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November 19, 1999

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, Missouri 65102

Re: Missouri-American Water Company  
- Case No. WR-2000-281/SR-2000-282

Dear Mr. Roberts:

Enclosed for filing on behalf of Missouri-American Water Company, please find an original and fourteen copies of the following documents:

1. Recommendation Concerning Proper Test Year
2. Motion for True-Up, Audit and Hearing
3. Motion for Accounting Authority Order

Please see that these filings are brought to the attention of the appropriate Commission personnel. Two copies of the attached are being provided to the Office of the Public Counsel and those entities from whom we've received applications to intervene. Thank you for your cooperation in this matter.

Sincerely,

*W.R. England, III*  
W.R. England, III

WRE/da  
Enclosure

cc: Office of Public Counsel  
Louis J. Leonnati  
Leland B. Curtis  
Charles B. Stewart  
Chuck D. Brown  
James M. Fischer  
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Stuart W. Conrad

FILED<sup>2</sup>  
NOV 19 1999  
Missouri Public  
Service Commission

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

In the Matter of Missouri-American )  
Water Company's Tariff Sheets Designed )  
to Implement General Rate Increases for )  
Water and Sewer Service provided to )  
Customers in the Missouri Service Area )  
of the Company. )

Case No. WR-2000-281

Case No. SR-2000-282

**FILED**  
NOV 19 1999  
Missouri Public  
Service Commission

**MOTION FOR ACCOUNTING AUTHORITY ORDER**

Comes now Missouri-American Water Company ("MAWC" or "Company"), and, for its motion for the issuance of an Accounting Authority Order ("AAO") authorizing it to continue the capitalization of Allowance for Funds Used During Construction and to defer depreciation on certain capital expenditures pursuant to sections 386.250 and 393.140 RSMo 1994, states as follows to the Missouri Public Service Commission's ("Commission"):

1. On October 15, 1999, MAWC submitted to the Commission proposed tariff sheets intended to implement a general rate increase for water and sewer service provided to customers in the Missouri service area of the Company. On October 28, 1999, the Commission issued its Suspension Order and Notice and Order Consolidating Cases.

2. In order to discharge its duties as a public utility and to meet the needs of the public dependent on it for water utility service, MAWC has undertaken the extraordinary construction project known as the St. Joseph 2000 Project. More specifically, the Company is currently constructing a new 30 million gallon per day groundwater treatment plant and related facilities in St. Joseph which will result in an investment of approximately \$74,684,000.

3. MAWC has filed with the Commission revised tariffs designed to increase gross annual operating revenues for water service by approximately \$16.5 million. One of the significant reasons for MAWC's request for a rate increase is the expected completion and placing in service

of the St. Joseph 2000 Project. MAWC's revenue deficiency is based on a proposed test year consisting of the twelve months ended September 30, 1999, a request for true-up hearing as of April 30, 2000, and certain isolated known and measurable changes. The Commission has suspended MAWC's proposed tariffs until September 14, 2000, which is approximately 4½ months after the anticipated in-service date of the St. Joseph 2000 Project.

4. In conformity with the Uniform System of Accounts ("USOA") prescribed by this Commission, MAWC has been capitalizing Allowance for Funds Used During Construction ("AFUDC") during the period of construction of the St. Joseph treatment plant and related facilities. AFUDC represents construction carrying charges which are capitalized during the construction period. The USOA contemplates that, unless the Commission orders otherwise, the capitalization of AFUDC shall terminate and the accrual of depreciation expense shall commence on the date the St. Joseph treatment plant and related facilities are placed in-service (i.e. prior to April 30, 2000).

5. This leads to a significant issue in this case as the St. Joseph 2000 Project will be placed in service approximately 4½ months prior to the date when a rate order including the St. Joseph treatment plant and related facilities in rate base is anticipated to become effective. The discontinuance of the capitalization of AFUDC and the commencement of depreciation on the St. Joseph Treatment plant and related facilities prior to such rate order will cause a significant erosion in MAWC's earnings (approximately \$347,000 per month) and will not provide MAWC any means of recovering the capital costs associated with the St. Joseph 2000 Project during this interim period thus causing significant earnings erosion and financial impact on MAWC.

6. For these reasons, MAWC requests authority from the Commission to allow MAWC to continue to capitalize AFUDC and to defer depreciation on the St. Joseph treatment plant and related facilities from their in-service date until the Commission issues a rate order which includes

the St. Joseph treatment plant and related facilities in MAWC's rate base and includes depreciation thereon in MAWC's operating expense. Moreover, the AAO requested herein, is limited in time since MAWC is only requesting authority to book post-in-service AFUDC for a period of no more than 5 months (i.e. from April 2000 to September 14, 2000).

7. MAWC further proposes that the "post-in-service" AFUDC and the deferred depreciation be booked to the appropriate property accounts for post-in-service AFUDC and to Account 186.301 (Deferred Depreciation Expense - Post) for the deferred depreciation expense. The post-in-service AFUDC is to be amortized over twenty (20) years and the deferred depreciation expense is to be amortized over the estimated service lives of such projects, with the amortization commencing on the date of the first rate order including the St. Joseph treatment plant and related facilities in MAWC's rate base and including depreciation expense thereon in MAWC's recoverable operating expenses. This treatment will be in the best interest of both MAWC and its customers since it will allow the Company to avoid earnings erosion and financial impact on MAWC that would otherwise be present. MAWC is proposing to capitalize AFUDC on these St. Joseph Treatment Facilities at a rate of 7.22%, which represents MAWC's cost of debt proposed in this case and which is in fact lower than that which was allowed in MAWC's last rate order (Case No. WR-97-237).

8. The Commission has indicated its preference for the issuance of an AAO in order to protect a utility from earnings shortfalls associated with extraordinary construction programs. (*In Re St. Louis County Water Company*, 4 Mo.P.S.C. 3d 94, 98 (September 19, 1995). The "... issuance of AAO's have historically been tied to the occurrence of extraordinary items, events impacting a utility that are unusual in nature and infrequent in occurrence." (Id. at p. 98). In the *St. Louis County* case, the Commission granted an AAO for an infrastructure replacement program

designed to address “deterioration of County Water’s distribution system” and the resulting “escalating expenses.” The Commission found that “the infrastructure program represents a significant and unusual increase in County Water’s business-as-usual construction expenditures, and is extraordinary in nature.” *St. Louis County* at 98.

9. The St. Joseph 2000 Project similarly represents “a significant and unusual increase” in MAWC’s construction expenditures. Because MAWC’s projected total rate base in its pending rate case is approximately \$177,000,000, these St. Joseph treatment plant and related facilities, net of post-in-service AFUDC, represent over 40% of said rate base, a significant percentage. Additionally, the post-in-service AFUDC and deferred depreciation expense net of taxes represents over twenty-eight percent (28%) of MAWC’s pro forma utility operating income at present rates. Pro forma present rate earnings for the period April through September 2000, would be only \$61,000 without consideration for post-in-service AFUDC and deferred depreciation expense. Earnings for the same period under the proposed rates would be \$3,758,000. Thus, without consideration for post-in-service AFUDC and deferred depreciation expense, MAWC would receive approximately .08% return on rate base for this five month period or approximately 1.6% of its reasonable earnings.

10. In addition to the extraordinary nature of the expenditures, the extraordinary events leading to the construction of the St. Joseph 2000 Project were examined by the Commission in *In the Matter of the Application of Missouri-American Water Company*, Case No. WA-97-46 (October 9, 1997). Testimony in that case established the numerous capacity, reliability, process control and safety deficiencies associated with the existed plant. Perhaps most significant of these was the fact that the existing treatment plant had been out of service twice in the prior eight years – in 1989 due to low water created by ice jams upstream on the Missouri River and in 1993 due to flooding. This created the potential for serious impact upon the St. Joseph water system as the available storage in

St. Joseph would provide less than 10 hours of service in case of a plant outage – perhaps even less, depending upon the customer demands. This situation combined with the other factors called for drastic, immediate and extraordinary measures based on factors that were beyond the control of MAWC's management.

WHEREFORE, MAWC respectfully requests that the Commission issue an Accounting Authority Order:

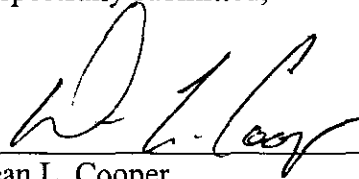
(a) authorizing MAWC to continue the capitalization of AFUDC and to defer the accrual of depreciation expense on the St. Joseph treatment plant and related facilities from their in-service date until the effective date of a Commission rate order which includes the St. Joseph treatment plant and related facilities in MAWC's rate base and includes depreciation expense in MAWC's operating expenses;

(b) authorizing MAWC to use a rate of 7.22% to capitalize AFUDC on the St. Joseph treatment plant and related facilities from their in-service dates until the effective date of a Commission rate order including the St. Joseph treatment plant and related facilities in MAWC's rate base; and,

(c) including such further relief as the Commission deems appropriate in the

circumstances.

Respectfully submitted,



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ATTORNEYS FOR MISSOURI-AMERICAN  
WATER COMPANY

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was sent by U.S. Mail, postage prepaid, or hand-delivered on this 19th day of November, 1999, to the following:

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