expense; 19) electricity; 20) fuel and heating oil expense; 21) incentive compensation expense; 22) income taxes; 23) insurance other than group expense; 24) legal expense; 25) lobbying expense; 26) main break expense; 27) miscellaneous expense; 28) other employee benefits and group insurance expense; 29) outside service expense; 30) payroll expense; 31) pension and OPEBs expense; 32) postage expense; 33) promotional items expense; 34) property tax expense; 35) purchased water expense; 36) relocation expense; 37) rents and leases expense; 38) tank painting expense and tank painting tracker; 39) uncollectables expense; 40) waste disposal expense; 41) faulty metering issue; 42) energy efficiency; 43) depreciation issues; 44) rate case expense; 45) Infrastructure System Replacement Surcharge; and, 46) billing determinants for customer usage.

¹ EFIS Item No. 241, filed on March 24, 2016. Non-Unanimous Partial Stipulation and Agreement.

The agreements are not unanimous in that all of the parties did not join therein. However, Commission rule 4 CSR 240-2.115(2) requires parties who did not join in an agreement to file an objection thereto within 7 days. If no party files a timely objection, then the Commission may treat the agreement as unanimous. No party has filed an objection to either agreement.

The Revenue Requirement Stipulation does not stipulate to a specific return on equity. However, based on the evidence and analysis presented in this case, the Commission interprets the Revenue Requirement Stipulation to be based on a return on equity range of approximately 9.5 – 9.75%. Prior to filing the Revenue Requirement Stipulation, MAWC, Staff, and OPC submitted position statements as to the appropriate return on equity for MAWC. These positions were as follows: MAWC – 10% to 10.7%; Staff – 8.5% to 9.5%; OPC – 9.0%. In MAWC's previous rate case in 2011, the return on equity issue was also resolved without specifically setting forth the return on equity percentage. But before settling that earlier case, MAWC and Staff submitted position statements regarding return on equity as follows: MAWC – 11.85%; Staff – 9.45%.² Considering these positions along with all the relevant testimony in this case, the Commission determines a return on equity range of 9.5 – 9.75% is reasonable.

Because these issues are being disposed of by agreement, the Commission need not make findings of fact or conclusions of law.³ However, the Commission independently concludes that the agreements are consistent with the public interest and are reasonable.

² MAWC's *Statement of Position*, WR-2011-0337. Staff's *Statement of Positions*, WR-2011-0337; The Commission in that case, clearly concerned with the lack of a specified return on equity, attempted to work backward through the revenue requirement formula and evidence to determine the return on equity upon which the settlement was based. The Commission noted its belief that the parties had agreed to a return on equity between 9.0% and 11.0%. *Order Approving Stipulation and Agreement*, FN 38, WR-2011-0337.

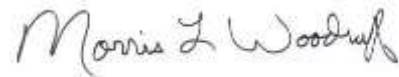
³Section 536.090 RSMo.

Having so concluded, the Commission will approve the agreements, which are attached to this order.

THE COMMISSION ORDERS THAT:

1. The Non-Unanimous Stipulation and Agreement, filed on March 16, 2016, is approved and the signatories are directed to abide by the terms set out therein.
2. The Non-Unanimous Stipulation and Agreement, filed on March 24, 2016, is approved and the signatories are directed to abide by the terms set out therein.
3. This order shall be effective when issued.

BY THE COMMISSION



Morris L. Woodruff
Secretary



Hall, Chm., Stoll, Kenney,
Rupp, and Coleman, CC., concur.

Jones, Senior Regulatory Law Judge