

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

<b>In the Matter of the Petition of Missouri-</b>	)	
<b>American Water Company For Approval</b>	)	<b><u>Case No. WO-2010-0190</u></b>
<b>to Change its Infrastructure System</b>	)	Tariff File No. YW-2010-0413
<b>Replacement Surcharge (ISRS)</b>	)	

**STAFF RECOMMENDATION**

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its *Recommendation* states to the Missouri Public Service Commission (Commission) as follows:

1. On December 23, 2009 Missouri-American Water Company (MAWC) filed its *Petition to Change its Infrastructure System Replacement Surcharge (ISRS)* (Petition) to adjust “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”, (see *Petition* at 3), pursuant to §§ 393.1000, 393.1003, and 393.1006 RSMo (Cumm Supp 2008) and Commission Rules 4 CSR 240-2.060(1) and 3.650. 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 twelve (12) months of said filing. *Id.*

2. On December 24, 2009, the Commission issued its *Order Suspending Tariff, Directing Notice and Setting Intervention Deadline* suspending MAWC’s 9<sup>th</sup> Revised Sheet under assigned tracking number JW-2010-0190 until April 22, 2010, pursuant to § 393.1006.2(3) RSMo (Cumm Supp 2008).

3. Pursuant to § 393.1006.2(4) RSMo (Cumm Supp 2008) dictates that “[i]f the commission finds that a petition complies with the requirements of sections 393.1000

to 393.1006, the commission shall enter an order authorizing the water corporation to impose an ISRS that is sufficient to recover appropriate pretax revenues, as determined by the commission pursuant to the provisions of sections 393.1000 to 393.1006.”

4. Attached hereto as Appendix A is Staff’s Memorandum, wherein Staff states that it has examined MAWC’s Petition. Staff ultimately 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 (Cumm Supp 2008);
2. Approves MAWC's Petition to implement ISRS rate schedules;
3. Approves the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the amount of \$2,274,736 as shown in Attachment A.; and
4. Approves the compliance filing of MAWC's revised ISRS tariff sheet P.S.C. MO. No. 6, 9<sup>th</sup> Revised Sheet No. RT 18.0, Canceling 8<sup>th</sup> Revised Sheet No. RT 18.0 pending in Tariff File No. JW-2010-0190, to be effective on April 22, 2010.

**WHEREFORE,** the Staff respectfully requests that the Commission issue an order consistent with the recommendations set out in Staff’s Memorandum.

Respectfully submitted,

/s/Shelley Syler Brueggemann

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Deputy General Counsel  
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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or emailed to all counsel of record this 19<sup>th</sup> day of February, 2010.

**/s/Shelley Syler Brueggemann**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. WO-2010-0190 - - - Missouri-American Water Company

FROM: Kimberly K. Bolin – Auditing Department

/s/ Kimberly K. Bolin

Auditing Department

2/19/2010

Date

/s/ Shelley Brueggemann

Chief Staff Counsel's Office

2/19/2010

Date

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

DATE: February 19, 2010

### BACKGROUND

On December 23, 2009, 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 and 393.1006, RSMo, and Commission Rules 4 CSR 240-2.060(1) and 4 CSR 240-3.650. Sections 393.1000, 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 December 24, 2009, the Commission issued its **Order Suspending Tariff, Directing Notice and Setting Intervention Date**, in which it established January 13, 2010 as the date by which applications to intervene in the instant case were to be filed. No requests to intervene were filed by the established date, nor have any been filed since. The Commission also suspended MAWC's tariff sheet, JW-2010-0190, until April 22, 2010.

### **STAFF'S INVESTIGATION**

As noted at the beginning of this Memorandum, Staff members from the Auditing participated in the Staff's investigation of the Petition. All Staff participants as well as their respective supervisors and the assigned attorney from the Chief Staff Counsel's Office were provided the opportunity to review and comment on this Memorandum prior to its filing. Kimberly K. Bolin of the Auditing Department created the initial draft of this Memorandum and comments received from the reviewers were incorporated into that draft in developing this final version of the Memorandum.

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 represent replacements 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-2008-0311;
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 deteriorated condition; or
2. Main cleaning and/or relining projects; or
3. 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 Staff notes that any reimbursements MAWC received for these projects have been 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 \$2,314,257 or an increase of 1.2 % based on the base revenue level approved by the Commission in its most recently completed general rate proceeding" on an annualized basis.

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

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, except the Staff is proposing to include additional accumulated depreciation and deferred income tax reserves through the month of the effective date to better reflect the actual levels that will exist for these items at that time. This includes updating the accumulated depreciation and deferred income taxes for the previous ISRS that is currently in effect (Case No. WO-2009-0379).

### **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-2008-0311, and the ISRS revenues allocated to each affected customer class. The Staff has utilized the Company's methodology for calculating the ISRS rates, but has determined such rates based on the Staff's calculation of the revenue requirement as reflected in Attachment B to this Memorandum.

### **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 \$2,274,736. The Staff's calculations are shown in Attachment A to this Memorandum. These calculations reflect MAWC's filed capital structure and a 10% return on equity as agreed to in its most recent general rate case, Case No. WR-2008-0311. Staff's calculations also reflect MAWC's current depreciation rates, as ordered in Case No. WR-2007-0216. Staff's calculations reflect the actual ISRS investment placed in service in June through November.

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 Case Nos. WR 2007-0216 and WR-2008-0311 and various discussions with Company personnel. As a result, the Staff believes the projects meet the requirements of the governing statutes as summarized previously in this Memorandum in the discussion of the Company's Petition and that the associated ISRS revenue requirement has been correctly calculated and appropriately reflects this investment and the terms agreed to in prior rate cases stipulations.

### **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 notes that MAWC is current on its quarterly payments for its fiscal year 2010 assessment and has no delinquencies for prior years' assessments. Likewise, MAWC does not have any past due annual reports.

### **STAFF'S 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 (Cumm Supp 2008);
2. Approves MAWC's Petition to implement ISRS rate schedules;
3. Approves the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the amount of \$2,274,736 as shown in Attachment A; and

4. Approves the compliance filing of MAWC's revised ISRS tariff sheet P.S.C. MO. No. 6, 9<sup>th</sup> Revised Sheet No. RT 18.0, Canceling 8<sup>th</sup> Revised Sheet No. RT 18.0 pending in Tariff File No. JW-2010-0190, to be effective on April 22, 2010.



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

		<b>ISRS REVENUE REQUIREMENT</b>
<b><u>ISRS Activity:</u></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	\$	19,823,736
Net Contributions in Aid of Construction		(154,529)
Deferred Taxes		(3,848,477)
Accumulated Depreciation		(225,212)
<b>Total Net 393.1000 (8a)</b>	<b>\$</b>	<b>15,595,518</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	\$	1,880,364
Net Contributions in Aid of Construction		(377,905)
Deferred Taxes		(293,655)
Accumulated Depreciation		(24,955)
<b>Total Net 393.1000 (8c)</b>	<b>\$</b>	<b>1,183,849</b>
<b><u>Accumulated Depreciation and Deferred Taxes on Investment in Current ISRS</u></b>		
Depreciation for ISRS-6 Case No. WO-2009-0379		(285,893)
Deferred Taxes ISRS-6 Case No. WO-2009-0379		(128,355)
<b>Total</b>		<b>(414,248)</b>
<b>Total ISRS Rate Base</b>	<b>\$</b>	<b>16,365,119</b>
<b>Overall Rate Of Return per Last Order</b>		<b>8.01%</b>
<b>UOI Required</b>		<b>1,310,188</b>
<b>Income Tax Conversion Factor</b>		<b>1.623077</b>
<b>Revenue Req. Before Interest Deductability</b>	<b>\$</b>	<b>2,126,536</b>
<b>Total ISRS Rate Base</b>	<b>\$</b>	<b>16,365,119</b>
<b>Embedded Cost of Debt per Last Order</b>		<b>3.207%</b>
<b>Interest Expense Deduction</b>		<b>524,907</b>
<b>Combined Federal and State Income Tax Rate</b>		<b>38.388630%</b>
<b>Income Tax Reduction due to Interest</b>		<b>201,505</b>
<b>Tax Conversion Factor</b>		<b>1.623077</b>
<b>Revenue Req Impact - Interest Deductability</b>	<b>\$</b>	<b>327,058</b>
<b>Total Revenue Requirement on Capital</b>	<b>\$</b>	<b>1,799,478</b>
<b>Depreciation Expense</b>		<b>302,835</b>
<b>Property Taxes</b>		<b>172,423</b>
<b>Add Under Collection from Previous ISRS</b>		<b>-</b>
<b>Total ISRS Revenues</b>	<b>\$</b>	<b>2,274,736</b>
<b><u>Allocation of Revenue by Class</u></b>		
<b>Mains less than or equal to 12"</b>	Rate A & Oth	\$ 2,109,567
<b>Mains greater than 12"</b>	Rate A & Oth	\$ 152,203
	Total Rate A & Oth	\$ 2,261,770
	Rate J	\$ 8,341
	Rate B	\$ 4,625
<b>Grand Total Revenues Collected in Proposed ISRS</b>	<b>\$</b>	<b>2,274,736</b>