

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 29th
day of May, 1996.

In the matter of the application of St.	)	
Louis County Water Company for an	)	
accounting authority order establishing	)	
an account 186 regulatory asset to which	)	<u>Case No. WO-96-234</u>
to debit repair expenses attributable to	)	
a main incident spike.	)	

ORDER GRANTING ACCOUNTING AUTHORITY ORDER

On January 24, 1996, St. Louis County Water Company (County Water or Applicant) filed its Application for an accounting authority order (AAO) from the Commission. Applicant seeks authority to establish an Account 186 regulatory asset to which debit repair expenses attributable to a "Main Incident Spike" may be placed. Applicant has filed this Application pursuant to § 393.140, RSMo 1994. The Applicant more specifically cites In the matter of St. Louis County Water Company's tariff revisions designed to increase rates for water service provided to customers in the Missouri service area of the company (Case No. WR-95-145) for support in its current request for an AAO. In County Water's Application it cites the Report and Order from WR-95-145 where the Commission said:

At this point, the Commission wishes to encourage County Water to seriously consider requesting an AAO should it encounter such main incident spikes in the future. In view of the uncertain and infrequent nature of main incident spikes, such occurrences would merit consideration as extraordinary and nonrecurring. As such, they would be exempt from the rule against retroactive ratemaking and would likely qualify for recognition under an AAO. Such an option would capture on the balance sheet the effect of a main incident spike

thereby eliminating any deleterious effects.

It is County Water's responsibility to request an AAO from the Commission for expense spikes. The Commission has demonstrated that it is willing to issue AAOs where appropriate expenditures are shown to be extraordinary.

In the month of December, 1995, the company experienced 373 main incidents. This number is 84 percent above the monthly normalized main incident level of 203, as established in Case No. WR-95-145. These incidents caused the company to incur \$349,757 in expenses above the normalized level of main incident expense built into rates for that month alone. Therefore, the Applicant requested the Commission issue an AAO which would authorize it to establish an account 186 regulatory asset to which debit repair expenses attributable to main incident spikes might be booked.

On March 15, 1996 the Accounting Department Staff and the Water and Sewer Department Staff of the Public Service Commission (Staff) filed a joint Memorandum in this case in which Staff recommended that the Commission deny St. Louis Water Company's request to establish an AAO. Staff notes in its Memorandum that the Applicant now has a general rate case pending (Case No. WR-96-263) and that if an AAO were approved, the resolution of any rate impact resulting from the requested order would be determined as a part of that general rate increase case. However, Staff advises against approval of the requested AAO.

In support of this position, Staff has stated that it is of the opinion that it is more appropriate to analyze main incident expense on an annual basis as rates are normally based on a 12-month test year, as adjusted. With that in mind, the Staff states that the actual number of main incidents occurring during the 12 months which ended with December 1995 was 2,528. The level of normalized incidents included in rates as a

result of Case No. WR-95-145 was 2,540. Therefore, Staff suggests that there were actually 12 fewer incidents in the 12 months ending with December 1995 than the 12 month normalized level developed in WR-95-145.

In addition, Staff alleges that company provided information which showed the cost of main incident expense for the 12 months ending with December 31, 1995 as \$5,201,088. The normalized level of expense developed in WR-95-145 was \$5,478,350. Staff suggests that when the December 1995 incidents and expenses are properly examined in the context of 12 months of financial data, neither the number of incidents nor the expenses differ significantly from the levels currently reflected in rates. Staff has stated that an expense incurred as a result of an event which is extraordinary and non-recurring in nature is the general criterion for establishing an AAO. Staff suggests that the request filed by St. Louis does not meet this criterion. For that reason, Staff recommends the Commission deny St. Louis's request.

On March 20, 1996 St. Louis filed a Motion for Hearing in response to the Staff's Memorandum in which St. Louis has restated its case. Applicant has suggested that due to the coincidence of the main incident experiences late in December, and the end of the company's fiscal year, the company recorded a deferral and closed its 1995 books. If the AAO is denied, Generally Accepted Accounting Principles require the company to immediately write off those amounts. Therefore, whether or not the Commission authorizes an AAO in this case could have a serious impact on the company's 1996 financial reporting. The Applicant states that this is a different problem than the impact of the December incidents on future rates. Therefore, St. Louis has again requested the Commission issue an AAO or schedule a hearing to evaluate the merits of the request.

On March 28, 1996 the Staff filed its Response in Opposition to

Motion for Hearing. And, on April 2, 1996, County Water filed its Reply to Staff's Opposition to Company's Motion for Hearing. Staff argues, inter alia, that December 1995 will be part of the test year in the current rate case and that the main incidents occurring during that month can be examined and addressed in Case No. WR-96-263. Staff suggests that the Commission's determination should not be guided by financial consequences to the company which are the result of the company's own action. The cost of the main incidents in December 1995 would have been expenses in the year of occurrence but for the company's decision to defer the expense to 1996. The company has forced the potential for a future write-off by its own deferral of 1995 expense to 1996.

In County Water's reply it highlights the fact that the grant of the company's request decides nothing about the rate impact of the AAO. County Water notes that how the AAO will be reflected in rates, if at all, will be decided in the pending rate case. The grant of the AAO would do only two things: it would preserve the expense for potential future treatment and it would convey that information to the company's independent auditors. Both of these aspects benefit the company and its ratepayers with no offsetting detriment.

On May 21, 1996, the Office of the Public Counsel (Public Counsel) filed its Motion to Deny Application. Public Counsel notes that a careful review of main incidents, or spikes, reveals seasonal trends such that it might be unreasonable to compare the level of main incidents during one winter month to the average level of main incidents throughout the year. The Commission notes that an accounting authority order will simply preserve this issue for more careful scrutinization by the Commission Staff, Public Counsel and any intervenors in County Water's rate case.

The Commission has reviewed the Application, the Staff

Memorandum, the Motion for Hearing and the various responses and replies to that motion along with the entirety of the file and makes the following findings of fact. The Commission finds that St. Louis Water Company appears to have relied upon the Commission's directive as set out in the Report and Order which was issued in County Water's last rate case. That order stated "At this point, the Commission wishes to encourage County Water to seriously consider requesting an AAO should it encounter such main incidence spikes in the future." In Re: St. Louis County Water Company, Case No. WR-95-145, Report and Order, page 14.

The Commission finds it important to restate, at this point, the purpose of accounting authority orders. One of the Commission's leading cases involving accounting authority orders is the case of In the matter of the Application of Missouri Public Service for the issuance of an accounting order relating to its electrical operations, 1 MPSC 3d 200 (1991). In this case, the Commission noted that:

The request to defer costs from one period to another has been characterized as a request for an Accounting Authority Order (AAO). This characterization occurs because what is proposed is the booking of certain costs in Account 186 under the Uniform System of Accounts (USOA) rather than in a traditional account for the type of costs incurred. The booking of the costs in Account 186 creates an asset rather than a liability and so improves the financial picture of the company for the period when the costs were booked. Id. at 202.

In that same case, the Commission made clear that with respect to that case and those which preceded it "The Commission also found that the decision in this matter only allowed deferral and that the recovery of the costs and the ratemaking treatment afforded the costs would be reserved for the August 1992 rate case." Id. at 211.

Similarly, in the case now before the Commission it is important to note that granting this Accounting Authority Order does

nothing more than allow the deferral requested. Any actual recover of the costs and any ratemaking treatment which might be afforded those costs shall be reserved for consideration within a rate case. In this instance, those issues shall be reserved for the rate case which is currently pending for St. Louis County Water Company, to wit: Case No. WR-96-263. The Commission finds the expenses extraordinary for the purpose of granting the requested Accounting Authority Order. Therefore, the Commission will grant St. Louis County Water Company's request for an accounting authority order herein.

IT IS THEREFORE ORDERED:

1. That St. Louis County Water Company shall be hereby authorized to defer and record its repair expenses attributable to "Main Incident Spike(s)," as described in its Application and limited to the period of December 1, 1995 to December 31, 1995, to Account 186 for regulatory assets.

2. That nothing in this order shall be considered as a finding by the Commission as to the reasonableness of the expenditures or repair expenses herein or for the recovery of those expenditures.

3. That this order shall become effective on June 11, 1996.

BY THE COMMISSION



David Rauch
Executive Secretary

(S E A L)

Zobrist, Chm., Kincheloe, Crumpton,
and Drainer, CC., Concur.
McClure, C., Dissents.

ALJ: Roberts