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December 14, 1999

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Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102

**FILED<sup>2</sup>**

DEC 14 1999

Missouri Public  
Service Commission

**RE: WR-2000-281**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of **STAFF'S RESPONSE TO MISSOURI-AMERICAN WATER COMPANY'S MOTION FOR ACCOUNTING AUTHORITY ORDER.**

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  
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KK/jb  
Enclosure  
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>2</sup>

DEC 14 1999

Missouri Public  
Service Commission

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 Area of the )  
Company.

Case No. WR-2000-281

**STAFF'S RESPONSE TO**  
**MISSOURI-AMERICAN WATER COMPANY'S**  
**MOTION FOR ACCOUNTING AUTHORITY ORDER**

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), and for its Response to Missouri-American Water Company's Motion for Accounting Authority Order, states to the Missouri Public Service Commission ("Commission") as follows:

1. On November 19, 1999, Missouri-American Water Company ("Company") filed its Motion for Accounting Authority Order ("AAO"). The Company requested that the Commission issue an AAO that would authorize the Company to continue the capitalization of Allowance for Funds Used During Construction ("AFUDC") in connection with the construction of the water treatment plant at St. Joseph, Missouri, and would defer the accrual of depreciation expense on the St. Joseph treatment plant and related facilities from their projected "in-service" date (April 2000) until the effective date of a Commission rate order which includes the mentioned facilities in the Company's rate base and which includes depreciation expense in the Company's operating expense. The Company also requested that the Commission authorize the Company to use a rate of 7.22% to capitalize AFUDC on the St. Joseph treatment plant and

related facilities from their in-service dates until the effective date of a Commission rate order including the said facilities in the Company's rate base.

2. The issuance of an AAO is appropriate only in a situation where the cost incurred by the regulated utility is extraordinary, unusual and unique, and nonrecurring. The construction of the St. Joseph water treatment plant does not qualify in this regard. The most basic requirement that a water company must satisfy before it may provide utility services to the public is that it must construct or have access to adequate production facilities. The construction of additional facilities is a normal part of doing business for any water utility company, and therefore the situation that confronts the Company regarding the St. Joseph plant is not extraordinary at all. Rather, the construction of new facilities is fundamental to the Company's conduct of its ongoing utility operations.

3. The period of time between the date when a utility experiences a change in the cost of the service it provides (either an increase or a decrease) and the date when the change in cost is recognized in the rates that the utility charges is known as "regulatory lag." Regulatory lag is, likewise, not an extraordinary event, but is a fundamental part of the process of utility regulation that exists in Missouri. During periods of excess earnings, regulatory lag may be beneficial to shareholders. During periods of increasing costs, such as the Company claims to be now experiencing, regulatory lag may be detrimental to shareholders.

4. The Commission recognized these facts in its Report and Order in Case No. EO-91-358 and EO-91-360, where it said:

Lessening the effect of regulatory lag by deferring costs is beneficial to a company but not particularly beneficial to ratepayers. Companies do not propose to defer profits to subsequent rate cases to lessen the effects of regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part of the regulatory process and can be a benefit as well as a detriment. Lessening regulatory lag by deferring costs is not a reasonable goal unless the costs are associated with an extraordinary event.

Maintaining the financial integrity of a utility is also a reasonable goal. The deferral of costs to maintain current financial integrity, though, is of questionable benefit. If a utility's financial integrity is threatened by high costs so that its ability to provide service is threatened, then it should seek interim rate relief. If maintaining financial integrity means sustaining a specific return on equity, this is not the purpose of regulation. It is not reasonable to defer costs to insulate shareholders from any risks. If costs are such that a utility considers its return on equity unreasonably low, the proper approach is to file a rate case so that a new rate requirement can be developed which allows the company the opportunity to earn its authorized rate of return.

*In the matter of the application of Missouri Public Service for the issuance of an accounting order relating to its electrical operations, 1 Mo.PSC 3d 200, 207.*

5. The timing of the events in this case, which, according to the Company, create the need for an AAO, is totally within the control of the Company. The Company stated in Paragraph 10 of its Motion for Accounting Authority Order that the new water treatment plant was needed because the existing treatment plant had been out of service twice – first in 1989 (ten years ago), due to low water created by ice jams upstream on the Missouri River, and again in 1993 (six years ago) due to flooding. The need for the new production facilities at St. Joseph is therefore not an unanticipated situation beyond the Company's control. The Company has been discussing the possible replacement of the plant for several years. The Company exercises total control over the planning construction and completion of the construction of the "St. Joseph 2000" project. Furthermore, the Company also has total control over the timing and manner in which it seeks to have the cost of the plant included in the rates it charges to its customers. It knew the timetable for the construction of the new St. Joseph treatment plant at the time it filed the current rate case.

6. If the effects of regulatory lag present a problem for the Company, the Company has other options available to address these problems. One option that was available to the Company was the filing of a general rate case, the conclusion of which closely approximates the end of construction and the in-service date of the construction project. A second option that was

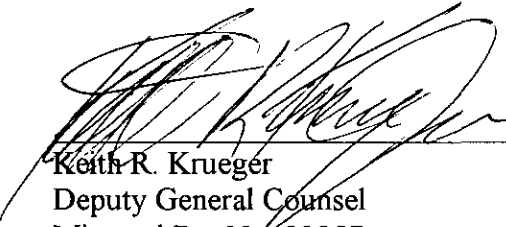
available is a filing for emergency rates, to be effective when construction is complete and the plant is in service. There is no reason why the Commission should have to issue an AAO due to the circumstances of this case.

7. Finally, the form of the Company's AAO request is inappropriate. The Company has only proposed to accumulate cost increases associated with the St. Joseph plant in the AAO. It has not proposed any offsets for items such as cost savings related to efficiencies experienced as a result of the new facility after the in-service date. These cost savings will accrue to the Company from the time the new plant goes into service until being reflected in the Company's new rates.

**WHEREFORE**, the Staff respectfully requests that the Commission deny the Company's request for an AAO deferral for the capitalization of AFUDC and depreciation on the new St. Joseph Water Treatment Plant, because such expenses are part of the normal, ongoing business of a water company, and the facts of this matter do not justify such extraordinary ratemaking treatment.

Respectfully submitted,

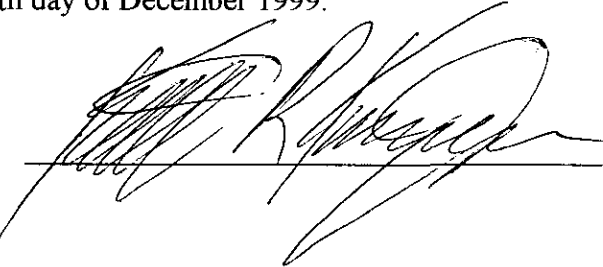
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### **Certificate of Service**

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 14th day of December 1999.

  
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December 14, 1999**

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