

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

In the Matter of the Petition of Missouri-	)	
American Water Company for Approval to	)	<b><u>Case No. WO-2014-0055</u></b>
Change its Infrastructure System Replacement	)	YW-2014-0109
Surcharge (ISRS).	)	

**STAFF RECOMMENDATION**

**COMES NOW** the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and in response to the Commission’s September 6, 2013, *Order Suspending Tariff, Directing Notice, Setting Intervention Deadline and Directing Staff to File a Recommendation*, states as follows:

1. On August 30, 2013, Missouri-American Water Company (“MAWC”) filed a *Petition to Change its Infrastructure System Replacement Charge*.

2. By this filing, MAWC requests an adjustment to its ISRS rates and charges for ISRS-eligible infrastructure system replacements and relocations made during the period of April 1, 2013, through July 30, 2013.

3. On September 6, 2013, the Commission suspended MAWC’s proposed tariff until December 28, 2013, and set a deadline for intervention of October 7, 2013. No parties have sought to intervene. The Commission further directed Staff to file a report on MAWC’s application no later than October 29, 2013.

4. Commission Rule 4 CSR 240-3.650(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. The Staff “may submit a report regarding its examination to the Commission no later than sixty days” after the petition is filed. In accordance with this rule and with the

Commission's September 6, 2013 Order, Staff is submitting its *Memorandum*, incorporated herein as Attachment A.

5. Based on its examination and calculations as detailed in its *Memorandum*, Staff recommends the Commission approve incremental ISRS surcharge revenues in the amount of \$4,307,496. Please see Staff's Appendix B for the ISRS rate for each customer class.

**WHEREFORE**, Staff recommends the Commission issue an order in this case that: 1) find MAWC's filed petition is in compliance with the requirements of section 393.1000 to 393.1006 RSMo; 2) approves MAWC's Petition to implement ISRS rate schedules with the adjustments to revenue requirement described in Staff's *Memorandum*; 3) approves the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the amount of \$4,307,496 as shown in Staff's Appendix A; and 4) approves the compliance filing of MAWC's revised ISRS tariff sheet P.S.C. MO. No. 13, 3rd Revised Sheet No. RT 10, Canceling-2<sup>nd</sup> Revised Sheet No. RT 10 pending in Tariff File No. YW-2014-0109, to be effective on December 28, 2013.

Respectfully submitted,

**/s/ Amy E. Moore**

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed with first-class postage, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 29<sup>th</sup> day of October, 2013.

**/s/ Amy E. Moore**

**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
File No. WO-2014-0055 - Missouri-American Water Company

FROM: **/s/ James Russo** **10/29/2013**  
Water and Sewer Department Date

**/s/ Jermaine Green** **10/29/2013**  
Auditing Department Date

**/s/ Amy Moore** **10/29/2013**  
Staff Counsel's Office Date

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

DATE: October 29, 2013

**BACKGROUND**

On August 30, 2013, 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, 393.1006, RSMo, and Commission Rules 4 CSR 240-2.060(1) and 4 CSR 240-3.650. 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. Such costs are recovered through an Infrastructure System Replacement Surcharge ("ISRS").

On September 6, 2013, the Commission issued its **Order Suspending Tariff, Directing Notice, Setting Intervention Deadline and Directing Staff to File a Recommendation**, establishing October 7, 2013 as the deadline to intervene in the instant case. To date, no applications to intervene have been filed. The Commission directed Staff to file a report regarding its examination of the ISRS filing no later than October 29, 2013. The Commission also suspended MAWC's tariff sheet, YW-2014-0109, until December 28, 2013.

**STAFF'S INVESTIGATION**

As noted at the beginning of this Memorandum, Staff members from the Auditing and Water & Sewer Departments participated in the Staff's investigation of the Petition.

The Staff's investigation into the Petition included a review of the Petition and the supporting documentation, Chapter 393 RSMo, Commission Rule 4 CSR 240-3.650(2), and 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**

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 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, File No. WR-2011-0337;
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.

Staff notes that any reimbursements MAWC received for these projects was recognized as a reduction of the ISRS investment in the calculation of the ISRS revenue requirement.

In its Petition, the Company requests 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 \$2,389,096 or an increase of 0.9% above the base revenue level approved by the Commission in its most recently completed general rate proceeding” on an annualized basis.

## **STAFF’S REVENUE CALCULATION**

Except for the items listed and discussed below, 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. Staff’s calculations utilized:

1. Replacement of any estimated costs included in the ISRS plant balances reflected in the Company's original filing with actual incurred amounts;
2. The exclusion of \$124,547 of property taxes that related to ISRS eligible investments made subsequent to January 1, 2013, on which property taxes will not be paid until December 2014, over twelve months following the ISRS filing.
3. The inclusion of under-collected revenues that were determined based on the final reconciliation of the two prior ISRS filings as further explained below; and
4. The inclusion of deferred taxes up through the effective date of this ISRS as explained below.

Staff agrees with the Company's updated calculation of \$1,841,374 for under-collection of ISRS revenues based on a calculated reconciliation of the revenues collected as a result of its previous two ISRS cases (WO-2012-0401 and WO-2013-0406). The above calculation is shown in Appendix A to this Memorandum, attached and incorporated herein by reference. Staff notes that Appendix A originates from the Company and, because Staff agrees with the Company's revised calculation, Staff did not alter Appendix A.

Staff is proposing to include additional deferred income tax reserves through the month of the effective date of rates in this ISRS case to better reflect the actual levels that will exist for these items at that time. In its original filing, the Company included additional depreciation reserves through the month of the effective date of rates in this ISRS case, and Staff approves of this inclusion.

### **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, File No. WR-2011-0337, and the ISRS revenues allocated to each affected customer class. The Staff has utilized the Company's methodology for calculating the majority of the ISRS rates, but has determined such rates based on the Staff's calculation of the revenue requirement as reflected in Appendix B to this Memorandum.

### **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 found that MAWC is current on its quarterly payments for its fiscal year 2014 assessment and has no delinquencies for prior years' assessments. In addition, MAWC does not have any past due annual reports.

### **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 \$4,307,496. The Staff's calculations are shown in Appendix A to this Memorandum. These calculations reflect MAWC's capital structure as filed in its last rate case, a 10% return on equity and MAWC's current depreciation rates, all according to the Stipulation and Agreement as ordered by the Commission in File No. WR-2011-0337. Staff's calculations reflect the actual ISRS investment placed in service from April 2013 through September 2013.

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 File No. WR-2011-0337, and a review of the ISRS filings from File Nos. WO-2009-0379 and WO-2010-0190, WO-2011-0106, WO-2012-0401 and WO-2013-0406. As a result, the Staff believes 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 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;
2. Approves MAWC's Petition to implement ISRS rate schedules with the above adjustments to revenue requirement;
3. Approves the Staff's determination that the Company is entitled to receive ISRS surcharge revenues in the amount of \$4,307,496 as shown in Appendix A; and
4. Approves the compliance filing of MAWC's revised ISRS tariff sheet P.S.C. MO. No. 13, 3<sup>rd</sup> Revised Sheet No. RT 10, Canceling 2<sup>nd</sup> Revised Sheet No. RT 10 pending in Tariff File No. YW-2014-0109, to be effective on December 28, 2013.

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

<u>ISRS Activity:</u>	<b>Total for ISRS-12 Filing</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	\$ 23,995,938
Net Contributions in Aid of Construction	0
Deferred Taxes	(4,587,433)
Accumulated Depreciation	<u>(178,600)</u>
<b>Total Net 393.1000 (8a)</b>	<b><u>19,229,906</u></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	<u>0</u>
<b>Total Net 393.1000 (8a)</b>	<b><u>0</u></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	318,422
Net Contributions in Aid of Construction	115,945
Deferred Taxes	(83,040)
Accumulated Depreciation	<u>(2,560)</u>
<b>Total Net 393.1000 (8c)</b>	<b><u>348,767</u></b>
<b><u>Accumulated Depreciation and Deferred Taxes on Investment in Current ISRS</u></b>	
Depreciation for ISRS-11 Case No. WO-2013-0406	(341,602)
Deferred Taxes ISRS-11 Case No. WO-2013-0406	<u>(255,436)</u>
<b>Total</b>	<b><u>(597,037)</u></b>
<b>Total ISRS Rate Base</b>	<b>18,981,636</b>
<b>Overall Rate Of Return per Last Order</b>	<b>8.17%</b>
<b>UOI Required</b>	<b>1,550,800</b>
<b>Income Tax Conversion Factor</b>	<b><u>1.623077</u></b>
<b>Revenue Req. Before Interest Deductibility</b>	<b><u>2,517,068</u></b>
<b>Total ISRS Rate Base</b>	<b>18,981,636</b>
<b>Embedded Cost of Debt per Last Order</b>	<b><u>3.090%</u></b>
<b>Interest Expense Deduction</b>	<b>586,533</b>
<b>Combined Federal and State Income Tax Rate</b>	<b><u>38.388630%</u></b>
<b>Income Tax Reduction due to Interest</b>	<b>225,162</b>
<b>Tax Conversion Factor</b>	<b><u>1.623077</u></b>
<b>Revenue Req Impact - Interest Deductibility</b>	<b><u>365,455</u></b>
<b>Total Revenue Requirement on Capital</b>	<b>2,151,613</b>
<b>Depreciation Expense</b>	<b>314,510</b>
<b>Property Taxes</b>	<b>0</b> <small>Staff Adj. to remove property tax expense</small>
<b>Add Under Collection from Previous ISRS</b>	<b><u>1,841,374</u></b>
<b>Total ISRS Revenues</b>	<b><u>\$ 4,307,496</u></b>
<b>Allocation of Revenue by Class</b>	
<b>Mains less than or equal to 12"</b>	<b>Rate A &amp; Oth \$ 3,903,496</b>
<b>Mains greater than 12"</b>	<b>Rate A &amp; Oth 363,883</b>
	<b>Total Rate A &amp; Oth 4,267,379</b>
	<b>Rate J 23,109</b>
	<b>Rate B 17,008</b>
<b>Grand Total Revenues Collected in Proposed ISRS</b>	<b><u>\$ 4,307,496</u></b>



**Missouri-American Water Company  
Tariff Rates  
ISRS # 12 Filing  
St. Louis District**

	<b>ISRS Recovery Revenue Requirement</b>	<b>2010 Bill Analysis Sales (CCF) (1)</b>	<b>Rate per CCF</b>	<b>Rate per 100 Gal.</b>
Rate A & Oth	4,267,379	48,612,209	\$ 0.0878	\$ 0.0117
Rate B	17,008	2,365,075	\$ 0.0072	\$ 0.0010
Rate J	23,109	5,752,615	\$ 0.0040	\$ 0.0005
	4,307,496			

(1) Per billing determinants approved in determining rates per Commission order in Case WR 2011-0337

	<b>Current Rate</b>	<b>Adjustment to Current Rate (1)</b>	<b>Proposed Rate Use on Tariff</b>
<b>Rate Per CCF</b>			
Rate A & Oth	\$ 0.1848	\$ 0.0878	\$ 0.2726
Rate B	\$ 0.0142	\$ 0.0072	\$ 0.0214
Rate J	\$ 0.0079	\$ 0.0040	\$ 0.0119
<b>Rate Per 100 Gal</b>			
Rate A & Oth	\$ 0.02470	\$ 0.01170	\$ 0.03640
Rate B	\$ 0.00189	\$ 0.00100	\$ 0.00289
Rate J	\$ 0.00106	\$ 0.00050	\$ 0.00156

(1) Calculated per above

**Missouri-American Water Company  
Property Tax Calculation  
ISRS # 12 Filing  
St. Louis District**

	<u>Apr 2013 - Sep 2013</u>	
Total Investment	24,314,361	
Less: Retirements	(1,945,656)	
Net Change in Property Base	22,368,705	
Property Tax Rate	0.0056	
Property Tax Expense	124,547	<i>Staff Adj. to remove property tax expense from ISRS revenue requirement</i>

<u>Description</u>	<u>STL Excluding Jefferson Co</u>
Total Tax Payments through 12/31/12	6,062,287
Utility Plant in Service @ 12/31/11	1,077,343,513
Materials & Supplies @ 12/31/11	2,828,535
Actual Property Tax Base @12/31/11	1,080,172,049
Allocate Corporate balance:	
Allocation Factor	69.82%
Allocation	8,613,628
Allocated Property Tax Base at 12/31/11	<u>1,088,785,677</u>
2012 Tax per \$1 of Taxable Property	0.005568

**Missouri-American Water Company**  
**Deferred Taxes - Rate Base Reduction**  
**ISRS # 12 Filing**  
**St. Louis District**

	<u>Adjusted Tax Basis on Additions</u>		<u>Replacements Relocations</u>	
	<u>Replacements</u>	<u>Relocations</u>		
In Service April - September 2013	23,995,938	318,422		
less Reimbursements	0	115,945		
Net Additions	<u>23,995,938</u>	<u>434,368</u>		
Bonus Depreciation (50%)	11,997,969	217,184	11,997,969	217,184
Depreciable Balance	<u>11,997,969</u>	<u>217,184</u>		
First Year Tax Rate			<u>2.00%</u>	
Tax Depreciation On Depreciable Balance			119,980	2,172
Total Accumulated Tax Depreciation			<u>12,117,949</u>	<u>219,356</u>
Total Book Depreciation			\$ 167,972	\$ 3,041
Deferred Taxes			\$ 4,587,433	\$ 83,040
Effective Tax Rate			0.3838863	0.3838863

**Missouri-American Water Company**  
**Cost of Service / Rate Design**  
**ISRS # 12 Filing**  
**St. Louis District**  
**Cost of Service Allocation for Transmission Costs Per 2011 Case**

	Rate A & Other	Rate J	Rate B
Total Factor for ISRS	90.070%	5.720%	4.210%

<b>Tariff Design</b>	Non-ISRS Revenues Per Last Order	ISRS Revenues	Proposed % Increase
Rate A and K Customers	162,802,082	4,267,379	2.62%
Rate J Customers	6,909,444	23,109	0.33%
Rate B Customers	3,232,546	17,008	0.53%
	172,944,072	4,307,496	

**Missouri-American Water Company**  
**Net CIAC Calculation**  
**ISRS # 12 Filing**  
**St. Louis District**

**Mains, Valves and Hydrant Replacements**

Gross Investment - Replacements 23,995,938  
 Depreciation Expense - Replacements 335,726  
 Composite Depreciation Rate: 1.399095%

	Apr -Jul 2013	Aug-Sep 2013	Total	
Reimbursements	0	0	0	0 (a)
Amortization (1)	0	0	0	0
Accumulated Amortization	0	0	0	0 (b)
Gross CIAC	0 (a)			
Less: Accum Amort. - CIAC	0 (b)			
Net CIAC	0			

**Relocations**

Gross Investment - Relocations 318,422  
 Depreciation Expense - Relocations 4,507  
 Composite Depreciation Rate: 1.415319%

	Apr -Jul 2013	Aug-Sep 2013	Total	
Reimbursements	116,337	0	116,337	(c)
Amortization (1)	117	274	392	
Accumulated Amortization	117	274	0	392 (d)
Gross CIAC	116,337 (c)			
Less: Accum Amort. - CIAC	(392) (d)			
Net CIAC	115,945			

**Missouri-American Water Company  
Depreciation Expense Calculation  
ISRS # 12 Filing  
St. Louis District**

	Replacements	Relocations	Total
Base Depreciation Expense	335,726	4,507	340,233
Reimbursements	0	116,337	
Composite Depreciation Rate	1.3991%	1.4153%	
Depreciation Expense to be Removed	0	1,647	1,647
Depreciation Expense Associated with Retirements			(27,369)
Net Depreciation Expense			<u><u>314,510</u></u>

Appendix B

Missouri-American Water Company  
Case No. WO-2013-0406  
ISRS Rate Design Calculation  
St. Louis District

Additional ISRS Revenues:

	ISRS Recovery Revenue Requirement	Sales (CCF)	Rates per CCF	Rates per 1,000 gallons
Rate A & K	\$ 4,267,379	48,622,466	\$ 0.0878	\$ 0.1173
Rate B	\$ 17,006	2,365,075	\$ 0.0072	\$ 0.0096
Rate J	\$ 23,109	5,752,615	\$ 0.0040	\$ 0.0054
Total	\$ 4,307,494			

New ISRS Rate:

	Current Rate per CCF	Rates per 1,000 gallons
Rate A & K	\$ 0.1848	\$ 0.2726
Rate B	\$ 0.0142	\$ 0.0214
Rate J	\$ 0.0079	\$ 0.0119

	Current Rate per 1,000 gallons	Rates per 1,000 gallons
Rate A & K	\$ 0.2470	\$ 0.3643
Rate B	\$ 0.0189	\$ 0.0285
Rate J	\$ 0.0106	\$ 0.0160

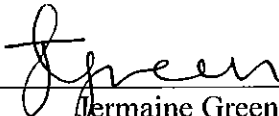
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Missouri-American     )  
Water Company's Petition to Change     )     File No. WO-2014-0055  
its Infrastructure System Replacement     )  
Surcharge (ISRS)                             )

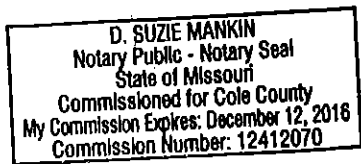
AFFIDAVIT OF JERMAINE GREEN

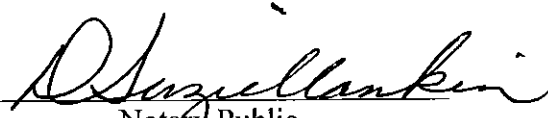
STATE OF MISSOURI     )  
   )     ss.  
COUNTY OF COLE     )

Jermaine Green, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Jermaine Green

Subscribed and sworn to before me this 29<sup>th</sup> day of October, 2013.



  
\_\_\_\_\_  
Notary Public



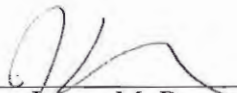
**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water	)	
Company's Petition to Change its	)	Case No. WO-2014-0055
Infrastructure System Replacement	)	
Surcharge (ISRS)	)	

**AFFIDAVIT OF JAMES M. RUSSO**


**STATE OF MISSOURI**     )  
  ) **ss**  
**COUNTY OF COLE**         )

James M. Russo, of lawful age, and on his oath states: that he has participated in the preparations of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
James M. Russo

Subscribed and sworn to before me this 28<sup>th</sup> day of October, 2013.

<b>LAURA BLOCH</b> Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 21, 2015 Commission Number: 11203914
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\_\_\_\_\_  
Notary Public