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May 30, 2000

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FILED³

MAY 30 2000

Missouri Public
Service Commission

RE: WR-2000-281, et al.

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of **STAFF'S STATEMENT OF POSITIONS ON ISSUES**.

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
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KK/jb
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

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

STAFF'S STATEMENT OF POSITIONS ON ISSUES

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), and for its Statement of Positions on the Issues, states to the Missouri Public Service Commission ("Commission") as follows:

Issue No. 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?

Staff's Position: The Commission should deny recovery of the amounts the Company deferred under the Accounting Authority Order, because the construction and placing into service of the St. Joseph Treatment Plant does not constitute an extraordinary event, and because the financial results that the Company can expect during the period of time that the Accounting Authority Order will be in effect do not threaten the financial integrity of the Company.

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Issue No. 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?

Staff's Position: Neither the net plant investment nor the cost of removal and demolition should be amortized until a depreciation study is performed to evaluate the accuracy of the reserve and depreciation rates for the major accounts of the Company. The plant account and depreciation reserve account should be reduced by the original cost of the "old" St. Joseph plant when the plant is actually retired. The cost of removal should reduce the depreciation reserve account when the cost is actually incurred. A depreciation study should be initiated as soon as possible.

Issue No. 3. AFUDC Capitalization Rate. Should MAWC's rate base be adjusted to reflect a different capitalization rate for AFUDC?

Staff's Position: The AFUDC rate should first reflect all of the outstanding amount of short-term debt available to the Company as the primary source of financing for construction. The rate for the construction balance in excess of short-term debt should then be based on the composite rate of the other sources of financing available to the Company during the construction period. There should then be an adjustment to the plant investment as part of the true-up audit.

Issue No. 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?

Staff's Position: The valuation of the new treatment plant and related facilities in the St. Joseph District should be the actual costs, incurred and recorded on the books of the Company, as adjusted to reflect the proper AFUDC capitalization (Issue No. 3) and capacity (Issue No. 5).

Issue No. 5. SJTP Capacity. What is the appropriate capacity for SJTP that should be included in rate base?

Staff's Position: The appropriate capacity to include in rate base is 21.6 million gallons per day. This is equal to the amount of water that can be treated when one filter is out of service and the remaining filters are loaded at a rate of 4 gallons per minute per square foot.

Issue No. 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?

Staff's Position: The amount of deferred taxes existing on the books of Missouri Cities Water Company prior to its acquisition by MAWC should be used as reduction to rate base.

Issue No. 7. Return on Equity. What return on equity is appropriate for MAWC?

Staff's Position: The Commission should approve a return on common equity based on a range of 9.50 percent to 10.75 percent.

Issue No. 8. Rate Design.

Issue No. 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?

Staff's Position: The rates should be designed consistent with a "district specific" rate design, with one modification. The modification is that the commodity rates for the customers in the Company's Brunswick District should be set equal to the highest

commodity rates of any of the other districts; to the extent that the Company fails to recover its revenue requirement for the Brunswick District through use of this commodity rate, the shortfall should be added to the revenue requirement for the Joplin District.

Issue No. 8b. Allocation of Corporate District Expense. What is the proper allocation of MAWC's corporate district investment and expense?

Staff's Position: Corporate District investment and expense should be allocated on the basis of the composite payroll allocation.

Issue No. 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?

Staff's Position: The customer rates by class should be determined consistent with a "district specific" rate design method, as presented by Wendell R. Hubbs, with the one modification mentioned in Issue No. 8a above. That modification is that the commodity rates for the customers in the Company's Brunswick District should be set equal to the highest commodity rates of any of the other districts; to the extent that the Company fails to recover its revenue requirement for the Brunswick District through the use of this commodity rate, the shortfall should be added to the revenue requirement for the Joplin District on a percentage of revenue basis to each class. The class rates should be "phased in" consistent with Staff's proposal in Issue No. 8d below.

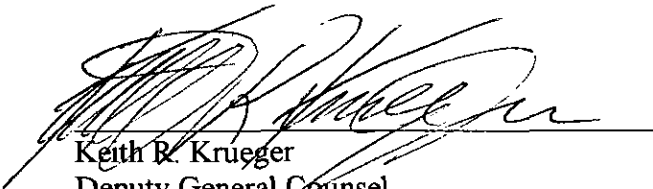
Issue No. 8d. Phase-In. Should MAWC's rate increase be phased in over a number of years? If so, what is the appropriate "phase-in" amount, and what is the appropriate phase-in period?

Staff's Position: Revenue requirements should be phased in over a five-year period for districts that experience a significant increase in rates. The Company should be

allowed to earn a carrying charge, equal to the rate of return authorized by the Commission, on any amounts deferred. The Staff proposes phase-in for specific customer classes, in each district, that continue to experience very significant rate increases.

Respectfully submitted,

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