

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

In the Matter of the Joint Application of)
Missouri-American Water Company and both)
Osage Water Company and Environmental)
Utilities, L.L.C. for Authority for Missouri-)
American Water Company to acquire the)
water and sewer assets of both entities, and)
for the transfer to Missouri-American Water)
Company of Certificates of Convenience and)
Necessity to continue operation of such assets)
as Water and Sewer Corporations regulated)
by the Missouri Public Service Commission)

Case No.WO-2005-0086

RESPONSE TO NOTICE CONCERNING CEDAR GLEN SEWER

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through Counsel, and for its *Response to Notice Concerning Cedar Glen Sewer* states the following to the Missouri Public Service Commission (Commission).

1. On March 9, 2005, Missouri-American Water Company (MAWC) filed a *Notice Concerning Cedar Glen Sewer* (Cedar Glen Notice) in this case. The conclusion stated in MAWC's Cedar Glen Notice is as follows: "MAWC will pursue the application as filed, including the requirement that certain contingencies be satisfied. However, for the reasons stated above, MAWC has no interest in amending its application to include the acquisition of the assets of the Cedar Glen sewer system."

2. As directed by the Commission, the Staff previously filed a post-sale rate analysis regarding MAWC's potential operation of the systems that MAWC may be purchasing from Osage Water Company (OWC), Environmental Utilities (EU) and other entities, and a rate base reconciliation regarding the post-sale rate base value of the assets that MAWC may be purchasing

from OWC, EU and other entities. Both the rate analysis and the rate base reconciliation were based on the assumption that the Joint Application in this case would be amended so that the Cedar Glen sewer system would be included in the assets that MAWC may be purchasing from OWC, which the Staff believes is consistent with the Commission's on-the-record comments concerning this case.

3. The most significant impact of the Cedar Glen sewer system not being included in the asset transfer is that OWC's current sewer rates would need to be increased dramatically to provide recovery of the overall cost of providing service for the remaining sewer service areas. Based on a general review of the supporting documentation for the Staff's rate analysis regarding the cost of providing sewer service, the Staff believes that the operating revenues provided by the other sewer systems, and thus the current sewer rates, would have to at least double in order to provide recovery of the overall cost of providing sewer service if the Cedar Glen system is not a part of the overall operations. The basic reason for this is that the Cedar Glen sewer system provides a large percentage of the overall sewer service operating revenues while causing a comparatively small percentage of the overall sewer service revenue requirement.

4. If directed to do so by the Commission, the Staff is prepared to file a modified rate analysis regarding the cost of providing service to OWC's sewer systems and a modified post-sale rate base reconciliation, both with the Cedar Glen sewer system removed. The Staff would be able to make such a filing, which would also include an analysis of the rate impact caused by the removal of the Cedar Glen sewer system, within one week after the issuance of an order directing it to do so.

5. Based on the above, the Staff believes the potential rate impact resulting from the Cedar Glen sewer system not being included in the proposed asset transfer would result in a situation where the required standard for the subject Joint Application (a finding that the proposed

transactions are "not detrimental to the public interest") could not be met. As a result, the Staff believes the Commission should consider rejecting the Joint Application.

WHEREFORE the Staff respectfully submits this *Response to Notice Concerning Cedar Glen Sewer* for the Commission's consideration in this case.

Respectfully Submitted,

DANA K. JOYCE
General Counsel

/s/ Cliff E. Snodgrass

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed with first class postage, hand-delivered, transmitted by facsimile or transmitted via electronic mail to all counsel of record this 14th day of March 2005.

/s/ Cliff E. Snodgrass

Cliff E. Snodgrass