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May 30, 2000

FILED[3]

MAY 30 2000

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Missouri-American Water Company - Consolidated Case Nos. WR-2000-281 and SR-2000-282

Dear Mr. Roberts:

Enclosed for filing in the above-referenced proceeding please find an original and eight copies of MAWC's Statement of Position on Contested Issues. Please stamp the enclosed extra copy "filed" and return same to me.

Thank you very much for your attention to this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By: Dean Cooper by RG

Dean L. Cooper

DLC/rhg
Enclosures

cc: Office of the Public Counsel
Mr. Keith Krueger
Ms. Shannon Cook
Ms. Diana M. Vuylsteke
Mr. Karl Zobrist
Mr. Leland Curtis
Mr. Brent Stewart
Mr. James Duetsch
Mr. Joseph Moreland
Mr. Stu Conrad
Mr. Louis Leonatti
Mr. Jim Fischer

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

FILED[3]
MAY 3 0 2000
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 Service Area of the Company.	)	Case No. WR-2000-281 Case No. SR-2000-282

MAWC'S STATEMENT OF POSITION
ON CONTESTED ISSUES

COMES NOW Missouri-American Water Company ("MAWC") and states its positions on the list of issues to be heard at the evidentiary hearing in this case on June 5-9 and June 15-16, 2000, as follows:

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?

MAWC Position: Yes. The construction of the St. Joseph treatment plant and related facilities ("SJTP"), which includes a change in the source of supply, is not a typical and customary business activity in either cost or circumstance. There were capacity, reliability, process control and safety deficiencies with the existing St. Joseph treatment plant resulting from both environmental and regulatory factors. The inability to book and recover the amounts associated with post-in-service AFUDC and deferred depreciation expense from the in-service date of the new St. Joseph water treatment plant to the operation of law date in this case would have a severe financial impact on MAWC.

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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?

MAWC Position: Yes. Depreciation rates are set in order to reflect the loss in service value of a piece of property over time. In this case, the depreciation rate did not obtain this result. Thus, the remaining net original cost represents the investment in the plant that should have been depreciated. However, MAWC recommends that in this case the standard accounting treatment be followed and that the period of recovery be addressed in MAWC's next rate case in conjunction with a depreciation study.

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

MAWC Position: No. MAWC has utilized the rate of return on rate base authorized in its most recent rate case for its AFUDC rate. This is consistent with the approach taken by the Company in past rate cases. If the proposed capitalization rate is adopted by the Commission, the Company would be required to record this adjustment in the month of September 2000, resulting in an immediate write-off of $1,257,930. If the Commission decides the AFUDC rate should change, it should do so only on a going forward basis.

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?

MAWC Position: The entire original cost of the SJTP, as recorded on the Company's books as of April 30, 2000, should be included in rate base. This amount of investment represents the prudently incurred costs necessary to provide water service to the St. Joseph, Missouri District. Furthermore, it is MAWC's position that the issue of the prudence of its decision to pursue a new groundwater treatment plant and related facilities over other alternatives (such as renovating the existing river surface water treatment plant) is not a proper issue in this case. That decision was made by the Commission in its Case No. WA-97-46 et al. The only issue to be determined in the instant case is whether the Company's management of the construction of the SJTP and the actual costs incurred as a result thereof were prudent. In that regard, there is absolutely no evidence (or even contention) that the Company imprudently managed the construction of the SJTP or the costs associated therewith. In fact, the Company was able to bring the SJTP on-line substantially under its projected or budgeted costs.

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

MAWC Position: It is MAWC's position that the SJTP is appropriately designed and sized to meet the immediate needs of its St. Joseph District as well as the anticipated needs of this district through 2009. It is the Company's position that a design year of 2009 is an appropriate time frame for which to design a treatment facility of this nature and size. Therefore, there is no "excess capacity" associated with the SJTP.

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?

MAWC Position: No. First, MAWC did not acquire these deferred taxes as a part of the Missouri Cities acquisition. This was a part of the agreement that was approved by the Commission. Second, since the acquisition of Missouri Cities, and its subsequent merger with MAWC, MAWC has completed two rate cases in which these deferred taxes were not an issue.

Lastly, reducing MAWC's rate base in this manner would be inconsistent with portions of the Internal Revenue Code.

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

MAWC Position: It is MAWC's position that an appropriate cost of common equity which reflects MAWC's unique risk characteristics is 11.70%. The appropriateness of 11.70% ROE is even more compelling in light of recent interest rate hikes adopted by the Federal Reserve Board and related increases in the yields of A-rated public utility bonds.

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?

MAWC Position: It is MAWC's position that the Commission should maintain the single tariff pricing (STP) structure that currently exists today. The reasons for using STP in a multi-district operation (such as MAWC's) include the long term rate stability which results from a single tariff, the operating characteristics of the districts, the equivalent services offered, both the allocated cost of service and the cost of service on a stand alone basis, and the principle of gradualism.

If, however, the Commission is reluctant to adopt full STP, in light of the revenue requirement impact of the St. Joseph Treatment Plant and related facilities (SJTP), then MAWC has proposed two alternatives that would mitigate the impact of the SJTP on the rates in other districts while preserving many of the benefits of STP. These alternative rate proposals maintain uniform rates for customer charges and consumption rates for all districts but apply a surcharge to the total bill of the St. Joseph customers. Both alternatives focus on the SJTP's revenue requirement impact as a percent of total Company revenues under present rates. With a 15% limit on the SJTP's revenue requirement impact, the proposed STP revenues represent an increase of approximately 28% for all districts. Under this 15% limitation, the St. Joseph surcharge would be approximately 48.4% (resulting in an overall increase in St. Joseph revenues of approximately 89.6%). With a 20% limitation on the SJTP's impact, the increase to all other districts is approximately 33% and the St. Joseph surcharge is approximately 34.9% (resulting in an overall increase in St. Joseph revenues of approximately 79.4%).

8b. Allocation of Corporate District Expense. What is the proper allocation of MAWC's corporate district investment and expense?

MAWC Position: It is MAWC's position that the utility plant in service and related depreciation associated with its "corporate district" is most appropriately allocated based on MAWC's corporate labor expense only.

8c. Allocation of Cost/Revenue Among Classes. On what basis shall the portion of revenues to be borne by MAWC's various customer rate classes be determined?

MAWC Position: If the Commission adopts single tariff pricing in this case then it is MAWC's position that the allocation of costs to customer classes is most appropriately accomplished through the use of the Base-Extra Capacity method as described in the 1991 (and prior) Water Rates Manuals published by the American Water Works Association (AWWA). This is a recognized and widely accepted method for allocating the cost of providing water service to customer classifications in proportion to each classifications' use of the commodity, facilities and services.

If the Commission decides to adopt district specific pricing in this proceeding, then it is MAWC's position that Staff witness Hubbs' allocation of district specific costs to the various customer classes is based upon appropriate methods and factors and results in indications of cost by class that are reasonable. It is important to note that Mr. Hubbs also utilizes the Base-Extra Capacity method in allocating costs to the various customer classifications.

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?

MAWC Position: First, it is MAWC's position that there is no legal basis for the Commission to adopt a rate phase-in plan for a water company without the water company's concurrence in such a plan. In the instant case, the Company has reviewed the possibility of a rate phase-in plan but cannot agree to such a plan because of the adverse financial impact that results from being required to "write off" any deferred revenues associated with such phase-in plans. In addition to the fact that the Company is required by certain Financial Accounting Standards to write off any deferred revenues associated with a rate phase-in plan, the Company also disagrees with (and objects to) the rate phase-in plans of all other parties because they fail to fully recognize one-half of the first years' net phase-in deferred revenue balance (in the case of Staff's and OPC's phase-in plan) or they fail to fully account for the carrying costs associated with the deferred revenues (in the case of OPC's and Intervenor City of Warrensburg et al.'s phase-in plans).

Respectfully submitted,

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ATTORNEYS FOR MISSOURI-AMERICAN WATER COMPANY

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was sent by U.S. Mail, postage prepaid, or hand-delivered on this 30th day of May, 2000, to the following:

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