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August 28, 2000

FILED[3]
AUG 2 8 2000
Missouri Public Service Commission

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

RE: Case No. WR-2000-281

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **STAFF'S RESPONSE TO SECOND ORDER DIRECTING SCENARIOS.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Keith R. Krueger
Deputy General Counsel
(573) 751-4140
(573) 751-9285 (Fax)

Enclosure
cc: Counsel of Record

FILED[2]
AUG 2 8 2000
Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE 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

STAFF'S RESPONSE TO
SECOND ORDER DIRECTING SCENARIOS

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and, for its Response to Second Order Directing Scenarios, states to the Missouri Public Service Commission ("Commission") as follows:

1. On August 24, 2000, the Commission issued its Second Order Directing Scenarios, in which it ordered the Staff, with the assistance and cooperation of the parties, to file with the Commission a pleading responding to the scenarios discussed in said order, using the format attached to the said order as Attachment A, consisting of three pages. The said order authorized the Staff to modify Attachment A if necessary to provide the requested information, but required that all of the information that was requested be provided.

2. Attached hereto as Attachment A are three pages of forms in which the Staff has attempted to provide all of the information that was requested. The forms have been modified slightly, but the Staff believes it has provided the requested information. A detailed explanation of how these forms were prepared appears in the following three paragraphs.

3. The Staff's calculations for page 1, of Attachment A, to the Commission's Second Order Directing Scenarios started with the True-Up Accounting Schedules, filed June 15, 2000 and modified on July 5, 2000. For Scenarios A1, B1 and C1, the True-Up Rate Base Schedule

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was modified by eliminating the offset for the Pre-merger Missouri Cities Deferred Income Taxes, as shown on line 18. For Scenarios A2, B2 and C2, on page 1 of Attachment A, the True-Up Rate Base Schedule was modified by eliminating the offset for the Pre-merger Missouri Cities Deferred Income Taxes and the Premature Retirement of the Old SJTP, as shown on line 4. The changes in the specified rates of return on equity, in interaction with the rate base modifications, affected the Interest & Tax Offsets, as shown on line 20. The total rate base resulting from the above calculations, for each scenario appears on line 22.

4. The Staff's calculations for page 2, of Attachment A, to the Commission's Second Order Directing Scenarios started with the rate base values determined on page 1, line 22. A return on equity of 11.654%, in combination with the undisputed capital structure and costs of debt and preferred equity results in an overall rate of return of 8.88%, as shown on line 2, for scenarios A1 and A2. The application of this rate of return to the rate base values, less the available net income and grossed-up for taxes, produces the Estimated Additional Gross Revenue Requirement appearing on line 9. A return on equity of 10.5%, in combination with the undisputed capital structure and costs of debt and preferred equity results in an overall rate of return of 8.39%, as shown on line 2, for scenarios B1 and B2. The application of this rate of return to the rate base values, less the available net income and grossed-up for taxes, produces the Estimated Additional Gross Revenue Requirement appearing on line 9. A return on equity of 10%, in combination with the undisputed capital structure and costs of debt and preferred equity results in an overall rate of return of 8.18%, as shown on line 2, for scenarios C1 and C2. The application of this rate of return to the rate base values, less the available net income and grossed-up for taxes, produces the Estimated Additional Gross Revenue Requirement appearing on line 9.

5. The Staff's calculations for page 3, of Attachment A, to the Commission's Second Order Directing Scenarios started with the True-Up Accounting Schedules, filed June 15, 2000 and modified on July 5, 2000. For each district, for Scenarios A1, B1 and C1, the True-Up Rate Base Schedules were modified by eliminating the offset for the Pre-merger Missouri Cities Deferred Income Taxes. This modified true-up rate base was then depicted on a before and after Corporate Allocation basis, for each district. The corporate allocation items appeared separately in the True-Up Accounting Schedules. For each district, for Scenarios A2, B2 and C2, the True-Up Rate Base Schedules were modified by eliminating the offset for the Pre-merger Missouri Cities Deferred Income Taxes and the Premature Retirement of the Old SJTP. This modified true-up rate base was then depicted on a before and after Corporate Allocation basis, for each district. The changes in the specified rates of return on equity, in interaction with the rate base modifications, affected the Interest & Tax Offsets component of rate base in each scenario, in each district.

WHEREFORE, the Staff submits its Response to Second Order Directing Scenarios.

Respectfully submitted,

DANA K. JOYCE
General Counsel

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Deputy General Counsel
Missouri Bar Number 23857

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 28th day of August 2000.

Attachment A, Page 1
CALCULATION OF RATE BASE

Item	Description	Scenario					
		A1	A2	B1	B2	C1	C2
1	Utility Plant in Service Before Disallowances	226,601,701	226,601,701	226,601,701	226,601,701	226,601,701	226,601,701
2	Excess Capacity Disallowance	(2,271,756)	(2,271,756)	(2,271,756)	(2,271,756)	(2,271,756)	(2,271,756)
3	AFUDC Disallowance	(1,289,674)	(1,289,674)	(1,289,674)	(1,289,674)	(1,289,674)	(1,289,674)
4	Accumulated Depreciation Before Premature Retirement	(28,370,006)	(28,370,006)	(28,370,006)	(28,370,006)	(28,370,006)	(28,370,006)
5	Accumulated Amortization	(71,296)	(71,296)	(71,296)	(71,296)	(71,296)	(71,296)
6	Post-in-Service AFUDC	0	0	0	0	0	0
7	Premature Retirement of Old St. Joseph Plant	2,832,906	0	2,832,906	0	2,832,906	0
8	SUBTOTAL: Net Utility Plant in Service	197,431,876	194,598,970	197,431,876	194,598,970	197,431,876	194,598,970
9	Cash Working Capital	(75,861)	(75,861)	(75,861)	(75,861)	(75,861)	(75,861)
10	Materials and Supplies	429,465	429,465	429,465	429,465	429,465	429,465
11	Prepayments	152,905	152,905	152,905	152,905	152,905	152,905
12	OPEBs	1,146,740	1,146,740	1,146,740	1,146,740	1,146,740	1,146,740
13	SUBTOTAL: Additions to Net Utility Plant in Service	1,653,249	1,653,249	1,653,249	1,653,249	1,653,249	1,653,249
14	Customer Advances	6,344,527	6,344,527	6,344,527	6,344,527	6,344,527	6,344,527
15	Contribution in Aid of Construction	23,628,590	23,628,590	23,628,590	23,628,590	23,628,590	23,628,590
16	Accumulated Deferred ITC	62,531	62,531	62,531	62,531	62,531	62,531
17	Deferred Income Taxes	7,630,316	7,630,316	7,630,316	7,630,316	7,630,316	7,630,316
18	Pre-merger Missouri Cities Deferred Income Taxes	0	0	0	0	0	0
19	Pension Liability	1,316,959	1,316,959	1,316,959	1,316,959	1,316,959	1,316,959
20	Interest & Tax Offsets	1,176,263	1,155,310	1,147,638	1,127,208	1,135,368	1,115,160
21	SUBTOTAL: Deductions from Net Utility Plant in Service	40,159,186	40,138,233	40,130,561	40,110,131	40,118,291	40,098,083
22	TOTAL: Net Original Cost Rate Base (8 + 13 - 20)	158,925,938	156,113,985	158,954,563	156,142,087	158,966,833	156,154,135

Scenarios:
A1: Return On Equity = 11.654%, Staff and MAWC Premature Retirement.
A2: Return On Equity = 11.654%, OPC Premature Retirement.
B1: Return On Equity = 10.5%, Staff and MAWC Premature Retirement.
B2: Return On Equity = 10.5%, OPC Premature Retirement.
C1: Return On Equity = 10%, Staff and MAWC Premature Retirement.
C2: Return On Equity = 10%, OPC Premature Retirement.

Note: Any change to return and/or a component of rate base will also result in a change to the interest and tax offset amounts.

ATTACHMENT A

Attachment A, Page 2
CALCULATION OF GROSS REVENUE REQUIREMENT

Item	Description	Scenario					
		A1	**A2**	**B1**	**B2**	**C1**	**C2**
1	Net Original Cost Rate Base (from Attachment A, Page 1, Line 21)	158,925,938	156,113,985	158,954,563	156,142,087	158,966,834	156,154,134
2	Rate of Return	8.88%	8.88%	8.39%	8.39%	8.18%	8.18%
3	Net operating Income Requirement	14,112,625	13,862,924	13,336,288	13,100,321	13,003,487	12,773,408
4	Net Operating Income Available	6,522,875	6,481,856	6,523,294	6,482,265	6,523,472	6,482,442
5	SUBTOTAL: Additional Net Operating Income Required (3 - 4)	7,589,750	7,381,068	6,812,994	6,618,056	6,480,015	6,290,966
6	Required Current Income Tax	5,232,823	5,143,819	4,748,432	4,667,997	4,540,779	4,464,019
7	Test Year Current Income tax	503,828	544,847	503,409	544,438	503,231	544,261
8	SUBTOTAL: Additional Current Income Tax Required (6 - 7)	4,728,995	4,598,972	4,245,023	4,123,559	4,037,548	3,919,758
9	TOTAL: Estimated Additional Gross Revenue Requirement (5 + 8)	12,318,745	11,980,040	11,058,017	10,741,615	10,517,563	10,210,724

Scenarios:
A1: Return On Equity = 11.654%, Staff and MAWC Premature Retirement.
A2: Return On Equity = 11.654%, OPC Premature Retirement.
B1: Return On Equity = 10.5%, Staff and MAWC Premature Retirement.
B2: Return On Equity = 10.5%, OPC Premature Retirement.
C1: Return On Equity = 10%, Staff and MAWC Premature Retirement.
C2: Return On Equity = 10%, OPC Premature Retirement.

Note: The Revenue Requirement appearing in line 9 is before uncollectibles and phase-in.

Attachment A, Page 3
COMPARISON OF DISTRICTS

		Scenario					
		A1		A2		B1	
Line	Description	Direct Assigned Rate Base	Rate Base Including Allocated Corporate District Investment and Expense	Direct Assigned Rate Base	Rate Base Including Allocated Corporate District Investment and Expense	Direct Assigned Rate Base	Rate Base Including Allocated Corporate District Investment and Expense
1	Total Water Company	158,925,938	158,925,938	156,113,985	156,113,985	158,954,563	158,954,563
2	Brunswick	853,980	851,133	853,980	851,133	854,148	851,301
3	Joplin	21,306,534	19,485,592	21,306,534	19,485,592	21,310,073	19,489,131
4	Mexico	11,813,893	11,550,594	11,813,893	11,550,594	11,816,049	11,552,750
5	Parkville	8,664,703	8,465,595	8,664,703	8,465,595	8,666,155	8,467,047
6	St. Charles	26,361,470	25,318,689	26,361,470	25,318,689	26,365,801	25,323,020
7	St. Joseph	86,651,870	84,230,395	83,839,917	81,418,442	86,667,490	84,246,015
8	Warrenburg	9,255,034	9,023,941	9,255,034	9,023,941	9,256,393	9,025,300
9	Corporate	(5,981,546)	0	(5,981,546)	0	(5,981,546)	0

		Scenario					
		B2		C1		C2	
Line	Description	Direct Assigned Rate Base	Rate Base Including Allocated Corporate District Investment and Expense	Direct Assigned Rate Base	Rate Base Including Allocated Corporate District Investment and Expense	Direct Assigned Rate Base	Rate Base Including Allocated Corporate District Investment and Expense
1	Total Water Company	156,142,087	156,142,087	158,966,834	158,966,833	156,154,134	156,154,135
2	Brunswick	854,148	851,301	854,220	851,373	854,220	851,373
3	Joplin	21,310,073	19,489,131	21,311,591	19,490,649	21,311,591	19,490,649
4	Mexico	11,816,049	11,552,750	11,816,974	11,553,675	11,816,974	11,553,675
5	Parkville	8,666,155	8,467,047	8,666,777	8,467,669	8,666,777	8,467,669
6	St. Charles	26,365,801	25,323,020	26,367,657	25,324,876	26,367,657	25,324,876
7	St. Joseph	83,855,014	81,433,539	86,674,186	84,252,711	83,861,487	81,440,012
8	Warrenburg	9,256,393	9,025,300	9,256,974	9,025,882	9,256,975	9,025,881
9	Corporate	(5,981,546)	0	(5,981,545)	0	(5,981,547)	0

Scenarios:

A1: Return On Equity = 11.654%, Staff and MAWC Premature Retirement.
A2: Return On Equity = 11.654%, OPC Premature Retirement.
B1: Return On Equity = 10.5%, Staff and MAWC Premature Retirement.
B2: Return On Equity = 10.5%, OPC Premature Retirement.
C1: Return On Equity = 10%, Staff and MAWC Premature Retirement.
C2: Return On Equity = 10%, OPC Premature Retirement.

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August 28, 2000

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