

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

In the Matter of Missouri-American Water)	
Company for a Certificate of Convenience)	
and Necessity Authorizing it to Install, Own,)	File No.WA-2012-0066
Acquire, Construct, Operate, Control, Manage)	
and Maintain Water and Sewer Systems in)	
Christian and Taney Counties, Missouri.)	

MAWC’S STATEMENT OF POSITION

COMES NOW Missouri-American Water Company (MAWC) and for its Statement of Position, states the following to the Missouri Public Service Commission (Commission) concerning the issues contained in the List of Issues, filed on June 18, 2012:

I. CERTIFICATES OF CONVENIENCE AND NECESSITY --

Should MAWC be granted certificates of convenience and necessity to provide water and sewer service to the requested territory, which includes the Village of Saddlebrooke?

MAWC Position: Yes. It is the Company’s understanding that the current operator is facing financial challenges that may impact the continued operation of the existing water and sewer systems. The grant of the requested certificates will result in regulated water and sewer service to be provided to the current and future residents of the requested territory. MAWC has considerable expertise and experience in providing water and sewer utility services to residents of the state of Missouri and is fully qualified, in all respects, to provide the proposed water and sewer services.

LaGrand Dir., All; Williams Dir., All; Williams Reb., All; Williams Sur., All.

A. Is it reasonable and necessary that the Commission impose conditions on any such approval?

MAWC Position: MAWC believes that the proposed conditions are not reasonable and necessary for the reasons stated below.

B. If so, what conditions should be imposed?

a. As a condition of approval, should the approved rates reflect the fully allocated embedded cost of service or alternative concepts?

MAWC Position: Once the Commission has determined the initial rates to be applied to the requested territory, there should be no need for a “condition” as to such costs.

i. Should Corporate Overheads be included in the Saddlebrooke cost of service on an incremental or fully allocated basis?

MAWC Position: Utilizing incremental corporate overheads in determining initial rates will allow MAWC to recover the costs associated with the addition of the customers in the requested territory. Utilizing fully allocated costs may be more representative of the costs to be included after the next rate case. However, there would be no immediate benefit for existing customers as there is no way to adjust existing customers’ rates to reflect the addition of these customers.

Williams Reb., p. 3-4.

ii. Should income taxes recovered from the Saddlebrooke district be included on a stand-alone or fully allocated basis?

MAWC Position: Once MAWC begins to provide service in the requested territory, any earnings will become a part of the Company’s consolidated tax return and subject to Federal tax at the maximum rate. Thus, as stated below, in setting the initial rates for

the requested territory, the Commission should consider income taxes at the effective Federal tax rate of 33.18%.

Williams Sur., p. 6 – 7.

- b. As a condition of approval, if rates are based on net original cost and an excess capacity adjustment, should a commitment be necessary from MAWC to continue to apply the excess capacity adjustment for a reasonable period of time?**

MAWC Position: MAWC has no objection to the Staff excess capacity adjustment. However, no condition in regard to this matter is necessary because continued application of the capacity adjustment is fully within the control of the Commission.

- c. As a condition of approval, should a commitment be necessary from MAWC that it will never seek to increase rates to other MAWC districts so that the Saddlebrooke water or sewer district may be served at below-cost rates?**

MAWC Position: No. The Commission is tasked by Missouri statutes with setting “just and reasonable rates.” We must assume that the Commission will perform its duties in a lawful manner. If it does (or if it does not and is overturned on appeal), the ultimate rate to be paid by customers will be just and reasonable. No condition is necessary to bring about this result.

II. RATES –

- A. Should the rates to be charged by MAWC within the subject territory approximate the cost of service associated with providing service to that territory?**

MAWC Position: Yes. The initial rates within the requested territory should approximate the cost of service, if possible. However, we will not know what that cost of service will be until after MAWC has begun to operate the water and sewer systems.

MAWC believes that the best approach to establishing rates that will approximate the cost of service in this case is to apply existing rates for similar MAWC water and sewer properties.

Williams Reb., p. 2, 6-7.

B. In assessing the cost of service:

a. What tax rate should be used?

MAWC Position: The effective Federal tax rate of 33.18% should be utilized rather than the minimum rate (14.13%) used by Staff in determining a reasonable rate for the requested territory. Once MAWC begins to provide service in the requested territory, any earnings will become a part of the Company's consolidated tax return and subject to Federal tax at the maximum rate.

Williams Sur., p. 6 – 7.

b. What return on equity should be used?

MAWC Position: MAWC believes that a 10 percent return on equity, which was agreed to by the parties in MAWC's last rate case for use in future ISRS filings, should be used in determining a reasonable rate for the requested territory.

Williams Sur., p. 4 – 6.

c. Should rate base be based upon net original cost or the purchase price?

MAWC Position: The rate base for the acquired plant should be based on net original

cost. The Commission has previously stated as follows:

Missouri has traditionally applied the net original cost standard when considering the ratemaking treatment of acquisition adjustments. That means that the purchasing utility has not been allowed to recover an acquisition premium from its ratepayers. But it also means that ratepayers do not receive lower rates through a decreased rate base when the utility receives a negative acquisition adjustment.

In the Matter of the Joint Application of UtiliCorp United Inc. and St. Joseph Light & Power Company, Second Report and Order, Case No. EM-2000-292 (February 26, 2004).

Retaining rate base at net original cost as a result of an acquisition protects the customers and provides the purchaser an incentive to achieve as low a purchase price as possible. It further balances the interests by applying the same treatment whether the acquisition is made at a premium or discount and leaves the customer in the same position he or she would have been in, absent the purchase.

Williams Sur., p. 10 - 15.

- d. If rate base is based upon net original cost, under what conditions should plant held for future use be added to rate base in future rate cases?**

MAWC Position: MAWC has no objection to the Staff excess capacity adjustment. Staff's testimony indicates that it will "work with MAWC, in future rate cases, to refine proper levels of plant in service values, to determine what amounts should be included in future cases" Schedule JAM-2, page 5 of 13 pages. MAWC is not aware of a more specific process for the addition of excess plant to rate base that can be found in the testimony. Ultimately, the continued application of the capacity adjustment is fully within the control of the Commission in future rate cases.

- e. Should rate base include the \$31,000 in future capital improvements not yet in service designed to address security, reliability and DNR non-compliance letters?**

MAWC Position: Yes. The current operator of the water and sewer systems in the requested territory has received non-compliance letters. The referenced improvements must be made in order to comply with the environmental regulations and to provide safe and adequate service. MAWC would be required to immediately undertake these capital investments if it is authorized to provide service in the requested territory. It is not possible to set a reasonable rate, without taking into account this known investment. *Williams Dir., p. 5; Williams Sur., p. 8 – 10.*

- f. Should the rate include expenses associated with incremental or full corporate allocations?**

MAWC Position: Utilizing incremental corporate overheads will allow MAWC to recover the costs associated with the addition of the customers in the requested territory. Utilizing fully allocated costs may be more representative of the costs that will be included in the rates to be paid by customers after the next rate case. However, whether it will be indicative of the future rate or not will depend on any number of other factors (for example, what investment will be made in the requested territory prior to the next case).

Williams Reb., p. 3-4.

- C. What initial rates should be used by MAWC to serve the subject territory?**

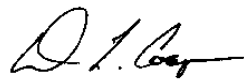
Should the initial rates be based on estimated and actual costs associated strictly with Saddlebrooke, or by using existing rates approved for use in other service districts?

MAWC Position: The Company should be directed to use the rates sheets currently applicable to the Stonebridge Village subdivision. Those existing rates are appropriate for the requested territory because of similarities in operating personnel, administrative personnel, types of residence and usage patterns. Those existing rates have previously been approved as being just and reasonable for similar customers. This is preferable to developing a new rate based on estimates and incomplete accounting information.

Williams Dir., p. 5, 7-10; Williams Reb., All; Williams Sur., p. 2 - 8.

WHEREFORE, MAWC requests the Commission consider this statement of position.

Respectfully submitted,



Dean L. Cooper Mo. Bar 36592
BRYDON, SWEARENGEN & ENGLAND P.C.
312 East Capitol Avenue
P.O. Box 456
Jefferson City, MO 65102-0456
Telephone: (573) 635-7166
Facsimile: (573) 635-0427
dcooper@brydonlaw.com

ATTORNEYS FOR
MISSOURI-AMERICAN WATER COMPANY

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 21st day of June, 2012, to:

Rachel Lewis
General Counsel's Office
Rachel.Lewis@psc.mo.gov

Christina Baker
Office of the Public Counsel
christina.baker@ded.mo.gov

Stuart Conrad
Finnegan, Conrad, & Peterson
stucon@fcplaw.com

