

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

FILED²
DEC 9 1999

Missouri Public
Service Commission

In the Matter of Missouri-American)	
Water Company's Tariff Sheets Designed)	
to Implement General Rate Increases for)	Case No. WR-2000-281
Water and Sewer Service provided to)	Case No. SR-2000-282
Customers in the Missouri Service Area)	
of the Company.)	

MAWC'S REPLY TO SUGGESTIONS IN OPPOSITION

TO MISSOURI-AMERICAN'S:

1. RECOMMENDATION CONCERNING PROPER TEST YEAR; AND

2. MOTION FOR TRUE-UP AUDIT AND HEARING

COMES NOW Missouri-American Water Company ("MAWC" or "Company") and, for its Reply to the Ag Processing Inc., A Cooperative ("AGP"), Friskies Petcare, A Division of Nestle USA ("Friskies") and Wire Rope Corporation of America Inc.'s ("Wire Rope") Suggestions in Opposition to Missouri-American's: 1. Recommendation Concerning Proper Test Year; and 2. Motion for True-Up Audit and Hearing,¹ states to the Missouri Public Service Commission ("Commission") as follows:

1. On November 19, 1999, along with its Direct Testimony (excluding rate design testimony which was filed on November 29, 1999), MAWC filed its Recommendation Concerning Proper Test Year; Motion for True-Up Audit and Hearing; and Motion for Accounting Authority Order.

2. On November 29, 1999, MAWC received AGP, Friskies and Wire Rope's opposition to all three of MAWC's motions.

¹ MAWC will address the intervenors' opposition to its Motion for Accounting Authority Order, as well as other pleadings discussing the Accounting Authority Order, in a separate pleading.

46

GENERAL RESPONSE

3. As a general reply to the AGP, Friskies and Wire Rope pleading, MAWC would like to remind the Commission that there is nothing out of the ordinary about MAWC's proposed test year and true-up schedule. MAWC's proposal is similar in timing and, in fact, provides a larger period for decision, than that ordered by the Commission in the last rate cases for Laclede Gas Company (Case No. GR-99-315), Missouri Gas Energy (Case No. GR-98-140), St. Louis County Water Company (WR-97-382), The Empire District Electric Company (Case No. ER-97-81) and MAWC's last rate case (WR-97-237). AGP has been a party to at least two of these cases and should be familiar with the process.

4. The following table compares the date through which true-up items were allowed and the date of the true-up hearing ordered by the Commission with the operation of law date for MAWC's proposal in this case as well as the cited rate cases:

CASE	DATE TARIFFS FILED	OPERATION OF LAW DATE	TRUE-UP DATE (DAYS < O.L.)	TRUE-UP HEARING (DAYS < O.L.)
PROPOSED IN THIS CASE	10/15/99	9/14/00	4/30/00 (137)	6/15/00 (91)
GR-99-315	1/26/99	12/26/99	8/31/99 (117)	10/7/99 (80)
GR-98-140	10/3/97	9/2/98	5/31/98 (94)	7/16/98 (48)
WR-97-382	3/14/97	2/12/98	11/30/97 (74)	1/9/98 (34)
WR-97-237	12/13/96	11/12/97	7/31/97 (104)	9/16/97 (57)
ER-97-81	8/30/96	7/28/97	3/31/97 (119)	5/23/97 (66)

5. The Commission's Suspension Order and Notice and Order Consolidating Cases ("Suspension Order") issued October 28, 1999, also contemplates a schedule similar to that which

was proposed by MAWC, to include a true-up hearing. It stated as follows:

The Company shall include in its prefiled testimony its recommendation concerning the proper test year to be used in these proceedings. The Company shall submit any request for a true-up in a motion concurrent with its prefiled direct testimony. This request should include a proposed date to which the Company's financial data is to be brought forward as well as a proposed time for a true-up hearing.

(Suspension Order, p. 2). A true-up hearing and, more importantly, the timing proposed by MAWC, is nothing out of the ordinary.

TEST YEAR

6. AGP suggests that there should be a "September 30, 1999 test year adjusted for *all* known and measurable items within a reasonable time thereafter." MAWC does not disagree in principal with this proposal. It is MAWC's intent that the rates resulting from this case be an accurate reflection of its cost of service and provide for a reasonable return on its investment as of the date the rates take effect. MAWC has no objection to a test year ending September 30, 1999, updated through December 31, 1999. Additionally, as described by the Commission Suspension Order, MAWC believes that it is contemplated that any party may request isolated changes outside the test period, as updated, which are deemed to be known and measurable. (*See* Suspension Order, p. 4).

TRUE-UP

7. AGP, Friskies and Wire Rope allege that MAWC's proposal is a request for "two rate cases in one." They indicate that there will "need to be a second rate case for the St. Joseph plant after the books for April 2000 are closed." This is extremely misleading. A great majority of the issues concerning the St. Joseph Treatment Plant can and should be tried in the primary evidentiary phase of this rate case. Any issues regarding the amount of actual and budgeted expenditures construction decisions, etc. are ripe at this time. Issues concerning the decision to move forward

with the project should have been raised in the certificate case for this project (Commission Case No. WA-97-46) where the alternatives were discussed and litigated. Contemplating that some of the remaining issues would be litigated in the initial evidentiary phase of this case, MAWC has filed direct testimony discussing the St. Joseph Treatment Plant. Additionally, the great majority of the financial information relating to the construction process is ready for audit and review. Approximately eighty-seven percent (87%) of the \$74,684,000 total will have been expended by December 31, 1999. The remainder of the expenditures are budgeted. The only issues for the true-up hearing concerning the St. Joseph Treatment Plant should be whether the treatment plant is "in-service" and how the actual expenditures on the remaining thirteen percent (13%) of the project compare to the budgeted amounts. These issues are certainly capable of being tried in a true-up proceeding and will not require "a second rate case" as alleged by AGP, Friskies and Wire Rope.

REFILING OR OPERATION OF LAW EXTENSION

8. AGP, Friskies and Wire Rope further allege that MAWC should file a "second rate case at a time when it can utilize a test year which includes the St. Joseph plant in rate base" and proposes that alternatively MAWC dismiss this case or agree to extend the operation of law date by seven months. Their proposal is unworkable for MAWC and would have dire consequences for the water industry in Missouri. The AGP, Friskies and Wire Rope proposal would essentially require that plant be "in-service" not merely prior to the operation of law date, but instead for a period of approximately ONE YEAR before the operation of law date.

9. Under current accounting treatment, this would create a great disincentive for utility investment in plant and make such investment economically impossible. As indicated in MAWC's Motion for Accounting Authority Order ("AAO"), without permission to book post-in-service Allowance for Funds Used During Construction ("AFUDC") and to defer depreciation expense,

MAWC's earnings will be reduced approximately \$347,000 each month the St. Joseph Treatment Plant is "in-service" and not included in rates. Without AAO treatment, this is potentially a loss of \$1.56 million dollars for MAWC under the schedule proposed by MAWC and would result in an approximate .08% return on rate base for that four and a half month period.

10. If the St. Joseph Treatment Plant must be "in-service" for twelve months before it is included in rates, as proposed by AGP, Friskies and Wire Rope, MAWC would suffer financially to the tune of \$4.164 million. A public utility the size of MAWC cannot suffer this type of detriment without suffering a substantial adverse impact upon its financial condition. It is not good public policy to place a Missouri water utility in this predicament during a time when nationwide, and in Missouri, capital investments are required to address aging infrastructure and increasing regulatory requirements.

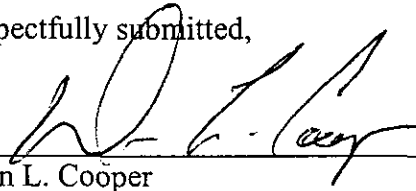
11. In support of their position, AGP, Friskies and Wire Rope wax nostalgic about an uncited Kansas City Power & Light case from the "1980s" when certain aspects of rate cases were "properly used." A review of Kansas City Power & Light cases from the time period cited by AGP, Friskies and Wire Rope shows that things were not quite as represented. The intervenors fail to mention that in that "golden age" of regulation, revenue deficiencies, such as the one highlighted in this case, were addressed with interim rate relief. For example, in *In the matter of Kansas City Power & Light Company*, 23 Mo.P.S.C. (N.S.) 413 (March 18, 1980), the Commission granted Kansas City Power & Light Company "interim tariffs reflecting an increase in rates for electric service which shall remain in effect until such time as the Commission makes a final determination in Company's permanent rate proceeding, in an amount of \$25,000,000 exclusive of gross receipts taxes."

12. If it is a return to this 1980's interim rates approach to ratemaking that AGP, Friskies

and Wire Rope are proposing, MAWC is open to its suggestions. Otherwise, it is not reasonable to require a plant with this type of financial impact to be in-service for a twelve month period before it is recognized in rates. Such an approach would deprive the Company of an opportunity to earn a fair and reasonable return. (*See Bluefield Waterworks v. Public Service Commission*, 262 U.S. 679 (1923) (utility rates must be sufficient to yield a reasonable return.)).

WHEREFORE, in light of the foregoing, the Company respectfully requests that the Commission issue its order adopting a test year for use in this case comprised of the twelve months ended September 30, 1999, updated for known and measurable changes, and granting a true-up audit and hearing for certain items of revenue, expense and investment, as well as certain isolated items that will be known and measurable as of April 30, 2000, and grant such further orders as are appropriate in the circumstances.

Respectfully submitted,



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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 2th day of December, 1999, to the following:

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