

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

In the Matter of Missouri-American Water            )  
Company for Certificates of Convenience            )  
And Necessity Authorizing it to Install, Own,        )  
Acquire, Construct, Operate, Control, Manage,     )  
and Maintain Water and Sewer Systems in            )  
and around the City of Lawson, Missouri.            )

**Case No. WA-2018-0222**

**STAFF REPLY**

**COMES NOW** the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Response* in this matter hereby states:

**Procedural Background**

1. On June 25, 2018, the Office of the Public Counsel (OPC) filed its *Response to Staff Recommendation and Motion to Open a Workshop Docket (OPC Response)*. In the *OPC Response*, Public Counsel raises essentially three arguments: (1) a concern about a service area and § 393.320.6, RSMo, (2) concerns over the methodology of the appraisal required by the statute, and (3) concerns regarding Staff’s enumerated recommendations 8, 9, and 10 of the *Staff Recommendation*.

2. MAWC filed a *Reply to OPC Response to Staff Recommendation* June 27, 2018, that responded to those aspects of OPC’s filing related to MAWC. Staff agrees with the responses MAWC provides. Staff now files its *Reply* to address the remaining aspects of OPC’s filing.

**Reply Regarding Section 393.320.6, RSMo**

3. Contrary to OPC’s allegations, Staff’s enumerated recommendations 2, 3 and 4 regarding the submission of new tariff sheets comply with § 393.320.6, RSMo,

and in no way contradict that provision. Staff's recommendations follow the letter of the law in recommending that upon acquisition, MAWC file tariff sheets reflecting the rates to be applied to the Lawson water and sewer service areas.<sup>1</sup> It is necessary for a regulated utility to have Commission approved rates and a service area in order to provide utility services. The rates Staff recommends in enumerated recommendation 2 are those rates which the City of Lawson currently charges its customers, which would have been previously voted on and approved by the citizens of Lawson and which were proposed for use by MAWC.

Staff has spoken to MAWC and modifies its enumerated recommendations 3 and 4 to the Commission slightly to account for the new MAWC rate districts ordered by the Commission in Case No. WR-2018-0285. Staff would recommend:

3. **“Require MAWC to submit tariff sheets, to become effective before closing on the assets, to include the Lawson water system in its ‘All Missouri Service Areas Outside of St. Louis County and Outside of Mexico’, to include a service area map, and service area written description to be included in its EFIS water tariff P.S.C. MO No. 13, and water rates, applicable specifically to water service in its Lawson service area;**
4. **“Require MAWC to submit tariff sheets, to become effective before closing on the assets, to include the Lawson sewer system in its ‘Pettis County (Maplewood, Quail Run, Brooking Park, Westlake Village), Fenton, Hickory Hills, Temple Terrace, Anna Meadows, Jaxson Estates’ service areas’, to include a service area map, and service area written description to be included in its EFIS sewer tariff P.S.C. MO No. 26, and sewer rates, applicable specifically to sewer service in its Lawson service area;**

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<sup>1</sup> § 393.140(11), The Commission shall have the power to require every regulated utility to file and keep open to public inspection schedules showing all rates and charges.

## **Reply Regarding the Proposed Recommended Conditions 8, 9, and 10**

4. Regarding OPC's various concerns with Staff's enumerated recommendations 8, 9, and 10, Staff has attempted to address each enumerated recommendation individually. First, Staff's recommendation 8 proposes:

8. Require MAWC to develop a plan to book all of the Lawson plant assets, with the concurrence of Staff and/or with the assistance of Staff, for original cost, depreciation reserve, and contributions (CIAC) for appropriate plant accounts, such that current rate base is broken down as \$2,630,000 for the water system, and \$1,370,000 for the sewer system, along with reasonable and prudent transaction, closing, and transition costs. This plan should be submitted to Staff for review within 60 days after closing on the assets;

Staff's recommendation is designed to require MAWC to assign a rate base value for the water and sewer assets that corresponds with the appraised rate base recommended in MAWC's *Application* and is consistent with the guidelines of § 393.320, RSMo. "The Commission has the power, pursuant to 393.140(4) to prescribe uniform methods of keeping accounts."<sup>2</sup> Commission rule 4 CSR 240-20.030 requires utilities to use the Uniform System of Accounts to maintain all books and records. As far back as 1953, the Commission ordered that it was appropriate for a Company to determine the original cost of assets and how to book those to accounts based on an engineering study.<sup>3</sup> In that same matter, the proposal was submitted to Staff for review and ultimately presented to the Commission for final approval.<sup>4</sup>

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<sup>2</sup> *In Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service v. Missouri Public Service Commission*, 509 S.W.3d 757, 769 (Mo. App. 2016).

<sup>3</sup> *In the matter of the original cost of Joplin Water Works Company*, Report and Order, Case No. 12,613, issued July 13, 1953, where the Commission was tasked with determining the original cost of the water system and found that it was appropriate that Joplin Water Company had determined the original

Based on this historical treatment, Staff continues to recommend that it is appropriate for MAWC to propose the accounts in which to book the Lawson plant assets, and submit that plan to Staff for review. The ultimate determination of how the assets are to be booked will be subject to Commission review and approval at MAWC's next rate case.

5. Staff's recommendation 9, proposes:

9. Require MAWC to book the estimated original cost of the North Highway 69 sewage lift station, and book an accompanying CIAC offset equal to the estimated original cost of this facility;

Staff's recommendation 9 intends to include the North Highway 69 sewage lift station in rate base as the asset constitutes plant and is intended for use, potentially prior to the next general rate case for the Lawson systems. OPC's emphasis on the word "soon" used in Staff's discussion is not relevant, as Staff's enumerated recommendation does not include the word "soon," nor does any statute or rule set a deadline. The value of the lift station is not currently included in the City of Lawson's rates, which are the same rates Staff and MAWC propose be charged following the acquisition. Staff's recommendation is to book the value of the lift station with an equal amount of CIAC offset to effectively assign a zero value to the lift station as it is applied to Lawson's rate base until the next general rate case including the Lawson water system. The accompanying CIAC offset will not be evaluated for rate making purposes prior to the next rate case, and Staff has recommended no specific deadline by which MAWC must complete the booking and offset. If MAWC fails to book the lift station before the

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cost and booked to accounts accordingly then submitted its proposal to Staff for review and approval prior to the Commission's final determination and approval.

<sup>4</sup> *Id.*

next rate case, it will not earn a return, and if MAWC books the station without the CIAC offset, Staff will recommend disallowance of the appropriate rate base amount in MAWC's next rate case.

In an effort to eliminate OPC's confusion, Staff is willing to modify the recommendation to:

- 9. Require MAWC to book the estimated original cost of the North Highway 69 sewage lift station, and book an accompanying CIAC offset equal to the estimated original cost of this lift station prior to the next rate case;**

6. OPC has also stated confusion as to who is responsible for determining the estimated original cost of the lift station to be booked. As is stated above with regards to the proper party to estimate original costs and assign assets to appropriate accounts, the Commission has historically permitted utilities to propose a plan with the assistance of Staff, which is ultimately presented to the Commission for final approval. The same methodology should apply with respect to the lift station. There is no requirement for Staff to make this determination without Company input and MAWC will be responsible for justifying its proposal to Staff and the Commission.

7. Finally, Staff's recommendation 10, proposes:

10. Require MAWC to rehabilitate the Vibbard water pump station, as reasonably necessary to restore dependable working order, and enter into a wholesale contract or a water service agreement with District 2, all within 60 days of closing on the assets, or as soon as possible thereafter with status reports to Staff, as described above regarding the Vibbard facility;

Staff's recommendation 10 was designed to ensure that a backup water supply be available to MAWC for the Lawson system should an emergency arise. There is evidence that a contract between the City of Lawson and the Ray County Public Water

Supply District No. 1 to provide emergency service through the pump station existed prior and may still be valid. Therefore, Staff's recommendation was intended for MAWC to take the means necessary to secure a backup supply.

Considering the foregoing discussion, Staff modifies its recommendation to the Commission to **“require MAWC to ensure that a backup water supply arrangement is obtained following acquisition of the Lawson systems to ensure reliable service to the City of Lawson service area via the Vibbard water pump station or other prudent means.”**

**WHEREFORE**, Staff prays that the Commission will accept this *Reply*, issue an Order approving Missouri American Water Company's acquisition of the Lawson sewer and water systems; order Missouri American Water Company to take action consistent with Staff's original recommendations and the modification proposed in this *Reply*; and grant such other and further relief as the Commission considers just in the circumstances.

Respectfully submitted,

**/s/ Whitney Payne**

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**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 28th day of June, 2018, to all counsel of record.

**/s/ Whitney Payne**