

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office
in Jefferson City on the 1st
day of February, 2000.

In the Matter of Missouri-American Water)	
Company's Tariff Sheets Designed to Implement)	<u>Case No. WR-2000-281</u>
General Rate Increases for Water and Sewer)	Tariff No. 200000366
Service Provided to Customers in the Missouri)	Tariff No. 200000367
Service Area of the Company.)	

ORDER CONCERNING TEST YEAR, TRUE UP,
ACCOUNTING AUTHORITY ORDER,
AND LOCAL PUBLIC HEARINGS

On October 15, 1999, Missouri-American Water Company (MAWC) submitted to the Commission its proposed tariff sheets intended to implement a general rate increase for water and sewer service provided to customers in its Missouri service area. The Commission, on October 28, 1999, suspended the proposed tariff sheets until September 14, 2000. The proposed water service tariffs are designed to produce an annual increase of approximately 53.97 percent (\$16,446,277) in the Company's revenues. The proposed sewer service tariffs are designed to produce an annual increase of approximately 5.0 percent (\$2,363) in the Company's revenues.

By Orders issued on December 1, December 6, and December 23, 1999, the Commission permitted numerous parties to intervene herein, including a group of three industrial customers of MAWC located in St. Joseph, Missouri: AG Processing, Inc. (a Cooperative), Friskies Petcare, a Division

of Nestle USA, and Wire Rope Corporation of America, Inc., who style themselves the "Industrial Intervenors."

Discussion:

A. Test Year:

MAWC filed its Recommendations Regarding Proper Test Year on November 19, 1999. The Industrial Intervenors filed their Suggestions in Opposition on November 29, 1999. The Staff of the Missouri Public Service Commission (Staff) and the Office of the Public Counsel (Public Counsel) filed their recommendations on December 7, 1999. MAWC replied to Industrial Intervenors on December 9, 1999. The Industrial Intervenors replied on December 10, 1999, and MAWC replied to Public Counsel on December 20, 1999.

In fact, the parties are agreed that the proper test year is the twelve month period ending September 30, 1999, updated for known and measurable changes through December 31, 1999, in plant, revenues, property and income taxes, operations expenses, including labor wage increases, rate case expenditures, and conversion from quarterly to monthly meter reading in St. Joseph, Missouri. Public Counsel requests, and the Commission agrees, that MAWC should update its accounting information consistent with the test year herein adopted.

B. True-Up:

On November 19, 1999, MAWC filed its Motion for True-Up Audit and Hearing. The Industrial Intervenors filed their Suggestions in Opposition on November 29, 1999. Staff and Public Counsel filed their recommendations

on December 7, 1999. MAWC replied to the Industrial Intervenors on December 9, 1999, and to Public Counsel on December 20, 1999.

MAWC seeks a true-up audit for certain specified items¹ as of April 30, 2000. MAWC proposes that Staff and Public Counsel audit these items as soon as MAWC closes its books as of April 30, 2000, and further proposes a hearing on the true-up in late June, 2000. The Industrial Intervenors oppose MAWC's true-up proposition, terming it "two rate cases in one." Industrial Intervenors contend that the timing of the true-up will put other parties at a disadvantage. Staff supports MAWC's proposal. Public Counsel, while not opposed to the true-up proposal in principle, suggests that MAWC's request is premature. Like the Industrial Intervenors, Public Counsel believes MAWC's proposal does not leave enough time.

MAWC replies that its proposed time table leaves more time than in five other recent rate cases with true-ups. MAWC further replies that most items related to its new St. Joseph plant will be captured by December 31, 1999. MAWC argues that its new plant will be in service on April 30, 2000, about four-and-one-half months before the new rates take effect. The plant will cost MAWC about \$347,000 each month it is in operation without being in rate base.

The Commission agrees with MAWC. The items suggested by MAWC will be included in a true-up as of April 30, 2000. Staff and Public Counsel

¹Residential and commercial customers and revenues, Commission's annual assessment for 2001, chemicals, waste disposal, fuel, and power expenses related to new facilities, capital structure, rate base, rate case expenses, employee levels, wage rates and benefits, depreciation expense, amortization of premature retirement, post-in-service allowance for funds used during construction, and deferred depreciation expense, income and property taxes, utility operating income, and purchased water expense.

will audit those items as soon after that date as possible. A true-up hearing will be held in late June, 2000.

C. Accounting Authority Order:

On November 19, 1999, MAWC filed its Motion for an Accounting Authority Order. The Industrial Intervenors filed their Suggestions in Opposition on November 29, 1999, as did Public Counsel. MAWC replied to the Industrial Intervenors and to Public Counsel on December 9, 1999. Staff filed its response in opposition to MAWC's motion out-of-time on December 14, 1999. MAWC replied to Staff on December 22, 1999.

MAWC seeks an accounting authority order (AAO) with respect to its new plant in St. Joseph, Missouri. As stated previously, the plant is expected to go on-line about four-and-one-half months before MAWC's new tariffs take effect. During this interval, MAWC will be exposed to large costs with respect to the plant, \$347,000 monthly, and will collect no corresponding revenues. Therefore, MAWC seeks authority to continue to capitalize the allowance for funds used during construction (AFUDC) until September 14, 2000, and to amortize the post-in-service AFUDC over twenty years at 7.22 percent per annum. MAWC also seeks to defer depreciation on its new plant until September 14, 2000, and to amortize the deferred depreciation over the life of the plant. Finally, MAWC notes that the new plant is indeed an extraordinary and unique item from its point of view, equal in value to fully 40 percent of MAWC's rate base.

The Industrial Intervenors oppose MAWC's request for an AAO, contending that it will mean higher rates for customers. Public Counsel and Staff also oppose the AAO, asserting that MAWC is really just trying

to avoid regulatory lag and that the new plant is not a unique or extraordinary event such as supports an AAO.

MAWC responds that all AAOs are intended to avoid regulatory lag. MAWC further asserts the unique and extraordinary nature of its St. Joseph plant project. MAWC further states that granting the AAO does nothing but preserve the issue of recovering these amounts for the next rate case and does not in any way guarantee that MAWC will recover all or any part of them. MAWC also asserts that denying the AAO will guarantee that MAWC does not realize its authorized rate of return.

The Commission determines that the AAO issue need not be decided now. The Commission will take this issue with the case and directs the parties to fully present this issue in testimony and briefs. Any party that needs to supplement testimony already filed in order to comply with this directive may do so.

D. Local Public Hearings:

On November 16, 1999, the Public Counsel moved the Commission to hold Local Public Hearings in this case in seven locations. MAWC responded on December 8, 1999. On January 7, 2000, the City of St. Joseph moved for a Local Public Hearing in that municipality. The Commission has received approximately 47 letters respecting this matter, almost all of which are from St. Joseph and Joplin.

The Commission will schedule Local Public Hearings in Joplin, St. Joseph, Warrensburg, and Mexico, Missouri. The specific dates and locations will be the subject of another order. The Commission will

consider holding further hearings if sufficient indication of local interest is received.

IT IS THEREFORE ORDERED:

1. That the test year in this matter shall be the twelve months ending September 30, 1999, updated for known and measurable changes as discussed herein through December 31, 1999. The Missouri-American Water Company shall update its accounting information consistent with the test year herein selected.

2. That a true-up audit shall be conducted with respect to certain items enumerated herein as of April 30, 2000. The true-up hearing shall be held on June 26, 27, 28, and 29, 2000. All conditions stated in the Order Adopting Procedural Schedule, issued on December 27, 1999, shall apply to the true-up hearing.

3. The true-up hearing will be held on the fifth floor of the Harry S Truman State Office Building, 301 West High Street, Jefferson City, Missouri. Any person with special needs as addressed by the Americans with Disabilities Act should contact the Missouri Public Service Commission at least ten (10) days prior to the hearing or prehearing conference at one of the following numbers: Consumer Services Hotline - 1-800-392-4211, or TDD Hotline - 1-800-829-7541.

4. That the Commission will defer decision on Missouri-American Water Company's Motion for an Accounting Authority Order until it issues its Report and Order in this case. The parties will thoroughly advise the Commission on this issue in testimony and briefing. Any party that wishes to supplement its already-filed testimony to include this issue may do so.

5. That the Commission will schedule and hold Local Public Hearings in Joplin, St. Joseph, Warrensburg, and Mexico, Missouri. The Commission will issue an Order Setting Local Public Hearings when the preparations are complete.

6. That this order shall become effective on February 14, 2000.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, Drainer,
Murray, and Schemenauer, CC., concur.

Thompson, Deputy Chief Regulatory Law Judge