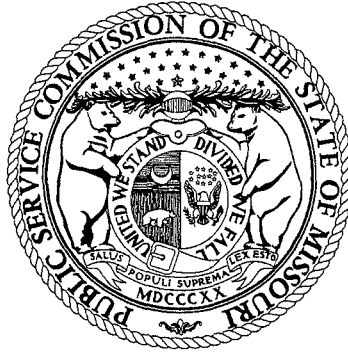


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BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI



In the Matter of Missouri American Water)
Company's Class Cost of Service and Rate Design) Case No. WO-98-204

REPORT AND ORDER

Issue Date: November 2, 1999

Effective Date: November 12, 1999

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri American Water)
Company's Class Cost of Service and Rate Design) Case No. WO-98-204

APPEARANCES

W.R. England III and Dean Cooper, Brydon, Swearengen & England, P.O. Box 456, Jefferson City, Missouri 65102, for the Missouri-American Water Company.

Jeremiah D. Finnegan, Finnegan, Conrad, & Peterson, L.C., 1209 Penntower Office Center, 3100 Broadway, Kansas City, Missouri 6411, for the Platte County Intervenors.

Stuart Conrad, Finnegan, Conrad, & Peterson, L.C., 1209 Penntower Office Center, 3100 Broadway, Kansas City, Missouri 6411, for Ag Processing Inc.

James M. Fischer, James M. Fischer, P.C., 101 West McCarty Street, Suite 215, Jefferson City, Missouri 65101, for the Water District Intervenors.

Leland B. Curtis, Curtis, Oetting, Heinz, Garrett & Soule, P.C., 130 South Bemiston, Suite 200, Clayton, Missouri 63105, for the City of Warrensburg, Missouri.

John Coffman, Deputy Public Counsel, P.O. Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel.

Bill Haas, Deputy General Counsel, Missouri Public Service Commission, P.O. Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

REGULATORY LAW JUDGE: Bill Hopkins, Senior Regulatory Law Judge

REPORT AND ORDER

I. PROCEDURAL HISTORY

In Missouri-American Water Company's (MAWC's) prior rate case, i.e., case number WR-97-237, the Missouri Public Service Commission (Commission) reviewed rate design proposals. Two primary rate design methodologies were studied. Single-tariff pricing (STP) is where rates are based on a cost of service study that uses simple wholesale averaging of the utility's revenue requirement across all of the areas that the utility serves, whether the areas are geographically connected or not. District-specific pricing (DSP) is where rates are calculated in part on district-specific studies which appropriately identify district-specific costs, identify and allocate joint and common costs, and include the necessary depreciation studies. However, the record in case number WR-97-237 did not include district-specific cost of service studies that quantified the impacts of reverting to DSP, as advocated by some of the Intervenor. As a result of this void in the record in case number WR-97-237, the Commission established this proceeding to develop the data to quantify the differences between DSP and STP.

In order to receive and evaluate class cost of service studies and rate design proposals, on November 20, 1997, the Commission issued its Order Establishing Class Cost of Service Study and Rate Design Case and Proceeding Notice (Order). In that Order, the Commission initiated the subject case "...to establish the costs MAWC incurs in

serving its various classes of customers in preparation for the company's next rate case." The Commission stated that the cost of service studies submitted must be fully developed, district-specific studies. The Order granted intervention to the following parties: Ag Processing Inc.; The City of Warrensburg; The Cities of Riverside, Parkville, Platte Woods, Lake Waukomis, and Houston Lake (collectively, Platte County Intervenors); Public Water Supply District No. 1 of Andrew County; Public Water Supply District No. 1 of Buchanan County; Public Water Supply District No. 2 of Andrew County; Public Water Supply District No. 6 of Platte County; and Public Water Supply District No. 1 of DeKalb County (collectively, Water District Intervenors).

Subsequent to the filing of prepared testimony and schedules, a Hearing Memorandum was filed on October 23, 1998, which identified the following issues for resolution by the Commission:

1. Should the Commission issue a decision in this case regarding the methodology upon which MAWC's customer rates are to be designed, which would then be applied in MAWC's next general rate case, or should such a decision be made in MAWC's next general rate case?

2. If the Commission issues a decision in this case regarding the methodology upon which MAWC's rates are to be designed, should the Commission select a methodology consistent with STP design or DSP design?

3. If the Commission issues a decision in this case selecting a methodology upon which MAWC's rates are to be designed that is consistent with district-specific rate design, should the Commission also select one of the district-specific studies presented by the parties in this case as being the appropriate study? If so, which of the studies should the Commission select?

4. If the Commission issues a decision in this case selecting a methodology upon which MAWC's rates are to be designed that is consistent with district-specific rate design, and selects one of the studies as the appropriate study, should the Commission also order changes to MAWC's existing rates, or should the necessary changes to the existing rates be made in the context of MAWC's next general rate case?

5. If the Commission does not issue a decision in this case regarding the methodology upon which MAWC's rates are to be designed, or issues a decision in this case selecting such a methodology that is consistent with single tariff rate design: (a) should MAWC or the Staff of the Commission (Staff) be required to prepare and present district-specific revenue requirements analyses, cost allocation studies, class cost of service studies and rate design proposal in MAWC's next general rate case; or (b) should MAWC be required to continue to maintain its books and records in a manner that would allow parties to its next general rate case to be able to prepare and present such district-specific analysis, studies and proposals?

Evidentiary hearings were held on November 16 and 17, 1998. At the hearing, MAWC, Staff, and the Office of the Public Counsel (OPC) each presented the results of their independent district-specific cost of service studies.

Initial briefs were filed on January 19, 1999, and reply briefs were filed on February 3, 1999. On August 11, 1999, the Commission issued its Order Directing Filing, and ordered the parties to submit proposed Findings of Fact, Conclusions of Law and Ordered paragraphs by September 10, 1999. The deadline for this filing was subsequently extended to September 24, 1999, at the request of some of the parties.

II. FINDINGS OF FACT

The Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

A. Timing of Rate Design Decision

In this proceeding, the Staff, OPC, and the Water District Intervenors have argued that it would be more appropriate for the Commission to defer its decision on STP or DSP until MAWC's next rate case. MAWC, Ag Processing, the Platte County Intervenors, and the

City of Warrensburg, on the other hand, have supported the position that the Commission should resolve this fundamental issue in this proceeding, and apply the results in the next general rate case. For the reasons stated herein, the Commission has decided to defer its decision on the rate design to be applied in the next rate case until it has a fully developed record in that future rate proceeding¹.

In MAWC's prior rate case (i.e., case numbers WR-97-237 and SR-97-238), several parties urged the Commission to follow through on its previously announced policy and take the final step to adopt STP for MAWC². Other parties proposed that the Commission use DSP for MAWC. Although the Commission's decision in case number WR-97-237 adopted a rate design that used STP, the Commission declined to announce what approach it would use during MAWC's next rate case. The record indicates that it is anticipated that the St. Joseph water treatment plant currently under construction may be added to the rate base in MAWC's next rate proceeding. This, in itself, is sufficient reason for the Commission to defer its decision on this issue.

Schedule A of the Hearing Memorandum in this proceeding summarizes the results of the parties' various cost of service studies. The results are helpful in demonstrating the cost of service

¹ MAWC filed such a rate proceeding on October 15, 1999, under case number WR-2000-281.

² As the Commission has previously found, "...the proposed move toward single tariff pricing for Missouri-American and all of its districts, as jointly agreed to by the Staff, Missouri-American and OPC and as, to some degree, supported by all intervenors, is therefore in the public interest." Report & Order, Case No. WR-95-205, p. 33.

on a district-specific basis. For example, the cost of service studies generally show that the St. Joseph District has been paying rates that are approximately ten to eleven percent (10-11%) higher than its district-specific costs. To a lesser extent, the Joplin and Warrensburg districts have also been supporting the other districts of St. Charles, Parkville, Mexico, and particularly Brunswick, when viewed on a district-specific basis.

The Commission generally agrees with the Staff's observation that the cost of service information in this proceeding might serve as a useful benchmark for evaluating STP or DSP in MAWC's next rate case. For example, the data discussed above concerning the St. Joseph area could be relevant if the Commission is requested to revert to DSP when the St. Joseph plant comes on line.

Given the significant uncertainties associated with the exact amount of rate base that will be included in rates in the next rate case, and the effects, if any, of the proposed merger of MAWC's parent with the parent of St. Louis County Water Company, the Commission will not attempt to decide the rate design issue until the next rate case.

B. Cost of Service Studies in MAWC's Next General Rate Case

Based upon the resolution of Issue No. 1 above, it is unnecessary to address the now moot Issue Nos. 2-4. However, Issue No. 5 addresses the type of cost of service studies that should be performed and data that should be maintained for use in the next rate case. The

Commission will address this issue in the hope of promoting a full development of the record in MAWC's next rate case.

OPC has requested that MAWC and the Commission Staff be directed to prepare district-specific cost of service studies in the next general rate proceeding. MAWC and Staff have opposed this request. However, MAWC has indicated that it will make available the data necessary to perform district-specific cost of service studies, in the event other parties desire to complete such studies themselves.

After careful consideration, the Commission has determined that it will not order MAWC or Staff to complete any particular type of cost of service study in the next general rate case. However, the Commission will direct that MAWC maintain the data necessary to perform district-specific cost of service studies for use by other parties to that proceeding.

III. CONCLUSIONS OF LAW

The Missouri Public Service Commission has arrived at the following conclusions of law:

The Commission has jurisdiction over this matter pursuant to Chapters 386 and 393, RSMo 1994 and Supp. 1998. The Commission will not prejudice any rate design issues for future rate cases and thus limit its options at this time regarding how rates should be designed in the next rate case. Nonetheless, the Commission will order MAWC to maintain cost of service data in a form that can be used by other parties to develop district-specific cost of service studies.

IT IS THEREFORE ORDERED:

1. That the Commission will defer its decision on the rate design of Missouri-American Water Company until its next general rate case.
2. That Missouri-American Water Company shall maintain the data necessary to perform district-specific cost of service studies in its next general rate case.
3. That this order shall become effective on November 12, 1999.
4. That this case may be closed on November 15, 1999.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Crumpton, Murray,
Schemenauer, and Drainer, CC.,
concur and certify compliance
with the provisions of
Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,
on the 2nd day of November, 1999.

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COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION