

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

In the Matter of the Petition of)	
Missouri-American Water Company for)	File No. WO-2015-0059
Approval to Change its Infrastructure)	Tariff No. YW-2015-0090
System Replacement Surcharge (ISRS))	

RESPONSE AND OBJECTION TO STAFF RECOMMENDATION

COMES NOW Missouri-American Water Company (MAWC) and, in response and as its objection to the Staff Recommendation, states as follows to the Missouri Public Service Commission (Commission):

1. On November 13, 2014, the Staff of the Commission filed its Staff Recommendation and associated Memorandum.
2. After a review of the Staff Recommendation and Memorandum, MAWC hereby objects to the recommendations made by the Staff for the following reasons:
 - A. Staff’s recommendation would deny MAWC recovery of certain ISRS costs and/or reconciliation amounts because the combination of these items would exceed “ten percent of [MAWC’s] base revenue level approved by the commission in [MAWC’s] most recent general rate proceeding.” Section 393.1003(1), RSMo.

The statutes do not intend for the cited limitation to apply to a combination of the ISRS costs and the reconciliation amounts. The provision cited by Staff more fully states as follows:

Notwithstanding any provisions of chapter 386 and this chapter to the contrary, as of August 28, 2003, a water corporation providing water service in a county with a charter form of government and with more than one million inhabitants may file a petition and proposed rate schedules with the commission to establish or change ISRS rate schedules that will allow for the adjustment of the water corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements made in such county with a charter form of government and with more than one million inhabitants; provided that an ISRS, on an annualized

basis, must produce ISRS revenues of at least one million dollars but not in excess of ten percent of the water corporation's base revenue level approved by the commission in the water corporation's most recent general rate proceeding. An ISRS and any future changes thereto shall be calculated and implemented in accordance with the provisions of sections 393.1000 to 393.1006.

(emphasis added)

The adjustments to which the limitation applies are the “costs for eligible infrastructure system replacements.” “ISRS costs” are defined as “depreciation expenses and property taxes that will be due within twelve months of the ISRS filing.” Section 393.1000(5), RSMo. There is no mention of amounts necessary to reconcile previous under or over collection of ISRS costs.

Further, Section 393.1006.5(1) states that “An ISRS shall be calculated based upon the amount of ISRS costs that are eligible for recovery during the period in which the surcharge will be in effect and upon the applicable customer class billing determinants utilized in designing the water corporation's customer rates in its most recent general rate proceeding.” Again, there is no mention of the use of reconciliation amounts in the calculation of the ISRS costs.

Reconciliation is treated separately in Section 393.1006.5(2), which states: “At the end of each twelve-month calendar period that an ISRS is in effect, the water corporation shall reconcile the differences between the revenues resulting from an ISRS and the appropriate pretax revenues as found by the commission for that period and shall submit the reconciliation and a proposed ISRS adjustment to the commission for approval to recover or refund the difference, as appropriate, through adjustment of an ISRS.”

The Commission’s rules further recognize this differentiation between the recovery of ISRS costs and the reconciliation amounts. Section 393.1006.6(1) states that

a “water corporation that has implemented an ISRS pursuant to the provisions of sections 393.1000 to 393.1006 shall file revised rate schedules to reset the ISRS to zero when new base rates and charges become effective for the water corporation following a commission order establishing customer rates in a general rate proceeding that incorporates in the utility's base rates eligible costs previously reflected in an ISRS.”

Reconciliation amounts, however, do not go to zero in the rate case. Commission Rule 4 CSR 240-3.650(17) states, in part, “If an over or under recovery of ISRS revenues, including any commission ordered refunds, exists after the ISRS has been reset to zero, the amount of over or under recovery shall be tracked in an account and considered in the water utility’s next ISRS filing that it submits pursuant to the provisions of section (2) of this rule.”

Staff’s approach builds upon the fact that prior ISRS rates were set assuming a usage level greater than that which MAWC experienced resulting in the non-recovery of authorized ISRS costs in prior periods. Staff uses this previous non-recovery to continue the non-recovery by adding both the currently authorized ISRS costs with the unrecovered prior costs. Staff’s approach, utilizing Staff’s numbers, would result in MAWC’s non-recovery of \$2,822,170 revenues associated with completed plant investment.

MAWC believes that Staff’s interpretation of the ISRS statute is erroneous and therefore objects to this portion of the Staff Recommendation.

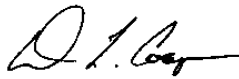
B. Additionally, MAWC does not agree with the underlying figures for prior ISRS (ISRS 10-14) and the Total Base Revenues used by Staff in its ISRS cap calculations.

C. Lastly, MAWC disagrees with the Staff’s calculation of depreciation expense. Staff has started depreciation in the same months as plant is added. Depreciation should instead

be started the first full month after plant is added. As a result, Staff's depreciation expense, reserve for depreciation, and deferred income tax calculations are not appropriate.

WHEREFORE, MAWC respectfully requests that the Commission consider this Response and Objection to Staff Recommendation and, thereafter, issue such orders as necessary to for the Commission to hear and rule on the issues identified above.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 18th day of November, 2014, to:

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