

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

In the Matter of Missouri-American	)	
Water Company's Request for Authority	)	
to Implement a General Rate Increase	)	<b><u>Case No. WR-2007-0216</u></b>
for Water Service Provided in Missouri	)	
Service Areas	)	

**OFFICE OF THE PUBLIC COUNSEL'S RECOMMENDATIONS  
REGARDING TEST YEAR AND TRUE-UP**

COMES NOW the Office of the Public Counsel (Public Counsel) and for its Recommendations Regarding Test Year and True-Up states as follows:

1. On December 22, 2006, Missouri-American Water Company (Missouri-American) filed its recommendation that the Commission establish the twelve months ending June 30, 2006 as the test year for its proposed general rate increase. Missouri-American also requested that a true-up hearing be scheduled to consider certain items as of May 31, 2007.

2. On January 3, 2007, the Commission issued its *Suspension Order and Notice, Order Setting Hearings, and Order Directing Filing*, directing the Staff, Public Counsel and any intervenors to file recommendations on the test year and any true-up request no later than January 24, 2007.

3. Public Counsel concurs with Missouri-American's recommendation to establish the twelve months ending June 30, 2006 as the test year.

4. Public Counsel opposes Missouri-American's request that the Commission determine at this early stage that a true-up is necessary.

5. Missouri-American's request for a true-up specifies a date for the true-up, May 31, 2007, which is well in advance of the proposed hearing dates in this case. Missouri-American fails to identify the impact of any specific event that will happen between June 30, 2006 and May 31, 2007 which will cause the revenue/expense/rate base relationship to change as compared to the relationship as of June 30, 2006. However, Missouri-American does identify a potential change past June 30, 2006 that could materially change the revenue/expense/rate base relationship so as to justify the need for changes to revenue. That potential change involves a case presently before the Commission, Case No. WC-2007-0400, involving revenues received from the Metropolitan St. Louis Sewer District.

6. Missouri-American presented a list of items to be included in the true-up, but the list does not present a complete package which maintains the revenue/expense/rate base relationship necessary to determine the appropriate level of rates. In particular, while identifying capital structure, Missouri-American fails to include cost of capital with respect to the various components of capital structure. The result is that rates would be set on capital costs that do not coincide with the capital structure and would be over a year old at the time of the hearings in this case. Missouri-American also includes property taxes as a true-up item. The method for determining the amount of property tax to include in the revenue requirement was an issue in the recent Kansas City Power & Light Company case. Inclusion of property taxes in this list should not preclude or prejudice the issue with respect to parties who will propose treatment consistent with the decision in ER-2006-0314.

7. Public Counsel was not the moving party in this instant case and has not yet performed any independent audit or analysis in order to verify whether a true-up proceeding is necessary in this case to reflect a change in the revenue/expense/rate base relationship. If Public Counsel's analysis and investigation of Missouri-American's case reveals that a significant cost of service item will change past June 30, 2006, Public Counsel's direct testimony will inform the Commission of this and, if appropriate, recommend a true-up process as part of its direct testimony to be filed in this case.

8. Public Counsel recommends that the Commission keep the true-up dates, July 30 – August 3, 2007, open on the Commission's calendar in the event it is later determined that a true-up is necessary. At this time, factors have been asserted to justify a true-up proceeding but no parties to this case, excluding Missouri-American, have had adequate time to perform audits and analysis necessary to make an affirmative recommendation. Public Counsel would point out that even Missouri-American cannot state with certainty at this time that events as of May 31, 2007 will result in material changes to the revenue requirement. Accordingly, Public Counsel opposes Missouri-American's recommendation for a true-up.

9. Public Counsel would propose that in the event a party does not believe a true-up is necessary, that the Commission direct the parties to update the test year for known and measurable changes through December 31, 2006. This will ensure that information used to determine the revenue requirement is not well over a year old as of the operation of law date in this proceeding. The update for known and measurable changes should, at a minimum, include those items contained in the Recommendation Concerning Test Year and Request for True-Up Audit Hearing filed by Missouri-

American on December 22, 2006. The update should also contain any other factors any party believes is necessary to properly reflect the revenue/expense/rate base relationship as of said date.

WHEREFORE, Public Counsel respectfully offers these recommendations regarding test year and true-up.

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL

**/s/ Christina L. Baker**

By:\_\_\_\_\_

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## **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to the following this 24<sup>th</sup> day of January 2007:

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/s/ **Christina L. Baker**

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