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*Missouri Public Service Commission*

POST OFFICE BOX 360  
JEFFERSON CITY, MISSOURI 65102  
573-751-3234  
573-751-1847 (Fax Number)  
<http://www.ecodev.state.mo.us/psc/>

February 22, 2000

GORDON L. PERSINGER  
Acting Executive Director  
Director, Research and Public Affairs

WESS A. HENDERSON  
Director, Utility Operations

ROBERT SCHALLENBERG  
Director, Utility Services

DONNA M. KOLILIS  
Director, Administration

DALE HARDY ROBERTS  
Secretary/Chief Regulatory Law Judge

DANA K. JOYCE  
General Counsel

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

**RE: WR-2000-281 and SR-2000-282**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **STIPULATION AND AGREEMENT**.

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  
(573) 751-4140  
(573) 751-9285 (Fax)

KK/jb  
Enclosure  
cc: Counsel of Record

**FILED<sup>2</sup>**

FEB 23 2000

Missouri Public  
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED

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MO PSC  
RECORDS DEPT.

In the Matter of Missouri-American Water )  
Company's Tariff Sheets Designed to )  
Implement General Rule Increases for )  
Water and Sewer Service provided to )  
Customers in the Missouri Service Area of )  
the Company. )

Case No. WR-2000-281  
SR-2000-282

FILED<sup>2</sup>  
FEB 23 2000

Missouri Public  
Service Commission

STIPULATION AND AGREEMENT

COME NOW Missouri-American Water Company ("MAWC" or "Company"); the Missouri Public Service Commission Staff ("Staff"); and the Office of the Public Counsel ("OPC"); by and through their respective counsel, and state to the Missouri Public Service Commission ("Commission") that as a result of negotiations, the undersigned parties ("Parties") have reached the following stipulations and agreements:

1. MAWC shall be authorized to defer revenues (carrying charges are not to be calculated on amounts deferred) at an amount not to exceed \$12,772,000 per year ("the annual revenue deferral"), provided that MAWC's new water treatment plant and associated facilities in St. Joseph, Missouri, are fully operational and providing service to customers no later than the date on which MAWC and St. Louis County Water Company ("County Water") file their new rate cases in accordance with Paragraph No. 6. This annual revenue deferral will begin on August 1, 2000, and will end on the effective date of the tariff sheets approved in connection with the permanent rate cases described in Paragraph No. 6.

2. The actual amount of MAWC's annual revenue deficiency, and therefore the annual revenue deferral, will be calculated by the Staff based on a test year ending September 30, 1999, updated for known and measurable changes as of December 31, 1999 and trued-up to

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April 30, 2000. MAWC will provide data requested by Staff for the December 31, 1999, update and the April 30, 2000, true-up no later than February 28, 2000, and June 15, 2000, respectively. Such annual revenue deficiency calculated as of April 30, 2000, shall subsequently be adjusted to reflect any Commission decisions regarding cost of service issues that are issued in the permanent rate case required by Paragraph No. 6.

3. When calculating the annual revenue deficiency referenced above, the Staff will utilize the following capital structure and related cost rates:

Capital Component	Percentage of Total Capital	Cost
Common Equity	Actual as of 4/30/2000	10.00%
Preferred Stock	Actual as of 4/30/2000	Actual as of 4/30/2000
Long-Term Debt	Actual as of 4/30/2000	Actual as of 4/30/2000
Short-Term Debt	Actual as of 4/30/2000	Actual as of 4/30/2000
Total Capital Structure	100.00%	Actual Weighted Cost of Capital as of 4/30/2000

All signatories to this Stipulation and Agreement agree that 10.00% is an acceptable return on equity for MAWC based on market information available for purposes of this Stipulation and Agreement. This return on equity will be applied to the actual percentage of common equity recorded by MAWC as of the April 30, 2000 true-up date. All signatories also agree that all other components of capital structure as well as the embedded costs associated with those components will be based on the preferred stock, long-term debt and short-term debt recorded by MAWC as of the April 30, 2000 true-up date. With regard to short-term debt, all signatories to this Stipulation and Agreement agree that short-term debt will not be a component of capital structure as long as the 12-month average balance for Construction Work In Progress (CWIP) exceeds the 12-month average outstanding balance for short-term debt at April 30, 2000. Any adjustments to the capital structure components, from the date of filing of MAWC's last finance application, Case No. WF-2000-383 (December 23, 1999), up through the April 30, 2000 true-up date in this proceeding, will consist only of operational changes such as an increase in equity due

to retained earnings, decreases in debt due to the pay-down of outstanding balances, or any financing or refinancing that has been fully executed by MAWC as approved by the Commission in the context of a finance application filed pursuant to Sections 393.180-393.210, RSMo. 1994<sup>1</sup> MAWC will not infuse any other equity capital, except as referenced above, between the date of this Stipulation and Agreement and April 30, 2000.

4. On or before August 1, 2000, the Staff will file with the Commission its initial findings regarding MAWC's annual revenue deficiency as of April 30, 2000. That filing shall be made in MAWC's permanent rate case required by Paragraph No. 6. Other parties to that permanent rate case shall inform the Staff on or before September 15, 2000 of any mathematical errors contained in its August 1, 2000, filing. Public Counsel and other intervenors, to the extent they wish to respond to the Staff's August 1, 2000 filing, shall do so in their prepared direct testimony to be filed in the permanent rate case that is required by Paragraph No. 6, and MAWC shall respond to the Staff's August 1, 2000, filing in MAWC's rebuttal testimony filed in that case.

5. The actual annual revenue deferral, as calculated in accordance with Paragraph Nos. 2-4, shall be amortized to expense over a period of five years and an annualized amount thereof shall be included in the calculation of MAWC's annual revenue requirement, which is to be determined by the Commission in the permanent rate case to be filed in accordance with

<sup>1</sup> By way of illustration, the pro forma capital structure used in Case No. WF-2000-383 is as follows:

Capital Component	Percentage Of Capital	Capital Dollars	Pro Forma Adjustments	Pro Forma Capital Dollars	Pro Forma Percentage of Capital
Common Equity	35.15%	\$47,660,529	\$19,500,000	\$67,160,529	40.86%
Preferred Stock	2.03%	2,754,000	0	2,754,000	1.68%
Long-Term Debt	48.28%	65,465,000	29,000,000	94,465,000	57.47%
Short-Term Debt	14.53%	19,704,000	(19,704,000)	0	0.00%
Total	100.00%	\$135,583,529	\$28,796,000	\$164,379,529	100.00%

Paragraph No. 6. However, the unamortized portion of any such actual revenue deferral shall not be included in rate base and shall not be increased to include carrying charges, in any future determination of MAWC's revenue requirement. No portion of the revenue deferral provided for in this agreement will be included in the cost of service for County Water, either in the permanent rate case or at any time in the future.

6. If the Commission issues an order adopting the terms and conditions of this Stipulation and Agreement in its entirety, MAWC will then withdraw its pending revised tariff sheets, which are the subject of Commission Case Nos. WR-2000-281 and SR-2000-282, and file new, revised water and sewer tariff sheets no later than May 31, 2000, in order to initiate new permanent rate cases. In addition, MAWC will cause its affiliate, County Water, to also file revised tariff sheets on the same date that MAWC files its new water rate tariff sheets in order to initiate a rate case for County Water. The signatories will agree to support the consolidation of the MAWC rate case and the County Water rate case.

7. MAWC and County Water will file their direct testimony in their respective new rate cases no later than 45 days after the date on which they file their revised tariff sheets in the new permanent rate cases that they have agreed to file in accordance with Paragraph 6. To the extent necessary to effectuate this direct testimony filing schedule, MAWC and County Water shall be granted a waiver from Commission regulations that may be in effect at the time MAWC and County Water file the referenced tariffs.<sup>2</sup>

8. In the new rate cases that are to be filed by MAWC and County Water, none of the cost of service that is fairly allocable to the seven operating districts that now comprise MAWC will be included in the proposed revenue requirement for County Water, and none of the cost of service that is fairly allocable to County Water's service territory will be included in the

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<sup>2</sup> The Commission has published a proposed Rule 4 CSR 240-2.065 (*Missouri Register*, October 1, 1999) which, if promulgated, would require a public utility to file direct testimony simultaneously with its tariffs constituting a general rate increase. Because of the requirements otherwise being placed on MAWC and County Water by this Stipulation and Agreement, it is agreed that a waiver concerning the filing of direct testimony is justified.

proposed revenue requirement for MAWC. This restriction will not be binding on other parties to those cases.

9. As part of their respective permanent rate cases to be filed in accordance with Paragraph 6, MAWC and County Water shall also prepare a depreciation study and file same with the Commission no later than July 31, 2000.

10. As part of their direct testimonies to be filed in their respective permanent rate cases, MAWC and County Water will also file cost of service studies by district by customer class. In addition to the revenue requirement calculations required for MAWC and County Water individually for the above-referenced rate cases, MAWC also agrees to prepare a consolidated revenue requirement calculation for the two companies.

11. MAWC and County Water will also file a joint application seeking Commission approval for the merger of the two companies no later than the date on which MAWC and County Water file revised tariffs to initiate their respective permanent rate cases.

12. This Stipulation and Agreement represents a negotiated settlement for the sole purpose of disposing of Case Nos. WR-2000-281 and SR-2000-282. None of the parties to this Stipulation and Agreement shall be prejudiced or bound by the terms of this Stipulation and Agreement in any future proceeding, or in this proceeding, in the event that the Commission does not approve this Stipulation and Agreement in its entirety.

13. None of the parties to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking principle, or any method of cost of service determination or cost allocation, except as specifically provided herein. Additionally, none of the parties to this Stipulation and Agreement have acquiesced to the approval of any particular relief or to taking any particular position in future Commission cases, except as specifically provided herein.

14. In the event the Commission accepts all of the specific terms of this Stipulation and Agreement, the parties waive their right to present oral argument and written briefs pursuant

to §536.010(1), their right pertaining to the reading of the transcript by the Commission pursuant to §536.080(3), and their right to judicial review pursuant to §386.510, RSMo. 1994.

15. This Stipulation and Agreement has resulted from extensive negotiation among the signatory parties and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Stipulation and Agreement in its entirety, then, under those circumstances, the parties agree that this Stipulation and Agreement shall be void and no party shall be bound by any of the agreements or provisions hereof.

WHEREFORE, the undersigned Parties respectfully request that the Commission issue its Order:

- a) Approving all of the specific terms and conditions of this Stipulation and Agreement;
- and,
- b) granting such further relief as the Commission should find reasonable and just.

Respectfully submitted,

*Dean L. Cooper by KRK*

Dean L. Cooper Mo. #36592  
W.R. England, III Mo. #23975  
BRYDON, SWEARENGEN &  
ENGLAND P.C.  
312 East Capitol Avenue  
P.O. Box 456  
Jefferson City, MO 65101-0456

Attorneys for Missouri-American  
Water Company

*Keith R. Krueger*  
Keith R. Krueger Mo. #23857  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102

Attorney for the Staff of the Missouri  
Public Service Commission

*Shannon E. Cook by KRK*

Shannon E. Cook Mo. #50069  
John B. Coffman #36591  
Office of Public Counsel  
P.O. Box 7800  
Jefferson City, MO 65102

Attorneys for the Office  
of the Public Counsel



### 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 22nd day of February, 2000, to the following:

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

Mr. Louis J. Leonatti  
Leonatti & Baker, P.C.  
P.O. Box 758  
Mexico, Missouri 65265

Mr. James M. Fischer  
Attorney at Law  
101 West McCarty, Suite 215  
Jefferson City, Missouri 65101

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

Ms. Shannon Cook  
Office of the Public Counsel  
P.O. Box 7800  
Jefferson City, MO 65102

Mr. Charles Brent Stewart  
Stewart & Keevil, L.L.C.  
1001 Cherry Street, Suite 302  
Columbia, Missouri 65201

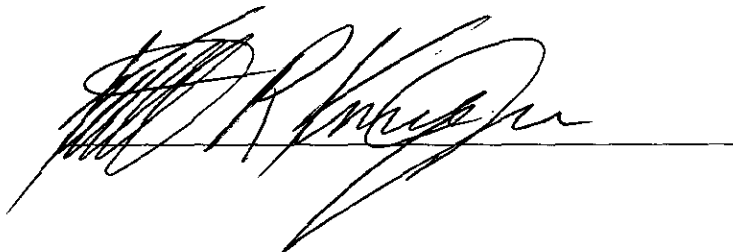
Mr. James B. Deutsch  
Riezman & Blitz PC  
308 E. High, Suite 301  
Jefferson City, MO 65101

Ms. Lisa M. Robertson  
City Hall - Room 307  
1100 Frederick Avenue  
St. Joseph, Missouri 64501

Mr. Joseph W. Moreland  
Blake & Uhlig, P.A.  
2500 Holmes Road  
Kansas City, Missouri 64108

Mr. Stuart W. Conrad  
Finnegan, Conrad & Peterson, L.C.  
1209 Penntower Office Center  
3100 Broadway  
Kansas City, Missouri 64111

Ms. Diana M. Vuylsteke  
Bryan Cave LLP  
One Metropolitan Sqr., Suite 3600  
211 N/ Broadway  
St. Louis, MO 63102-2750

A handwritten signature in black ink, appearing to read "Keith Krueger", is written over a horizontal line.