

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service Commission held at its office in Jefferson City on the 21st day of November, 2019.

In the Matter of the Petition of Missouri-American)	
Water Company for Approval to Change an)	<u>File No. WO-2019-0389</u>
Infrastructure System Replacement Surcharge)	Tariff No. YW-2020-0035
(ISRS))	

**ORDER APPROVING PARTIAL STIPULATION AND AGREEMENT AND
APPROVING INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

Issue Date: November 21, 2019

Effective Date: December 7, 2019

Procedural History

On August 26, 2019, Missouri-American Water Company (Missouri-American) filed a petition requesting that the Commission authorize it to change its Infrastructure System Replacement Surcharge (ISRS), for eligible replacements and relocations made during the period of April 1, 2019, through September 30, 2019 (ISRS Period). A *Partial Stipulation and Agreement* was filed on October 22, 2019, signed by Missouri-American and Staff, which disposed of the net operating loss issue for the ISRS Period.

Staff filed its recommendation on October 25, 2019, which calculates an incremental ISRS surcharge revenue in the amount of \$6,112,222, which is a decrease from the amount requested by Missouri-American. On November 4, 2019, Missouri-American filed its response expressing no objection to the Staff recommendation, as long as the *Partial Stipulation and Agreement* is approved by the Commission. The Office of the Public Counsel (Public Counsel) did not object to the Staff recommendation.

The Commission gave the statutorily required notice to appropriate governing bodies, local media, the parties in Missouri-American's most recent rate case, and set a filing deadline of September 25, 2019, for interested parties to request intervention. No applications to intervene were received.

Approving the *Partial Stipulation and Agreement*

Commission rule 20 CSR 4240-2.115 allows the *Partial Stipulation and Agreement* to be considered as unanimous as seven days have passed and no other party has objected to the *Partial Stipulation and Agreement*. The *Partial Stipulation and Agreement* resolves a single contested issue, which was also present in Missouri-American's prior two ISRS cases, whether a net operating loss exists within an ISRS project. The prior two cases are currently on appeal.

Missouri-American filed a request for a private letter ruling from the Internal Revenue Service regarding the net operating loss issue. The *Partial Stipulation and Agreement* provides that ISRS rates will be set in this case without recognition of a deferred tax asset (net operating loss). The *Partial Stipulation and Agreement* also states that should the Internal Revenue Service find a normalization violation was created by the Commission's treatment of the deferred tax asset, Missouri-American will file an application for an Accounting Authority Order, which Staff will support, to record a regulatory asset to capture the rate differential to cure such normalization violation.

The Commission has considered the unanimous *Partial Stipulation and Agreement*, finds it to be reasonable and will approve it.

Approving ISRS surcharge revenues of \$6,112,222

Missouri-American's application meets all statutory and regulatory requirements. After receiving final documentation, Missouri-American's requested ISRS revenue requirement was \$6,782,250. Based upon its review and analysis, Staff recommended a revenue requirement of \$6,122,222. The difference between Missouri-American's request and Staff's recommendation is due to replacement of estimated costs with actual costs, and removal of the claimed net operating loss included in Missouri-American's application (addressed above).

Staff's recommended calculations reflect: the overall weighted average cost of capital of 9.44 percent (tax grossed up rate of return); Missouri-American's current depreciation rates; actual ISRS eligible investment placed in service during the ISRS Period; and property taxes on plant placed in service prior to December 31, 2018, which will be due within 12 months of this ISRS filing. Staff further provided a breakdown of the increase per customer class. The largest customer class, residential, will see an increase of 0.18912 cents per 1,000 gallons. Missouri-American had no objection to Staff's recommended increase in ISRS revenues or the customer class breakdown.

Decision

The Commission finds that Missouri-American has complied with the requirements of the applicable ISRS statutes to authorize its use of an ISRS, and pursuant to the *Partial Stipulation and Agreement*, the recovery will not include net operating loss. The Commission concludes that Missouri-American shall be permitted to change its ISRS to recover ISRS revenues for this case in the amount of \$6,122,222. Since the revenues and rates authorized in this order differ from those contained in the tariff sheet Missouri-American first submitted, the Commission will reject that tariff sheet. The Commission

will allow Missouri-American an opportunity to submit a new tariff sheet consistent with this order.

Section 393.1006.2(3), RSMo, requires the Commission to issue an order to become effective not later than 120 days after the petition is filed. That deadline is December 24, 2019. The presumed thirty day effective date of Commission orders may be otherwise provided for under Section 386.490.2. Giving this *Order* a thirty day effective date would set the effective date at *Order* as December 21, 2019, allowing only three days for Missouri-American to file a compliance tariff and for the other parties to review and issue a recommendation. There are thirty-three calendar days between the issuance date of this *Order* and the statutory deadline to issue an order effective by December 24, 2019. The Commission will approximately halve the number of days and set the effective date of this *Order* to be in sixteen days, December 7, 2019.

THE COMMISSION ORDERS THAT:

1. Missouri-American Water Company is authorized to change its Infrastructure System Replacement Surcharge (ISRS) sufficient to recover ISRS revenues in the amount of \$6,122,222. Missouri-American Water Company is authorized to file an ISRS rate for each customer class as described in Attachment 2 of Staff's Memorandum.
2. The tariff sheet filed by Missouri-American Water Company on August 26, 2019, and assigned Tariff Tracking No. YW-2020-0035, is rejected.
3. Missouri-American Water Company is authorized to file new tariffs to recover the revenue authorized in this Order.
4. The *Partial Stipulation and Agreement*, attached hereto as Attachment A, is

approved, and the signatories shall comply with its terms.

5. This order shall become effective on December 7, 2019.



BY THE COMMISSION

A handwritten signature in black ink that reads "Morris L. Woodruff". The signature is written in a cursive, flowing style.

Morris L. Woodruff
Secretary

Silvey, Chm., Kenney, Rupp, and
Coleman, CC., concur.

Hatcher, Regulatory Law Judge