



Martha S. Hogerty
Public Counsel

State of Missouri

Mel Carnahan
Governor

Office of the Public Counsel
Harry S Truman Building - Ste. 250
P.O. Box 7800
Jefferson City, Missouri 65102

Telephone: 573-751-4857
Facsimile: 573-751-5562
Relay Missouri
1-800-735-2966 TDD
1-800-735-2466 Voice

May 30, 2000

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

FILED²
MAY 30 2000
Missouri Public
Service Commission

**RE: Missouri-American Water Company
Case No. WR-2000-281**

Dear Mr. Roberts:

Enclosed for filing in the above-referenced case please find the original and eight copies of the **Office of the Public Counsel's Statement of Positions**. Please "file" stamp the extra enclosed copy and return it to this office.

Thank you for your attention to this matter.

Sincerely,

Shannon E. Cook
Assistant Public Counsel

Enclosure

cc: Parties of Record

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

FILED²
MAY 30 2000

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

Missouri Public
Service Commission

OFFICE OF THE PUBLIC COUNSEL'S STATEMENT OF POSITIONS

COMES NOW the Office of the Public Counsel (OPC or Public Counsel), and
for its Statement of Positions on the contested issues herein, submits the following:

1. **Accounting Authority Order.** Should MAWC be allowed to include in
the cost of service, through rate base and expense adjustments, amounts related to post in-
service AFUDC and deferred depreciation expense for the period from the in-service date
of the new St. Joseph water treatment plant to the operation of law date in this case?

PUBLIC COUNSEL'S POSITION: The Public Service Commission
(Commission) should not include in its determination of the Company's cost-
of-service any rate base or expense related to the Accounting Authority
Order (AAO), because the Company's earnings were adequate during the
period of the deferral, recognition of the costs related to the AAO in this case
would inappropriately shield the stockholders from regulatory lag, the AAO
as structured is not in conformance with the Uniform System of Accounts,
and the triggering event does not meet the requirements set by Commission
precedent.

2. **Premature Retirement.** Shall the net plant investment associated with the existing St. Joseph water treatment plant facilities that are no longer providing service to St. Joseph customers be included in MAWC's rate base and amortized to expense?

PUBLIC COUNSEL'S POSITION: No. Ratepayers should not have to pay for water treatment plant facilities that are not being used to provide water service to customers.

3. **AFUDC Capitalization Rate.** Should MAWC's rate base be adjusted to reflect a different capitalization rate for AFUDC?

PUBLIC COUNSEL'S POSITION: Public Counsel supports the Commission Staff's position with regard to this issue.

4. **St. Joseph Treatment Plant and Related Facilities ("SJTP")**
Valuation. What valuation should be included in rate base for the water treatment plant and related facilities necessary to provide water for the St. Joseph District?

PUBLIC COUNSEL'S POSITION: The Commission should include in rate base \$38,567,838, which is the amount that is reasonable to build facilities necessary to provide 30 MGD of treated water to the St. Joseph district. Public Counsel's engineering witness Ted Bidy conducted a prudence review of the St. Joseph groundwater project and determined that it was not prudent. Mr. Bidy describes how the Company could have flood-proofed its river treatment plant, improved access to the plant, and refurbished it in every way necessary to make its performance comparable to

the new groundwater facilities for \$38,567,838 (Biddy Direct and Surrebuttal).

The Commission correctly ruled in Case No. WA-97-46 that a rate case is the lawful and appropriate time to address the question of the prudence of the Company's decision to abandon its river treatment plant and construct a new groundwater source and related facilities in St. Joseph.

5. SJTP Capacity. What is the appropriate capacity for SJTP that should be included in rate base?

PUBLIC COUNSEL'S POSITION: Rate base should reflect the value of plant-in-service for that portion of facilities currently necessary to provide service to current customers, and accordingly, has recommended a "used and useful" capacity adjustment. The Commission should recognize in rate base in this case 80.45% of the total valuation determined for the St. Joseph water treatment plant.

6. Deferred Taxes. Should MAWC's rate base be adjusted to reflect the amount of deferred taxes existing on the books of Missouri Cities Water Company prior to its acquisition by MAWC? If so, what is the appropriate adjustment?

PUBLIC COUNSEL'S POSITION: Public Counsel supports the Staff's position with regard to this issue.

7. Return on Equity. What return on equity is appropriate for MAWC?

PUBLIC COUNSEL'S POSITION: The Commission should allow MAWC a return on common equity of 9.92%. This return on common equity was determined using Public Counsel witness Mark Burdette's Discounted Cash Flow analysis, based on a dividend yield of 4.67%, a sustainable growth rate of 5.00%, and an increase of 25 basis points in consideration of likely interest rate increases.

8. Rate Design.

8a. Single Tariff Pricing, District Specific Pricing or Compromise.

Shall MAWC's rates be designed consistent with a "single-tariff" rate design, "district-specific" rate design, or some other methodology?

PUBLIC COUNSEL'S POSITION: Public Counsel's rate design moves the rates in each district closer to costs, while mitigating rate shock through limited sharing of cost recovery and through phase-ins. (Busch Direct, pp. 4, 7, 9; Rebuttal, pp. 3-4, 7-9).

Given the disparity in capital improvements and other cost characteristics exhibited by MAWC's seven districts, revenue recovery should better reflect district specific class cost and should not be based on simplistic company-wide cost of service studies. (Busch Direct, pp. 3-7). Public Counsel and Staff are the only parties that performed specific class cost of service studies for each district.

Public Counsel's study (Hu Rebuttal, pp. 2-3) should guide the Commission to adopt rates that better reflect district specific class cost of


level of interclass movement toward costs, Public Counsel adjusted the district increases for interclass shifts.

8d. Phase-In. Should MAWC's rate increase be phased in over a number of years? If so, what is the appropriate "phase-in" amount, and what is the appropriate phase-in period?

PUBLIC COUNSEL'S POSITION: The rate increase should be phased-in over a number of years. Public Counsel's rate design methodology provides for a phase-in of no more than 15% for any given district for any given year. This phase-in recommendation provides for three annual rate increases for Warrensburg, four for St. Joseph, and five for Brunswick, Mexico, and Parkville. This phase-in proposal is designed to provide the Company with full recovery (through a series of tariff sets approved by the Commission) of its Commission-determined revenue requirement and all carrying costs associated with the deferral of any revenue requirement recovery (i.e., cash) during the phase-in period. (Busch Direct, pp. 8-9, 11; Rebuttal, Schedule JAB R3; Surrebuttal JAB SR; and Trippensee Direct and Surrebuttal).

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL



Shannon E. Cook #50169

John B. Coffman #36591

301 East High Street, P.O. Box 7800

Jefferson City, MO 65102-7800

Telephone: (573) 751-1304

Facsimile: (573) 751-5562

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to the following this 30th day of May, 2000:

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

Louis J. Leonatti
Leonatti & Baker
P.O. Box 758
Mexico, MO 65265

Charles B. Stewart
Stewart & Keevil
1001 Cherry St., Suite 302
Columbia, MO 65201

Leland B. Curtis
Curtis, Oetting, et al.
130 S. Bemiston, Suite 200
Clayton, MO 63105

Chuck D. Brown
303 E. Third St.
P.O. Box 1355
Joplin, MO 64802-1355

Joseph W. Moreland
Blake & Uhlig
2500 Holmes Rd.
Kansas City, MO 64108

Stuart W. Conrad
Finnegan, Conrad & Peterson
1209 Penntower Office Center
3100 Broadway
Kansas City, MO 64111

James M. Fischer
101 W. McCarty, Suite 215
Jefferson City, MO 65101

Dean L. Cooper
William R. England, III
Brydon, Swearingen & England
P.O. Box 456
Jefferson City, MO 65102

A handwritten signature in cursive script, appearing to read "Sh. Elrod", is written over a horizontal line.