

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: IOWA-AMERICAN WATER COMPANY	DOCKET NO. RPU-07-3
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**ORDER APPROVING SETTLEMENT AND STIPULATION
AND REQUIRING FILING**

(Issued January 14, 2008)

On August 30, 2007, Iowa-American Water Company (Iowa-American) filed with the Utilities Board (Board) a request for a general rate increase in temporary and final water rates. Iowa-American proposed a temporary increase that would produce additional annual revenue for Iowa-American of approximately \$4.1 million and a permanent increase that would produce additional annual revenue of approximately \$6.124 million. On September 25, 2007, the Board docketed Iowa-American's proposed temporary and permanent rate request for further investigation and set a procedural schedule. The proceeding was identified as Docket No. RPU-07-3. The Board held consumer comment hearings in Davenport on November 1, 2007, and in Clinton on November 7, 2007. On November 28, 2007, the Board issued an order allowing a temporary increase of approximately \$2.98 million. Pursuant to Iowa Code § 476.6(10) (2007), temporary rates went into effect on the date the order was issued.

On December 21, 2007, Iowa-American and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a proposed Settlement Agreement (Settlement Agreement) that would resolve all outstanding issues. On January 2, 2008, the other party to this proceeding, the city of Bettendorf (Bettendorf), filed a stipulation (Stipulation) it reached with Iowa-American. Bettendorf stated that upon filing of the Stipulation, it had no objection to the Board approving the Settlement Agreement. Bettendorf also indicated in its filing that Consumer Advocate had no objection to Board approval of the Stipulation.

The Board has the authority to resolve contested cases by unanimous settlement. In evaluating a proposed Settlement Agreement, the Board examines whether the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest. Iowa Code § 17A.12(5) (2007); 199 IAC 7.18(6).

The Settlement Agreement provides for a permanent revenue increase that will produce additional annual revenue for Iowa-American of \$4.25 million. The Settlement Agreement states that final rates are to be designed in accordance with the rate design utilized in the Board's November 28, 2007, order regarding temporary rates, which includes using the same billing determinants for final rates that were used for temporary rates. The Settlement Agreement also provides that other tariff changes proposed by Iowa-American in its rate case filing are to be implemented, except that the customer charge related to repair of curb stops (Tariff Section 14A) is

to be capped at \$600 and the proposed changes allowing disconnection of service seven days per week (Tariff Section 12) will be eliminated. Consumer Advocate and Iowa-American agreed, for purposes of this proceeding, that the Settlement Agreement specifically reflects an annual \$200,000 amortization of the pension regulatory asset "associated with and attributable to the transition from Employee Retirement Income Security Act (ERISA) to Statement of Financial Accounting Standard (SFAS) 87 for rate recovery purposes" and that the balance of the pension regulatory asset as of December 20, 2007, is \$1,673,698. The significance of the change for regulatory purposes is that the SFAS 87 level is a longer term measure that is more stable from year-to-year while the ERISA contribution level is a shorter term measure that can fluctuate significantly on a year-to-year basis.

The Stipulation provides that Iowa-American will commence a program of annual inspection and maintenance of public fire hydrants in its Quad Cities district; Bettendorf indicated it had experienced problems with operation of fire hydrants throughout the city. The Stipulation provides that the inspection and maintenance program will be adequately staffed and funded.

While the proposed Settlement Agreement provides for a greater increase than the amount the Board allowed for temporary purposes, there were some adjustments that Iowa-American requested in the full rate case that were absent from its temporary rate request and there were several issues in temporary rates where the Board found Iowa-American's proposed adjustments were not known and

measurable or too speculative for purposes of determining temporary rates.

Because the Legislature directs the Board to determine temporary rates by applying established regulatory principles rather than examining an evidentiary record, there are often some adjustments allowed in final rates that previously were disallowed in temporary rates and adjustments allowed in final rates that were not proposed for temporary rates.

The Board, after examining the complete record of this proceeding, finds the proposed unanimous Settlement Agreement is reasonable, consistent with law, and in the public interest. The Settlement Agreement will be approved. Iowa-American will be required to file compliance tariffs consistent with the Settlement Agreement within 20 days of the date of this order.

IT IS THEREFORE ORDERED:

1. The proposed tariff filed by Iowa-American Water Company on August 30, 2007, identified as TF-07-153, and made subject to investigation as part of this proceeding, is declared to be unjust, unreasonable, and unlawful.
2. The Settlement Agreement filed by Iowa-American Water Company and the Consumer Advocate Division of the Department of Justice on December 21, 2007, is approved.
3. The Stipulation filed by the city of Bettendorf and Iowa-American Water Company on January 2, 2008, is approved.

4. Iowa-American Water Company shall file tariffs in compliance with the Settlement Agreement and this order within 20 days from the date of this order.

5. This order constitutes the final decision of the Utilities Board in Docket No. RPU-07-3.

UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 14th day of January, 2008.