

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held at its office  
in Jefferson City on the 28th  
day of December, 1994.

Application of Missouri-American Water Company ) CASE NO. WO-93-155  
for Accounting Authority Order. )

ORDER GRANTING ACCOUNTING AUTHORITY ORDER

On November 12, 1992, Missouri-American Water Company (MAWC or Company) filed an application with the Missouri Public Service Commission (Commission) pursuant to § 393.140, RSMo 1986, for the issuance of an accounting authority order relating to post-retirement benefits other than pensions (PBOPs). MAWC is a Missouri corporation duly authorized to conduct business in those areas certificated to it by the Commission. MAWC is engaged in providing water utility services in the cities of Joplin and St. Joseph, and is a public utility under the jurisdiction of the Commission. MAWC's principal office and place of business is located at 1003 E. St. Maartens Drive, St. Joseph, Missouri 64506. By virtue of its application, MAWC seeks authority from the Commission to undertake certain accounting procedures in connection with its operations.

MAWC's application seeks an order of the Commission which would: (1) authorize the Company to record as a regulatory asset the total amount of the cost of post-retirement benefits other than pensions which Financial Accounting Standard No. 106 (FAS 106) will require the Company to accrue, beginning January 1, 1993; (2) state the Commission's intention to allow the recovery of prudently incurred PBOP costs in future rates, including those capitalized as a regulatory asset; and (3) recognize the appropriate level of costs which can be funded under FAS 106, including the Transition Obligation (TO), as a proper cost of service element, beginning with the Company's next general rate proceeding.

The Office of the Public Counsel (Public Counsel) filed a response to MAWC's application on December 31, 1992. On March 16, 1993, the Staff of the Commission (Staff) filed a recommendation for conditional approval of MAWC's application. MAWC then filed a response to Staff's recommendation on April 9, 1993, and on May 3, 1993 Staff filed a document entitled Staff's Reply To Company's Response to Staff's Recommendation. On December 30, 1992, MAWC submitted new tariffs to the Commission which initiated a general rate proceeding. On November 18, 1993, the Commission issued a Report and Order in the rate proceeding, which stated: "The Commission declines to adopt FAS 106 and the accrual method of accounting for OPEBs [PBOPs]." *Re Missouri-American Water Company*, Case No. WR-93-212 Report and Order, issued November 18, 1993 at 15. The Commission noted that Case No. WO-93-155 was still pending, and added, "While the decision in this case may be dispositive of the request in WO-93-155 the final and official disposition of that case shall be made within that docket and not herein." Id. at 33.

Thereafter legislation was introduced in the Missouri General Assembly regarding the application of FAS 106 to utilities, which was ultimately passed and signed into law by the Governor. On October 13, 1994, MAWC filed an Amended Application, and on November 16, 1994, Staff filed a Supplemental Recommendation. On November 23, 1994, Public Counsel filed a statement of its position, and on November 29, 1994, Public Counsel filed a revised statement of its position. The amended application seeks Commission authorization for MAWC to begin deferral of its FAS 106 expense in excess of the pay-as-you-go amount on its books, effective July 1, 1994, and continuing until the effective date of a report and order issued in the company's next general rate case. MAWC's amended application also anticipates that the rate established in its next general rate case will include its then-current FAS 106 expense, as well as an amortization of

the FAS 106 expenses deferred pursuant to the accounting authority order over a period of time ending no later than December 31, 2012.

### Introduction

PBOPs are benefits paid to retired employees which are not related to pensions -- generally health care, dental care and life insurance. Traditionally, these costs were treated identically for both financial reporting and ratemaking purposes: PBOP expenses were booked at the time the utility paid out cash for benefits to its retired employees, which is often referred to as the "pay-as-you-go" method. In 1990, the Financial Accounting Standards Board (FASB) issued FAS 106, which established accrual accounting of PBOP expense for financial reporting purposes. Various actuarial calculations are generally used to determine the appropriate accrual amount.

For financial reporting purposes, regulated utilities are required to follow the standards promulgated by the FASB, unless the utility seeks authorization from its applicable regulatory body to deviate from Generally Accepted Accounting Principals (GAAP), in which case the authorization must also meet the requirements of Financial Accounting Standard No. 71, Accounting For The Effects Of Certain Types Of Regulations. FAS 71 allows the utility to capitalize a cost on its financial statement that normally would be expensed under GAAP, if the utility's regulators authorize this and give an assurance that the recovery of the capitalized costs through future rates is "probable." These capitalized costs are referred to as a "regulatory asset." In addition, however, the Emerging Issues Task Force (EITF) of the FASB issued additional guidelines with respect to FAS 106.

As previously indicated, the Commission did not grant the relief requested by MAWC with respect to PBOPs in its Report and Order issued in Case No. WR-93-212. Subsequently, the Missouri General Assembly

enacted House Bill No. 1405 which essentially requires the Commission to recognize FAS 106 PBOP expenses under certain conditions. The bill also sets forth a procedure with respect to FAS 106 for utilities which were subject to a rate proceeding resulting in the issuance of a Report and Order subsequent to January 1, 1993, and prior to the effective date of the Bill, August 28, 1994. After continued discussions between MAWC and Staff, MAWC filed an Amended Application which appears to incorporate the terms of an agreement between MAWC and Staff.

#### Discussion

MAWC's amended application details the history of this case, and references the terms of an agreement between MAWC and Staff, as well as requesting the issuance of an accounting authority order containing certain specific language. As a preliminary matter, the Commission is uncertain as to the extent of the agreement included in the body of the amended application since all parties did not sign the application. Staff did file a Memorandum on November 18, 1994, in which it indicates its general agreement that the amended application reflects the agreement reached between it and MAWC.

Staff's Memorandum also details the history of this case, and the discussions that resulted from the passage of House Bill 1405. Staff explains that MAWC is one of the Missouri utilities which would potentially be eligible for a single issue rate increase associated with FAS 106 costs under the provisions of House Bill 1405. The purpose of the agreement contained in the amended application, according to Staff, is to implement rate adoption of FAS 106 for MAWC without the need for a single issue tariff filing. Staff states that MAWC's amended application fairly states the agreement reached between the parties in this case, but proposes that in the event the Commission grants MAWC's application, slightly different wording than the language suggested by MAWC be used.

Staff stresses that with regard to a statement in the amended application concerning the full recovery of PBOPs, it is Staff's interpretation of the agreement that neither Staff nor any other party is precluded from examining the reasonableness and prudence of MAWC's PBOPs expenditures in succeeding rate cases, or precluded from proposing disallowances if appropriate. Staff also makes reference to certain language contained on page five of the amended application, which Staff explains refers to pre-funded PBOP amounts arising prior to July, 1994, because MAWC's parent company made contributions to external VEBA trusts for MAWC's PBOP expense beginning in 1993 even though the Commission had not allowed recovery of FAS 106 costs in rates. Although Staff admits that strong arguments could be made on behalf of inclusion of these pre-funded amounts in rate base in MAWC's future rate proceedings, due to the fact that these funded amounts will serve to reduce the overall revenue requirement associated with FAS 106 for MAWC in the future because of the accumulation of earnings on the amounts in the trust fund, Staff maintains that a ratemaking finding on this particular point is inappropriate in the context of this accounting authority order docket, as a decision regarding the future inclusion of these pre-funded amounts in rate base is not dictated by the provisions of House Bill 1405.

Staff recommends that the Commission issue an order allowing MAWC to begin deferring on its books, its FAS 106 expense in excess of the pay-as-you-go amount, effective July 1, 1994, with said deferral continuing until the effective date of a report and order in MAWC's next general rate case. Staff further recommends that the Commission incorporate in its order language expressing its intent to include in the rates established in MAWC's next general rate case MAWC's current prudently incurred FAS 106 expense in accordance with the provisions in House Bill 1405, as well as an amortization of the prudently incurred FAS 106 costs deferred pursuant

to this accounting authority order, over a period of time ending no later than December 31, 2012. Finally, Staff recommends that except as otherwise indicated in its second recommendation, approval of the agreement embodied in the amended accounting authority order application should not be considered to constitute any ratemaking determination or findings by the Commission regarding the costs to be deferred.

In its statement of position, Public Counsel originally requested Commission rejection of MAWC's amended application on the theory that since the State Legislature has specifically prescribed the procedure for utility companies such as MAWC to recover their annual level of FAS 106 costs outside of a rate case in House Bill 1405, the House Bill 1405 procedure is therefore the only legally appropriate procedure for doing so outside of a rate case. In its revised statement of position, Public Counsel withdrew its opposition to the issuance of an accounting authority order. However, Public Counsel continued to express its concern, as it did in its original statement of position, that the Commission's order not address rate base treatment of any external funding made by MAWC prior to July 1, 1994, nor address rate base treatment of unamortized deferrals.

The Commission has reviewed MAWC's amended application, Public Counsel's responses, and Staff's recommendation and supplemental recommendation, and is of the opinion that MAWC's request for an accounting authority order for PBOP expense is reasonable and should be granted, subject to the caveats contained in Staff's supplemental recommendation and Public Counsel's revised statement of position. It is the Commission's belief that in following the recommendations of Staff, Public Counsel's concerns will also be addressed. The Commission is of the opinion that House Bill 1405 essentially prescribes for the Commission ratemaking treatment for PBOP costs to be granted in the future for Missouri utilities, and it is therefore not improper for the Commission to prescribe

future ratemaking treatment of PBOP costs in this order in accordance with the provisions of House Bill 1405. The Commission further finds that Commission acceptance of the future ratemaking treatment of PBOPs is required for EITF standards to be met. The Commission also determines that no party is precluded by virtue of this accounting authority order from examining the reasonableness and prudence of MAWC's PBOP expenditures in succeeding rate cases, nor precluded from proposing disallowances if appropriate. In addition, the Commission further finds that it would be inappropriate to make a ratemaking finding in this order with respect to MAWC's pre-funded PBOP amounts arising prior to July, 1994, due to the contributions made by MAWC's parent company to external VEBA trusts for MAWC's PBOP expense commencing in 1993.

The Commission deems it appropriate to authorize, as of July 1, 1994, MAWC's deferral on its books of its FAS 106 expense in excess of the pay-as-you-go amount. This deferral may continue until the effective date of a report and order in MAWC's next general rate case. The Commission further finds it appropriate to express its intent to include in the rates established in MAWC's next general rate proceeding, MAWC's current prudently incurred FAS 106 expense, in accordance with the provisions of House Bill 1405, as well as the amortization of prudently incurred FAS 106 costs deferred pursuant to this accounting authority order over a period of time ending no later than December 31, 2012. With the exception of the foregoing, the Commission finds that any ratemaking determination regarding the costs to be deferred is not warranted.

**IT IS THEREFORE ORDERED:**

1. That Missouri-American Water Company be and is hereby authorized to begin deferring on its books effective July 1, 1994, the excess of its FAS 106 PBOP expense over the pay-as-you-go amount, with said deferral continuing until the effective date of a report and order issued

in MAWC's next general rate proceeding.

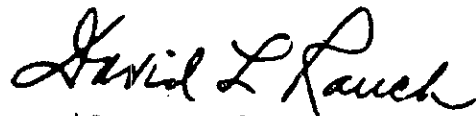
2. That the Commission adopts the following positions with regard to the accounting treatment approved in Ordered Paragraph #1 above:

A. That the Commission intends to allow Missouri-American Water Company's current prudently incurred FAS 106 expense pertaining to post-retirement benefits other than pensions to be recovered in Missouri-American Water Company's next general rate proceeding, in accordance with House Bill 1405 as well as an amortization of Missouri-American Water Company's prudently incurred FAS 106 costs deferred pursuant to this accounting authority order over a period of time ending no later than December 31, 2012.

B. That except as otherwise indicated in paragraph A, nothing in this order shall be considered a finding of the Commission regarding ratemaking determinations concerning the costs to be deferred. The Commission further reserves the right to consider the ratemaking treatment to be accorded these expenditures in a later proceeding.

3. That this order shall become effective on January 10, 1995.

BY THE COMMISSION



David L. Rauch  
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Perkins,  
Kincheloe and Crumpton, CC., Concur.