

APPENDIX B

Missouri Public Service Commission

Respond Data Request

Data Request No.	0001
Company Name	Missouri-American Water Company-(Water)
Case/Tracking No.	WR-2017-0285
Date Requested	7/10/2017
Issue	General Information & Miscellaneous - Test Year/True-Up Issues
Requested From	Brian LaGrand
Requested By	Jacob Westen
Brief Description	Use of Future Test Years in AWWC Jurisdictions
Description	Per Jenkins direct, page 13, lines 17-18, referring to the nine American Water jurisdictions that "authorize the use of a future test year," for each such jurisdiction provide the following information: 1) Whether the AWWC affiliate's rates are currently set using a future test year; 2) Whether the jurisdiction is required by statute or rule to use future test years to set water/sewer utility rates; 3) If a future test year is used in setting the AWWC affiliate's rates, how far in the future are the rates designed to cover; i.e., the six months following the effective date of rates, the twelve months following the effective date of rates, or some other period? 4) The approximate period of time in which the jurisdiction's policy of "authorizing" use of future test years for water/sewer utilities has been in effect. 5) If each respective jurisdiction's use of a future test year was not created by statute or rule, but instead by a decision of that jurisdiction's public utility commission, for each jurisdiction, please identify the case number of the decision first allowing the use of a future test year. Data Request submitted by Mark Oligschlaeger (mark.oligschlaeger@psc.mo.gov).
Response	Response too large for EFIS: <u>Part 1 of 3</u> Please note that 10 of 14 American Water jurisdictions authorize the use of a future test year. 1) MAWC affiliates are currently using a future test year in CA, HI, IL, IN, KY, NY, PA, TN, and VA. In addition, West Virginia-American Water Company's infrastructure surcharge mechanism rates are set using a future period as well. 2) Few states have laws or regulations on the books that require a particular test year approach. Flexibility with respect to test years is also encouraged by the Supreme Court's influential Hope decision, which held that: The Commission was not bound to the use of any single formula or combination of formulae in determining rates. Under the statutory [Natural Gas Act] standard of "just and reasonable" it is the result reached and not the method which is controlling... If the total effect of the rate order cannot be said to be unjust and unreasonable, judicial inquiry under the Act is at an end. (320 U.S. 591.) Some of states initially experimented with hybrid test periods (i.e., true up periods) that make it possible to update rate filings as actual data for the later months of the test year become available. J. Michael Harrison, an administrative law judge with the New York PSC, explained in his 1979 article some grounds for dissatisfaction

with hybrid test period experiments: Parties charged with testing or contesting a utility's rate case presentation were faced with figures and issues that changed and shifted through all phases of the case. Even after their direct evidentiary presentations were made, these parties were faced with a required reevaluation of their positions and the possibility that a host of new issues would be created by emerging actual data. The commission staff, which in New York bore the brunt of this burden, faced an almost impossible task of analyzing new data, even as its case went to the administrative law judge or commission for decision. It became clear that the value of the already completed hearings was being seriously undermined. J. Michael Harrison, "Forecasting Revenue Requirements", Public Utilities Fortnightly, March 1979, p. 13. As summarized below, the decisions of states to limit the flexibility of test years presented in rate cases have evolved in part based on these considerations. a) In California, statutes contemplate, and the Commission uses, future test year. See Order Instituting Rulemaking on Commission's Own Motion to Evaluate Existing Practices and Policies for Processing General Rate Cases and to Revise General Rate Case Plan for Class A Water Companies, D.04-06-018; 2004 Cal. PUC LEXIS 276. Re Valencia Water Co., 2007 WL 2126602 (Cal. P.U.C. June 21, 2007) (explaining that the Commission bases public utility rates on future test years). b) Hawaii requires a future test year determined as follows: (A) If an application is filed within the first six months of any year, the test year shall be from July 1 of the same year through June 30 of the following year; or (B) If an application is filed in the last six months of any year, the test year shall be from January 1 through December 31 of the following year; Haw. Code R. § 6 – 61 § 6-61-7 (1992) c) In Kentucky, the "commission shall allow a utility to utilize either an historical test period of twelve (12) consecutive calendar months, or a forward-looking test period corresponding to the first twelve (12) consecutive calendar months the proposed increase would be in effect after the maximum suspension provided in KRS 278.190(2)." 2008 Ky. Rev. Stat. § 278.192 (1) (2008) d) When 83 Ill. Admin. Code Part 287 was first adopted, utilities had a choice of three test years: historic, current and future. However, the Commission Staff complained about the use of current test years because of the updating that occurred during the case, claiming that basically the Staff had to "start all over again" with each update. Currently in Illinois, "A utility, at its option, may propose either one of the following periods as its proposed test year: a) Historical. Any consecutive 12 month period, beginning no more than 24 months prior to the date of the utility's filing, for which actual data are available at the time of filing new tariffs; or b) Future. Any consecutive 12 month period of forecasted data beginning no earlier than the date new tariffs are filed and ending no later than 24 months after the date new tariffs are filed." Ill. Admin. Code tit. 83 § 287.20 e) Indiana Senate Bill 560 gave utilities the option of using a historic, hybrid or future test year. A historic test year must end no more than 270 days before the utility files its rate case petition. A hybrid test period must use twelve consecutive months of combined historic and projected data. A forward-looking test year is based on projected data for a twelve-

month period beginning no later than twenty-four months after the date on which the utility petitions the Commission for a rate change. The utility cannot implement a rate increase before the date on which the projected data period begins. See Indiana-American Water Company, Inc., Cause No. 44450 (Jan 28, 2015).

Objections

NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WR-2017-0285** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Missouri-American Water Company-(Water)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Missouri-American Water Company-(Water)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security : Public

Rationale : NA

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Response	Response too large for EFIS <u>Part 2 of 4</u> f) In New York, the Commission found: ...Our experience demonstrates that the unfolding actual results typically are received too late in the proceeding to permit the parties to analyze and evaluate disparities between the actual and projected figures or to permit adjustments made necessary by the actual results to be incorporated into the primary presentations. As a result, the efforts of parties have, in some cases, been reduced to arguing for one set of figures over another on the basis of which would produce the greater or lesser revenue requirement. This activity not only constitutes an inefficient use of the resources of the parties, the Administrative Law Judges and the Commission, but it has become a hindrance rather than an aid in the Commission's deliberative process. We observed in our decision in Case 27029 that the debate among the parties in that case about the merits and the practical effects of one set of test year figures compared with another had obscured the principal goal of the ratemaking function: to set rates that will produce the required revenues in the period during which those rates will be in effect. To avoid any further waste of valuable rate case time on this issue, we conclude that we must set a clear, specific policy on

test years, designed to enhance our ability to set rates properly for the future. And we find that our deliberations will be served best by a rate case filing consisting of: (1) operating results, with normalizing adjustments, for a twelve-month period expiring at the end of a calendar quarter no earlier in time than 150 days before the date of filing and (2) the projected operating results for the new 12-month rate period. But the presentation must include a verifiable link between the two periods... Statement of Policy on Test periods In Major rate Proceedings pp. 4-5 (1977) g) In Pennsylvania, "...the utility may utilize a future test year or a fully projected future test year, which shall be the 12-month period beginning with the first month that the new rates will be placed in effect after application of the full suspension period permitted under section 1308(d) (relating to voluntary changes in rates). 66 Pa.C.S. § 315 h) In Tennessee, "the Commission has the discretion to choose a historical test period, a forecast period, a combination of the two, or any other accepted method in rate making." Am. Ass'n of Retired Pers. v. Tennessee Pub. Serv. Comm'n, 896 S.W.2d (Tenn. Ct. App. 1994) i) In Virginia, "Any rate, toll, charge or schedule of any public utility operating in this Commonwealth shall be considered to be just and reasonable only if: (1) the public utility has demonstrated that such rates, tolls, charges or schedules in the aggregate provide revenues not in excess of the aggregate actual costs incurred by the public utility in serving customers within the jurisdiction of the Commission, including such normalization for nonrecurring costs and annualized adjustments for future costs as the Commission finds reasonably can be predicted to occur during the rate year... Code of Virginia Title 56 § 56-235.2. Public Service Companies Chapter 10. Heat, Light, Power, Water and Other Utility Companies Generally. 1977, c. 336; 1984, c. 312; 1996, c. 156; 2007, cc. 537, 888, 933 j) In West Virginia, Commission Tariff Rule 19.4 (Tariff Rule 19.4) requires the filing of an historical test year (HTY) with adjustments to per unit revenues and expenses for known and measurable changes. There were a number of rate cases in the 1980s, however, in which the Commission specifically permitted the use of a future test year, including inflation adjustments for rate year expenses. Appalachian Power Co., Case No. 8 1-538-E-PC (1981 APCo Case), November 30, 1981 Order (1981 APCo Order) at 2; West Virginia Water Co., Case No. 84-008-W-42T, October 19, 1984 Recommended Decision at 38, Final Order November 19, 1984. And the Commission has refused to allow a future test year in the past. (WVAWC, Case No. 92-01 13-W-PC) We do not feel that we need to make a ruling about the use of a fully projected test year in this case because it is not incorporated in the adjustments to the HTY revenue requirements requested by WVAWC. Most recently, the Commission has stated, "The use of a fully projected test year may be appropriate at some later date and may be an appropriate regulatory tool for the Commission to consider, but we do not consider that appropriate or necessary here because we do not believe this is a projected test year filing." (West Virginia-American Water Company, Case No. 15-0675-8-42T Order Issued February 24, 2016.)

Objections

NA

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Response	Response too large for <u>EFIS Part 3</u> (Response fit in 3 screens instead of 4) 3) If a future test year is used in setting the AWWC affiliate's rates, how far in the future are the rates designed to cover; i.e., the six months following the effective date of rates, the twelve months following the effective date of rates, or some other period? a) California - Class A water utilities (i.e., those with more than 10,000 service connections) are required to submit general rate case (GRC) applications on a three-year cycle as required by § 455.2.1. The first year is the twelve months following the effective date of rates and inflation-based escalation methodologies are used for years 2 and 3 of the three-year cycle. b) Hawaii – (see response to 2) b) above) c) Kentucky - the twelve months following the effective date of rates (see response to 2) c) above) d) Illinois - the twelve months following the effective date of rates (but see response to 2) d) above - "Any consecutive 12 month period of forecasted data beginning no earlier than the date new tariffs are filed and ending no later than 24 months after the date new tariffs are filed." e) Indiana - (see response to 2) e) above) f) New York - the twelve months following the effective date of rates (see response to 2) f) above), but typically includes a rate plan that extends 3

or 4 years into the future. g) Pennsylvania - the twelve months following the effective date of rates(see response to 2) g) above) h) Tennessee - the twelve months following the effective date of rates (see response to 2) h) above) i) Virginia - the twelve months following the effective date of rates (see response to 2) i) above) j) West Virginia - the twelve months following the effective date of rates (see response to 2) j) above) 4) The estimated periods of time in which the jurisdiction's policy of "authorizing" use of future test years for water/sewer utilities became effective are as follows: a) California – est. 2007 b) Hawaii – est. 1992 c) Kentucky - est. 2008 d) Illinois - est. 1983 e) Indiana - est. 2014 f) New York – est. 1977 g) Pennsylvania - est. 2012 h) Tennessee - est. 1990 i) Virginia - est. 2007 j) West Virginia - est. 1980 j) Please see responses to 2) a) – 2) j) above.

Objections

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