

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Aqua Missouri, Inc.'s Request for an)	
Increase in Rates for Sewer Service Pursuant to the)	<u>Case No. SR-2008-0267</u>
Commission's Small Company Rate Increase)	Tariff No. YS-2009-0227
Procedure.)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and for its *Staff Recommendation* in Case No. SR-2008-0267 and the related Tariff File No. YS-2009-0227 states as follows:

1. On December 7, 2007, Aqua Missouri, Inc. (Aqua Missouri) initiated a small company revenue increase request (Increase Request) in accordance with Commission Rule 4 CSR 240-3.330¹. This request was assigned Case No. SR-2008-0267.

2. On August 26, 2008, after investigation into the Increase Request and subsequent negotiations between Staff, Aqua Missouri, and the Office of the Public Counsel (OPC) Staff filed with the Commission its *Unanimous Agreement Regarding Disposition Of Small Water Company Revenue Increase Request* (Disposition Agreement) in Case No. SR-2008-0267.

3. On August 28, 2008, the Commission issued its *Order Approving Unanimous Disposition Agreement And Approving Tariff* (Disposition Order) directing, among other provisions, compliance by Aqua Missouri with the terms of the Disposition Agreement.

4. Clause twenty-one (21) of the Disposition Agreement states that Aqua Missouri would file a revised tariff by September 30, 2008, updating the tariff language for its collecting sewer extension rule, as agreed to by parties in the case.

¹ This Rule has since been superseded by 4 CSR 240-3.050, which became effective May 30, 2008.

5. On October 1, 2008, Aqua Missouri filed a revised tariff, which was assigned Tariff File No. YS-2009-0227.

6. On October 3, 2008, in its *Order Directing Staff to File A Recommendation*, the Commission ordered Staff to file a recommendation regarding Aqua Missouri's tariff revision no later than October 31, 2008.

7. On October 31, 2008, Staff filed a *Motion For Extension Of Time*, requesting an extension of time in which to file its recommendation.

8. On October 31, 2008, the Commission issued its *Order Granting Motion For Extension of Time, In Part*, ordering Staff to file its recommendation no later than 4:00 PM on November 5, 2008.

9. In the attached memorandum, labeled Appendix A, Staff provides an overview of the proposed revisions to Aqua Missouri's sewer extension rule. Staff recommends that those revised tariffs be approved.

10. Appendix A also includes Staff's explanation of the proposed Treatment Plant Contribution-In-Aid-of-Construction (TpCIAC) charge of \$5,000 per residential or duplex unit customers and \$4,000 per apartment or mobile home park customer, as well as a Temporary CIAC charge (TempCIAC), to be paid by developers.

11. Staff believes that the revised tariffs will encourage Aqua Missouri to make economical and prudent decisions with regards to its facilities, help to cure current inequities that exist between land developers and individual customers, and provide Aqua Missouri with the opportunity to increase rate base in order to retain a vested financial interest in its system.

WHEREFORE, because Staff believes that the revisions to Aqua Missouri's sewer extension rule filed in Tariff File No. YS-2009-0227 are reasonable, promote consistency in

regards to funding of sewer treatment facilities, and comply with the Disposition Agreement, Staff recommends the Commission approve the tariff filing.

Respectfully submitted,

/s/ Eric Dearmont

Eric Dearmont
Assistant General Counsel
Missouri Bar No. 60892

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-5472 (Telephone)
(573) 751-9285 (Fax)
eric.dearmont@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 5th day of November, 2008.

/s/ Eric Dearmont

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. SR-2008-0267 Aqua Missouri, Inc. - Tracking No. YS-2009-0227

FROM: Jim Busch – Manager, Water & Sewer Department
Jim Merciel – Water & Sewer Dept.

/s/ Jim Busch
Project Coordinator

November 5, 2008
Date

/s/ Eric Dearmont
General Counsel's Office

November 5, 2008
Date

SUBJECT: Staff Recommendation Regarding Tariff Filing (Extension Rule)

DATE: November 5, 2008

BACKGROUND

On August 26, 2008, Aqua Missouri, Inc. (AquaMo or Company), the Staff of the Public Service Commission (Staff) and the Office of the Public Counsel filed a ***Unanimous Agreement Regarding Disposition of Small Sewer Company Revenue Increase Request*** (Disposition Agreement). This was approved by the Commission in its ***Order Approving Unanimous Disposition Agreement and Approving Tariff*** (Order), effective September 7, 2008. In filing the Disposition Agreement, the parties agreed, among other things, “[t]hat the Company will update the tariff language for its collecting sewer extension rule.” The parties also agreed that the Company would file proposed tariff changes by September 30, 2008. This proposed change is within the Company’s sewer tariff that applies to its service areas in Cole, Callaway and Pettis Counties. On October 1, 2008 the Company filed tariff sheets containing a revised “extension rule,” along with a revised index and title page. This tariff filing was made to comply with Agreement No. 21 in the Disposition Agreement.

OVERVIEW OF THE PROPOSED RULE CHANGES

There are two fundamental reasons that the Staff supported a provision in the Disposition Agreement requiring changes to the current extension rule.

The first reason is that the existing rule seems to encourage the Company to rely on land developers to undertake planning, engineering, approval and construction of sewage treatment facilities, rather

than the company making economical and prudent decisions with regard to its facilities. While this policy has worked for new treatment facilities constructed to serve new subdivisions, it does not work well for expansions of existing facilities or when more than one developer is involved with one treatment facility. The revised rules make it especially clear that the Company is responsible for decisions regarding treatment facility planning and construction, though developers are able to undertake engineering and construction if they view the decision as cost effective.

The second reason is that land developers, under the existing rules, are also responsible for providing the capital cost of constructing treatment facilities, resulting in the facilities being contributed to the Company at no cost. However, the current rules do not place any cost burden on new individual customers, meaning that as more and more new individual customers connect, the Company is responsible for the entire capital cost of plant expansions to serve the new customers. Staff believes that this is an inequity between customers with regard to the Company's capital resources and rate base, and customer contributions to capital. This has not been much of a problem thus far because most new customer connections have been associated with new development, but it is likely that service could be requested by more and more individuals who are in the vicinity of subdivisions, or who are within subdivisions where the developers are no longer active. The proposed revisions include a specified contribution-in-aid-of-construction, named Treatment Plant CIAC or "TpCIAC," in the amount of \$5,000 per residential customer, which is for use by the Company for capital costs of treatment facilities. This capital contribution applies to any new customer, whether the customer applies for service as an individual customer, or is the purchaser of a lot that is part of a subdivision development, in which case the developer would pay the charge as part of the development cost.

In addition to these two fundamental reasons for changes, the existing rule specifically addresses new treatment facilities but does not properly address expansion of existing treatment facilities. As such, the Company considers expansion projects to be "new facilities" for purposes of the rule when developers are involved with an existing plant. Also, under the existing rules, the Company does not invest any funds into new facilities in most situations, whereas under the new rules the Company will consistently provide investment in its treatment facilities, which will become rate base, in proportion to all new customers. The Company's investment is consistent with Staff's desire for all regulated utilities to have rate base in order for them to retain a vested financial interest in the utility systems.

STAFF'S JUSTIFICATION OF NEW CAPITAL CHARGE FOR CONNECTION

The proposed TpCIAC charge is a one-time charge of \$5,000 for a residential or duplex unit customer, or \$4,000 for an apartment unit or mobile home in a mobile home park, and \$715 per 1,000 gallons average water usage per month for a commercial customer with a \$5,000 minimum.

The cost of new sewage treatment facilities of the size typically constructed by the Company in its Missouri service areas are currently approximately \$20 to \$22 per gallon capacity. Treatment plants are normally designed for residential customer water usage of 370 gallons per day, which would be a cost of approximately \$7,770 per customer (\$21 times 370). So, the Staff and the Company contemplate rate base per new customer in the range of \$2,500 to \$3,000, after the company expends capital funds with a portion of that expenditure recovered through the TpCIAC charge.

For new treatment plants that are constructed before customers exist, the Company will not risk its own investment until those customers actually do exist. In addition to the TpCIAC, the proposed new rules also have a Temporary CIAC, or “TempCIAC,” which is paid by developers to fund the treatment facilities. This amount is refundable as new retail customers actually take service

Under the current rules there is no Company rate base in new treatment facilities that are constructed by developers. The Company does, however, have some existing rate base in some of its existing older facilities because it has done repairs and rehabilitations. Although there is no specified charge similar to the proposed TpCIAC in the pending tariff filing, there is no increase in cost to developers who are platting subdivisions and connecting new homes, because under the existing rules they are simply paying for the treatment facilities instead of paying specified per-lot charges. Actually, the ultimate direct capital cost to developers under the new rules will be less than that under the existing rules because the developers will receive refunds of the TempCIAC as retail customers actually begin taking service, paid by the Company in the form of rate base investment.

STAFF'S CONCLUSIONS AND RECOMMENDATION

Staff and the Company have worked together to draft these proposed rules. Staff believes that the proposed rules are reasonable, and will result in more consistency with regard to funding of sewage treatment facilities among new customers. Staff also believes that this tariff filing complies with the Disposition Agreement and the Commission’s Order, and therefore recommends approval.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

AFFIDAVIT OF JAMES A. MERCIEL, JR.

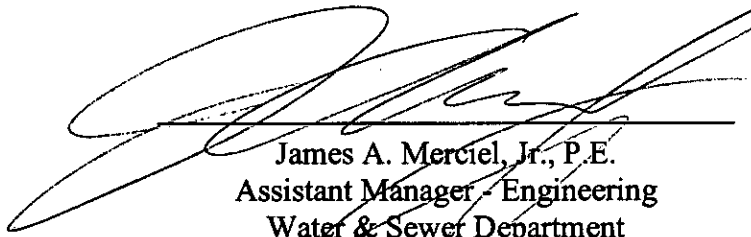
STATE OF MISSOURI)

) ss


Case No. SR-2008-0267

COUNTY OF CALLAWAY)

James A. Merciel, Jr., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Memorandum*; (3) that he has knowledge of the matters set forth in the foregoing *Memorandum*; and (4) that the matters set forth in the foregoing *Memorandum* are true and correct to the best of his knowledge, information and belief.


James A. Merciel, Jr., P.E.
Assistant Manager - Engineering
Water & Sewer Department
Utility Operations Division

Subscribed and sworn to before me this 5th day of November 2008.


Notary Public



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086