ORDERED: 8. That a schedule of proceedings is adopted hereby in this case as set forth herein. The hearing and prehearing conference shall both commence at 10:00 a.m. at the Commission's offices in the Truman State Office Building, 301 West High Street, Jefferson City, Missouri.

ORDERED: 9. That this Order shall become effective on the date hereof.

Steinmeier, Chairman, Musgrave, Hendren and Fischer, Commissioners, concur. Mueller, Commissioner, absent.

In the matter of the application of Sho-Me Power Corporation for permission, approval, and a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage, and maintain an electric distribution system for the public, located in the territory encompassing south central Missouri.*

In the matter of the application of Arkansas Power & Light Company for a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage, and maintain an electric distribution system for the public in a service area which includes portions of Oregon, Reynolds, and Washington Counties.

In the matter of the application of Union Electric Company for permission, approval, and a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain an electric power system for the public in Maries, Miller, Gasconade, Franklin, Morgan and Camden Counties.

Case Nos. EA-87-49, EA-87-101, and EA-87-105
Decided May 6, 1988

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*Refer to page 409 for another order related to this case.
This order contains changes approved by the Commission May 23 and May 26, 1988.
On June 1, 1988, the Commission approved a metes and bounds description filed by Arkansas Power & Light as consistent with authority granted in this Report and Order.
The Commission, in an order issued June 14, 1988, denied a rehearing in this case.

Certificate of Convenience and Necessity or Permit §§1, 18, 23, 27, 39, 53, 101. Electric §§1, 14, 15, 38. Evidence §4. Public Utilities §§5, 13, 33, 39. The Commission believes that it is sound public policy for regulated utilities to convert de facto service areas associated with line certificates into area certificates which more explicitly delineate the geographic territory which the utilities are authorized to serve.

APPEARANCES:

Eugene E. Andereck and *George M. Johnson*, Attorneys at Law, Stockard, Andereck, Hauck, Sharp & Evans, P.O. Box 4929, Springfield, Missouri 65808, for Sho-Me Power Corporation, Inc.

Katherine C. Swaller, Attorney at Law and *Paul A. Agathen*, General Attorney, P.O. Box 149, St. Louis, Missouri 63166, for Union Electric Company.

James C. Swearengen, *Gary W. Duffy* and *Mark W. Comley*, Attorneys at Law, Hawkins, Brydon & Swearengen, P.C., P.O. Box 456, Jefferson City, Missouri 65102, for Arkansas Power & Light Company, The Empire District Electric Company, UtiliCorp United, Inc., d/b/a Missouri Public Service Company.

Willard C. Reine, Attorney at Law, 314 East High Street, Jefferson City, Missouri 65101 and *Jack L. Rorschach*, Attorney at Law, Rorschach, Pitcher, Castor & Hartley, 244 S. Scraper, Vinita, Oklahoma 74301, for KAMO Electric Cooperative, Inc.

Rex C. McCall and *Turner White*, Attorneys at Law, P.O. Box 551, 301 East Central, Springfield, Missouri 65801, for City of Springfield, Missouri and Missouri Association of Municipal Utilities.

Robin E. Fulton, Attorney at Law, Schnapp, Graham, Reid & Fulton, P.O. Box 151, 135 East Main Street, Fredericktown, Missouri 63645, for ASARCO, Incorporated and Doe Run Mining Company.

Rodric A. Widger, Attorney at Law, Stockard, Andereck, Hauck, Sharp & Evans, P.O. Box 1280, Jefferson City, Missouri 65102, for Black River Electric Cooperative, Central Electric Power Cooperative, Co-Mo Electric Cooperative, Inc., M&A Electric Power Cooperative and Ozark Border Electric Cooperative.

Robert C. Smith and *John Roark*, Attorneys at Law, Smith, Lewis and Beckett, 901 East Broadway, Columbia, Missouri 65201, for Central Electric Power Cooperative.

Phil Hauck, Attorney at Law, Stockard, Andereck, Hauck, Sharp & Evans, P.O. Box 549, Trenton, Missouri 64683, for N.W. Electric Power Cooperative, Inc.

Michael D. Garrett, Attorney at Law, Garrett & Woods, P.O. Box 476, Monett, Missouri 65708, for Ozark Electric Cooperative, Inc.

Carol L. Bjelland, Assistant Public Counsel, P.O. Box 7800, Jefferson City, Missouri 65102, for Office of the Public Counsel and The Public.

Andrew J. Snider, Assistant General Counsel, P.O. Box 360, Jefferson City, Missouri 65102, for Staff of the Missouri Public Service Commission.

HEARING EXAMINER: Beth O'Donnell

REPORT AND ORDER

Procedural History

Sho-Me Power Corporation (Sho-Me) filed an application with the Commission November 5, 1986, for authority to provide retail electrical service in thirty-one (31) counties in south central Missouri. The case was designated EA-87-49.

Arkansas Power and Light Company (AP&L) filed an application with the Commission March 12, 1987, for an area certificate to provide electrical service in Oregon, Reynolds and Washington Counties all located in Missouri. The case was designated EA-87-101.

Union Electric Company (UE) filed an application with the Commission March 17, 1987, for an area certificate to provide electrical service in Maries, Miller, Gasconade, Franklin, Morgan and Camden Counties, all located in Missouri. The case was designated EA-87-105.

These three cases were consolidated by the Commission on March 27, 1987, in response to motions filed by AP&L and UE.

By amendment filed July 31, 1987, Sho-Me excluded from its request for authority all the incorporated towns located in the thirty-one (31) counties. By order issued August 26, 1987, the Commission dismissed eleven (11) of the counties requested by Sho-Me because Sho-Me's application failed to meet the requirements of Commission Rule 4 CSR 240-2.060(2)(A)(10).[1]

AP&L and UE also amended their respective applications. AP&L excluded from its application a portion of Washington County, Missouri, presently served by UE and UE included this portion of Washington County in its application.

The Commission conducted a hearing into the merits of these applications on October 26-30, 1987. Briefs were filed by the parties pursuant to a briefing schedule established by the examiner.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

The Application of Sho-Me Power Corporation

Sho-Me is a Missouri corporation with its principal office and place of business located at Marshfield, Missouri. Sho-Me operates in twenty-six (26) southern Missouri counties selling electricity primarily at wholesale to nine (9) rural electric distribution cooperatives and seventeen (17) municipal utilities. Sho-Me sells electricity at retail to Fort Leonard Wood and two pipeline transmission companies.

Sho-Me requests that the Commission grant it a certificate of convenience and necessity to provide retail electrical service in the counties of Camden,

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[1]The dismissed counties are Jefferson, Hickory, Greene, Benton, Dade, Cedar, Christian, Taney, Miller, Oregon and Washington, all in Missouri.

Crawford, Dallas, Dent, Douglas, Franklin, Gasconade, Howell, Laclede, Maries, Ozark, Phelps, Polk, Pulaski, Reynolds, Shannon, Stone, Texas, Webster and Wright, all in the State of Missouri.

Sho-Me proposes to provide the electrical service in question by using the distribution and some of the transmission facilities of the rural electric cooperatives located in the requested counties to wheel electricity to its prospective customers. Sho-Me would attach the service drops for these customers to the wheeling facilities.

Sho-Me proposes to serve only those customers within the requested area which cannot be legally served by the cooperatives. In those counties where other regulated utilities provide electrical service Sho-Me proposes that prospective customers be served by the utility whose facilities are closer to that customer.

Sho-Me alleges that the granting of its application is in the public interest because it allows Sho-Me to use existing electric cooperative facilities in rendering the service it proposes and uses the closer-to principle to decide which utility should serve a prospective customer. This approach allegedly prevents cooperatives and investor-owned utilities in the requested area from duplicating facilities in order to compete for prospective customers. However, it is difficult to see how Sho-Me's proposal can achieve its stated goal of avoiding duplication.

The Commission's jurisdiction over the cooperatives is limited to safety matters pursuant to Section 394.160, RSMo 1986, as amended, and the settling of change of supplier disputes pursuant to Sections 393.106 and 394.315, RSMo 1986, as amended. The Commission lacks the jurisdiction necessary to prevent the cooperatives from duplicating facilities in order to compete for prospective customers unless in so doing the cooperatives violate safety rules or the change of supplier statutes. Section 386.310(2), RSMo 1986, as amended. Sho-Me's General Manager, John Davis, admitted under cross-examination that Sho-Me's proposal provided for no restriction on cooperatives to refrain from extending distribution lines to gain the advantage of being closer to a prospective customer. Therefore, whether or not this certificate is granted the cooperatives will be free to duplicate facilities in order to compete with other regulated providers there, provided they do so safely.

Sho-Me has stated through the testimony of Mr. Davis that it will only serve the customers in the rural areas which the cooperatives cannot legally serve. However, Sho-Me deleted the incorporated towns from the proposed service area including those with populations in excess of 1,500 persons. Sections 394.020 and 394.080, RSMo 1986, as amended, restrict cooperatives from serving in towns with populations in excess of 1,500 inhabitants. Mr. Davis could not provide the Commission with the name of any unincorporated towns which were near the 1,500 limit in population. Thus, Sho-Me will not serve customers in the rural areas where the cooperatives can serve and cannot serve customers in the incorporated towns including those with populations above 1,500 where cooperatives also cannot serve. In fact, there do not appear to be any areas where Sho-Me proposes to serve. A willingness to serve in the area requested is an assumption upon which all applications for certificate rest. The Commission is of

the opinion that, practically speaking, such willingness is absent from Sho-Me's application.

In addition, Sho-Me has failed to show that the cooperatives have the technical and financial ability to respond to the customers' needs. Sho-Me admits that it is responsible for the service of the customers it would acquire pursuant to the requested authority. Sho-Me asserts that the wheeling agents' facilities become, in effect, part of Sho-Me's system. Yet Sho-Me offered no firsthand knowledge of the quality of service rendered over that system and limited knowledge of the technical expertise with which it is operated and of the financial plans of the cooperatives themselves. No evidence was supplied by any of the wheeling agents on these points.

Sho-Me did not provide the Commission contracts that were executed with the wheeling agents whereby these agents would be held to some standard of service. The only contract provided to the Commission was a draft contract which did not discuss obligations to the consumers as to the service proposed. Sho-Me admits there is not even any obligation for the wheeling agents to enter into these contracts to wheel electricity. There is no showing that should the Commission grant the authority requested Sho-Me could provide the service in question since there is no obligation for the wheeling agents to wheel. Sho-Me needs the services of the wheeling agents to provide the service proposed.

Finally, Sho-Me has failed to show a need for the proposed service. Sho-Me's witness, Mr. Davis, admitted that Sho-Me was not proposing any service that is not presently being adequately rendered by others. There is no evidence that Sho-Me has received requests for service from within the requested area.

Since Sho-Me has not shown a need for the proposed service or a willingness and ability to serve, the Commission finds that the public convenience and necessity will not be promoted by the granting of the certificate requested.

Since the Commission has found that the granting of a certificate to Sho-Me will not promote the public convenience and necessity, the Commission determines that it is unnecessary for it to address the other arguments raised by the opponents to the Sho-Me application including questions as to the extent of the obligation of a utility to serve in its certificated area and the balance to be struck between regulated monopoly and regulated competition.

The Application of Union Electric Company

UE is a Missouri corporation with its principal office and place of business located at 1901 Gratiot Street, St. Louis, Missouri 63103. UE is engaged in the business of supplying electrical, gas, steam and water service in parts of Missouri.

UE requests a certificate of convenience and necessity from this Commission to provide electrical service in portions of the counties of Maries, Miller, Gasconade, Franklin, Morgan, Camden and Washington, all in the State of Missouri.

First, the Commission determines that UE has shown itself to be technically and financially capable of operating and maintaining as well as constructing, where necessary, the system to render the proposed service since UE is already providing service in the vast majority of the requested area pursuant to a

combination of area and line certificates. No party has questioned UE's ability to render the service in question.

Second, UE has shown the Commission that there is a need for the authority requested since customers are already being served by UE pursuant to these area and line authorities in the vast majority of the proposed service area and no other regulated utility is providing retail, residential, electrical service in the requested area.

To a substantial degree a grant of this authority to UE is merely a clarification of existing service associated with line certificates which had never before been challenged. The Commission believes it is sound public policy for regulated companies to convert these areas associated with line certificates into area certificates which more explicitly delineate the geographic territory which the utilities are authorized to serve.

Third, the Commission finds no evidence that undesirable duplication of service or destructive competition will be caused by the granting of this application. The application was opposed by Sho-Me, Central Electric Power Cooperative and CO-MO Electric Cooperative (collectively referred to hereinafter as Intervenors) on the grounds that it will not prevent duplication of service and destructive competition. The Intervenors support this argument by stating that without the closer-to principle and the use of already existing facilities by which to wheel electricity to prospective customers, there is nothing to prevent the cooperatives providing service in UE's proposed service area from duplicating UE's facilities in order to compete with UE for customers.

The Commission finds this argument unpersuasive. It is true that a grant of the requested authority will not prevent duplication of service and competition by unregulated utilities. However, the present statutory scheme allows such competition on the part of cooperatives provided no safety regulations are violated.

Based upon the foregoing, the Commission finds that the public convenience and necessity will be promoted by the granting of the certificate requested. Since the Commission has found that the granting of a certificate to Sho-Me will not promote the public convenience and necessity, the Commission determines that it is unnecessary for it to address whether UE is more qualified than Sho-Me to serve in Camden, Maries, Franklin and Gasconade Counties which were included in the applications of both companies.

The Application of Arkansas Power & Light Company

AP&L is an Arkansas corporation authorized to do business in the State of Missouri with its principal office in Little Rock, Arkansas. AP&L provides electrical service in southeastern Missouri.

AP&L is requesting that the Commission grant it a certificate of convenience and necessity to provide retail electrical service in portions of Oregon, Reynolds and Washington Counties, all in Missouri.

First, the Commission determines that AP&L has shown itself to be technically and financially capable of operating and maintaining as well as constructing, where necessary, the system to render the proposed service. AP&L is already

providing service in much of the requested area except Reynolds County. No party questions AP&L's capability to serve.

Second, AP&L has shown the Commission that there is a need for much of the authority requested since customers are already being served by AP&L pursuant to line authorities in a substantial portion of the proposed service area except Reynolds County. There is no evidence on this record of dissatisfaction with this service and AP&L's witness, Mr. Jones, testified that his company has received recent requests for service in the requested area. No other regulated utility is providing service in the requested area.

As with the application of UE the authority requested by AP&L is, to some degree, a clarification of existing service associated with line certificates. Extension from these line certificates were made apparently in the belief that line certificates can be extended without prior approval ". . . for reasonable distances and reasonable purposes in order to serve . . . customers . . . ." *Cuivre River Cooperative, Inc., v. Missouri Edison Company*, 7 Mo. P.S.C. (N.S.) 118 (1956). Until now these areas have remained unchallenged with the implicit approval of the Commission.

As in the case of UE the Commission believes that it is sound public policy for regulated utilities to convert these de facto service areas associated with line certificates into area certificates which more explicitly delineate the geographic territory which the utilities are authorized to serve.

In opposition to AP&L's request for authority M&A Electric Power Cooperative, Black River Electric Cooperative (BREC), Ozark Border Electric Cooperative and Sho-Me, argue that there is no need for the requested authority in Reynolds County where BREC provides adequate service and AP&L has few customers and facilities.

AP&L has seventy-seven (77) residential customers in southeastern Reynolds County in the area of Clearwater Lake and two (2) industrial customers in northern Reynolds County west of Highways KK and TT. Its distribution facilities seem to be confined to an area lying between Clearwater Lake and the boundary with Wayne County plus a small extension into section 20, Township 29 North, Range 3 East lying northeast of the bulk of the facilities abutting Clearwater Lake. AP&L projects a rate of growth in Reynolds County of less than two (2) customers a year. There is no evidence that residents in Reynolds County are currently unable to obtain the service they require.

The evidence also shows that due to the difficult terrain in Reynolds County the construction of additional distribution facilities can run as high as $15,000 for a one-mile extension to a residential customer. AP&L's extension policy requires prospective customers to pay for the extension of facilities beyond 1,000 feet or guarantee a monthly bill equal to 2% of the cost of construction beyond 1,000 feet. It appears unlikely that many customers outside of the area adjacent to AP&L's Clearwater Lake facilities could afford to take AP&L's service under these circumstances.

In view of the foregoing, the Commission is of the opinion that AP&L has not shown a need for the requested authority in Reynolds County beyond the area

east of Clearwater Lake and the immediate environs necessary to serve the two industrial customers in northwestern Reynolds County.

The granting of the proposed authority in Reynolds and Washington Counties is opposed also by ASARCO, Inc., and Doe Run Company (collectively referred to hereinafter as the Mines) on the grounds that it will foster undesirable duplication of service and destructive competition since BREC is already serving there. The Mines argue that the expansion of AP&L's service territory to encompass the requested portions of the counties in question will be an economic waste since customers in those counties are already adequately served by BREC. As customers who consume large quantities of AP&L's power, the Mines state they do not wish to pay for such economic waste.

In view of the Commission's findings that AP&L has not shown a need for the vast majority of the authority requested in Reynolds County, the Commission determines that it need not address these arguments of the Mines as to duplication of facilities in Reynolds County.

As to Washington County, the Commission is of the opinion that the argument of the Mines is unpersuasive when applied to most of Washington County since AP&L has distribution facilities already scattered throughout the County except in the southwestern and northwestern corners. A grant of the requested certificate for the areas where AP&L's facilities already exist would lead to very little future duplication of facilities.

However, the Commission is of the opinion that AP&L has failed to show a need for the requested authority in the southwestern and northwestern corners of the County. As already noted AP&L has no distribution facilities in these areas. Although, as noted above, Mr. Jones of AP&L has testified that his company has received recent requests for service in the requested area, it is difficult to believe that the customers to which he refers could be located in these areas. In view of AP&L's extension policy mentioned *supra*, the cost for extensions into these areas would be prohibitive for the vast majority of customers. Further, there is no evidence that the customers located in these portions of Washington County are unable to obtain the service they require at the present time.

In view of the Commission's decision that AP&L has not shown a need for the authority requested in northwestern and southwestern Washington County, the Commission determines that it need not address the arguments of the Mines as to duplication of facilities in these areas.

In view of the foregoing, the Commission finds that the public convenience and necessity will be promoted by the partial granting of the certificate requested by AP&L as follows:

AP&L's area certificate in Reynolds County shall be restricted to that area contained in Sections 19, 20, 30 and 31, Township 29 North, Range 3 East which lies east of Clearwater Lake as depicted on Exhibit 57 and to the immediate environs necessary to provide current service to the present industrial customers of AP&L located in northwestern Reynolds County.

AP&L's area certificate in Washington County shall include the entire requested area with the exception of the area contained within the southwestern portion of that county bounded on the north by the township line between

Township 36 North and Township 37 North, on the east by the eastern boundary of the Mark Twain National Forest, on the south by the boundary between Washington and Iron Counties and on the west by the boundary between Washington and Crawford Counties and the area contained within the northwestern portion of that county bounded on the north by the boundary between Washington and Franklin Counties, on the east by the rangeline between Range 1 West and Range 1 East, on the south by the northern boundary of Mark Twain National Forest and on the west by the boundary between Washington and Crawford Counties, all as depicted on Exhibit 58.

The Commission determines that its Staff should be directed to establish the amount of territory necessary for AP&L to continue current service to its two present industrial customers in northwestern Reynolds County pursuant to the area certificate granted herein. The Commission further determines that AP&L should submit to the Commission for its approval a proposed metes and bounds description consistent with the authority granted by this Commission herein in Washington and Reynolds Counties.

AP&L's area certificate in Oregon County shall include the entire area requested.

Since the Commission has found that the granting of a certificate to Sho-Me will not promote the public convenience and necessity, the Commission determines that it is unnecessary for it to address whether AP&L is more qualified than Sho-Me to serve in Reynolds County which was included in the applications of both companies.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

Sho-Me, UE and AP&L are electrical corporations subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 1986, as amended.

The controlling statute in this matter is Section 393.170, RSMo 1986, as amended, which provides that no electrical corporation may begin construction of an electric plant or exercise any right or privilege under any franchise without first having obtained the permission and approval of the Commission. The Commission has the power to grant a certificate when it determines after hearing that the authority is "necessary or convenient for the public service."

The general purpose of the standard has been defined by the courts as avoiding destructive competition and undesirable duplication of service. *State ex rel. Public Water Supply District v. Public Service Commission*, 600 S.W.2d. 147, 154 (Mo. App. 1980). The evidence must show that any additional service is an improvement justifying the cost of providing it. *Id. Public Water* suggests that a balancing process be employed weighing the adequacy of service from the existing regulated facilities against the desirability of competition. The Applicant for a certificate must show that it possesses adequate financial resources to respond to the customers' needs and that the issuance of the certificate would have minimal impact on competitors. Further, a showing of need must be made before a competing utility would be granted authority. Finally, it is in the

Commission's discretion to determine when the evidence indicates the public interest will be served. *Id.*

In exercising its discretion the Commission has developed criteria to determine when the evidence indicates the public interest will be served. These criteria include findings that the Applicant is technically and financially able to construct, operate and maintain the system necessary to render service as well as a finding that there is a need for the service and that the public convenience and necessity will be promoted by the granting of the certificate. *In re: Application of John Cassell d/b/a The Stockton Hills Water Co.*, 17 Mo. P.S.C. (N.S.) 8 (1972). *In re: Application of Modern Structures, Inc.*, 19 Mo. P.S.C. (N.S.) 366 (1974).

The burden of proof is upon the Applicant to show that the requirements established in the standard and criteria are met. *Public Water, supra. In re: Application of Empire District Electric Co.*, 12 Mo. P.S.C. (N.S.) 402 (1965).

The Commission determines that Sho-Me has failed to meet its burden of proof to show that the authority it requests is necessary and convenient for the public service. Therefore, the Commission concludes that its application for a certificate should be denied.

The Commission further determines that UE has met its burden of proof to show that the authority it requests is necessary or convenient for the public service. Therefore, the Commission concludes that the application for certificate of UE should be granted.

The Commission is of the opinion that AP&L has met its burden of proof to show that the authority it requests is necessary or convenient for the public service only for part of the requested area. Therefore, the Commission concludes that the application for a certificate of AP&L should be granted only in part as set forth above.

It is, therefore,

ORDERED: 1. That the application of Sho-Me Power Corporation for a certificate of convenience and necessity to provide retail electrical service in twenty (20) counties located in south central Missouri, as more fully set forth herein, is denied hereby.

ORDERED: 2. That the application of Union Electric Company for a certificate of convenience and necessity to provide retail electrical service in portions of seven (7) counties in the State of Missouri, as more fully set forth herein, is granted hereby.

ORDERED: 3. That the application of Arkansas Power and Light Company for a certificate of convenience and necessity to provide retail electrical service in portions of three (3) counties in the State of Missouri, is granted hereby in part and denied hereby in part as more fully set forth herein.

ORDERED: 4. That the Commission's Staff is directed hereby to determine the amount of territory necessary for Arkansas Power and Light Company to continue current service to its two present industrial customers in northwestern Reynolds County pursuant to the area certificate granted herein. This determination shall be completed in a timely fashion to enable Arkansas Power and Light Company to comply with Ordered: 5 of this Report and Order.

ORDERED: 5. That Arkansas Power and Light Company shall submit for the Commission's approval on or before May 26, 1988, a proposed metes and bounds description consistent with the authority granted by this Commission herein in Reynolds and Washington Counties.

ORDERED: 6. That any objections or motions not ruled upon heretofore are overruled and denied hereby.

ORDERED: 7. That this Report and Order shall become effective on the 7th day of June, 1988.

Steinmeier, Chm., Mueller, Hendren and Fischer, CC., Concur and certify compliance with the provisions of Section 536.080, RSMo 1986. Musgrave, C., Absent.

In the matter of St. Louis County Water Company, St. Louis, Missouri, for authority to file tariffs to increase water service provided to customers in the Missouri service area of the company.*

Case No. WR-88-5
Decided May 27, 1988

Expense §§5, 24, 29, 66. Rates §§22, 31, 128. Water §19. The maintenance of some chemicals above the normalized level may be necessary for the provision of safe and adequate service, and, when this occurs, the Commission is of the opinion that rates should reflect these abnormal levels of chemicals provided the level of such chemicals reflected in the rate base can be reasonably supported.

Accounting §§29, 44, 53. Expense §§24, 79, 84. Water §§18, 19. A synchronized interest calculation to arrive at the offset from cash working capital is reasonable because this represents the actual amount of interest collected from ratepayers. Due to the effect of investment tax credits (ITC) taken by the Company in the past, Company earns, in effect, a return on the revenue collected from the ratepayers to pay interest to bondholders since the ratepayers are required to provide funds to the Company as if the ITC does not exist. It is appropriate, therefore, that the offset to cash working capital for funds pre-collected to pay long-term debt obligations reflect this reality.

Return §§23, 74. Water §18. In setting a reasonable cost of equity it is appropriate to apply the discounted cash flow or DCF analysis unadjusted for market-to-book differences because in doing so share price will be driven to book value thereby preventing customers from providing excessive returns to shareholders. This approach balances the interests of shareholders and ratepayers.

Expense §§24, 29, 68. Water §19. A postage increase should be considered in setting rates in a case when the increase is an expense the Company will actually be experiencing at the time the rates established by the case go into effect because the amount in question is known and measurable. Ordinarily adjustments to test year expenses are confined to those permitting a matching of revenues and expenses. However, when such known and measurable increases in expenses occur it is more equitable to allow such expense to be reflected in the revenue requirement than to disallow it for the sole reason that corresponding revenues may be lacking.

Expense §§24, 34, 39. Water §19. A water quality chart meets the standard of substantial benefit to the consumer when it is informational in nature, designed to allow customer concerns about

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*The Commission denied a rehearing in this case June 5, 1988.