

R20Binder

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

CASE NO. WR-88-215

In the matter of Capital City Water
Company of Jefferson City, Missouri,
for authority to file tariffs
increasing rates for water service
provided to customers in the
Missouri service area of the company.

APPEARANCES: Kathy Lee Pape, Senior Attorney, General Waterworks Management
and Service Company, 950 Haverford Road, Bryn Mawr, Pennsylvania
19010, for Capital City Water Company.

Mark D. Wheatley, Assistant Public Counsel, Office of the Public
Counsel, P. O. Box 7800, Jefferson City, Missouri 65102, for
Office of the Public Counsel and the Public.

Andrew J. Snider, Assistant General Counsel, Missouri Public
Service Commission, P. O. Box 360, Jefferson City, Missouri
65102, for Staff of the Missouri Public Service Commission.

HEARING

EXAMINER: Beth O'Donnell

SUPPLEMENTAL REPORT AND ORDER

On this date the Commission is issuing a Report and Order in this case which adopts the Stipulation and Agreement among the parties to this case in disposition of all the matters at issue herein with the exception of the issue concerning the form in which Capital City Water Company (Company) keeps its Continuing Property Records (CPR). In that Report and Order the Commission decides to address the remaining issue of CPR by this Supplemental Report and Order. The procedural history of this case is set forth in that Report and Order and will not be repeated here.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

Continuing Property Records, or CPR, are a system whereby a utility keeps track of its physical assets so that additions to, and retirements of, plant are recorded keeping the Company abreast of the assets physically in existence which are used by the Company in rendering water service.

It is the position of the Commission's Staff (Staff) that Company is not maintaining its Continuing Property Records in the manner required by the Uniform System of Accounts issued by the National Association of Regulatory Utility Commissioners in 1973 as revised in 1976 (USOA) and adopted by the Commission in its rule promulgated as 4 CSR 240-50.030. The USOA under Utility Plant Instructions at page 34, 11C states,

"Each utility shall maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and the cost of the various retirement units or other appropriate record units included therein."

Staff states that, because Company does not keep Continuing Property Records in the manner required by the USOA, it lacks control over its assets. Staff states that there are numerous assets recorded on the books which do not physically exist or are not used by the Company in rendering water service.

Staff's specific recommendations are contained in the direct testimony of Staff's witness, Love, at page 5. A copy of these recommendations are attached to the Supplemental Report and Order as Appendix I and are incorporated herein by reference. Recommendations 1 and 4 have been agreed to by Company as a part of the Stipulation concluded herein among the parties.

Company asserts that its investment work orders and retirement work orders which detail by primary plant account all of the additions and retirements recorded each year, including the quantity, cost of each unit added or retired as well as the

cost of removal and salvage for retirement units, is in compliance with the requirements of the USOA. While Company admits that the format of these records are not what Staff prefers, Company believes they are complying with the requirements of the USOA by summarizing all additions and retirements according to primary plant account number. Company argues that, if the Commission orders Company to update and maintain its property records in the form recommended by Staff, the cost estimated by Company at \$50,000 should be borne by the ratepayer.

Staff responds that Company's records do not contain the detail required by the USOA which requires at page 15, item 2A that, "Each utility shall keep its books of account...so as to furnish readily full information as to any item included in any account." Therefore, Staff observes that Company's summary report lacks the detail required by the USOA. Further, Staff asserts that the Company's shareholders should absorb the cost of updating the records since Company failed to update on an annual basis its Continuing Property Records since the original cost study performed by Staff in 1959 as a part of Case No. 14,178.

It is the position of Public Counsel in this case that, should the Commission order Company to update its Continuing Property Records as recommended by Staff, the Company's shareholders should absorb the cost of the update. Public Counsel argues that the current ratepayer should not bear the cost of correcting Company's mistake and that rates have traditionally been set by the Commission based on ongoing costs rather than nonrecurring costs such as the cost of the update. Further, Public Counsel asserts that the inclusion of the cost of the update in future rates would constitute a retroactive inclusion of expenses. In the alternative, Public Counsel recommends that, should the Commission decide to include the cost of the update in rates, the cost be amortized over a period of forty years.

The Commission determines that the Company should update and maintain the Continuing Property Records as recommended by Staff. The USOA requires detailed maintenance of property records in order to ensure that the records accurately reflect the current property held by the Company which is used by the Company in

rendering water service. Without such detailed record keeping the validity of depreciation studies, upon which depreciation rates are based, is questionable.

The Commission recognizes that there is a cost involved in updating and maintaining these Continuing Property Records. Since the Commission is adopting the agreement of the parties as to the amount of the rate increase to be allowed in this case, it would be inappropriate to address this cost herein. Further, there is no evidence upon which to judge the accuracy or reasonableness of Company's estimated costs of approximately \$50,000. The Commission might address the recovery of the actual cost in a future rate case, if appropriate.

The Commission also finds that the \$50 level as determined in the USOA is inadequate for the determination of when a cost should be capitalized rather than expensed. The Commission further finds that Staff's recommendation of \$250 is inadequate and that the historical practice of the Company to use a \$750 limit is the appropriate level for determining when a cost should be capitalized rather than expensed.

The Commission further determines that Company should complete the recommendations enumerated by Staff on page 5 of the prefilled direct testimony of Staff's witness, Love, on or before April 30, 1990, or before the filing of Company's next rate case, whichever occurs sooner.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

Company is a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 1986, as amended. The Commission has authority pursuant to Section 393.140(4), RSMo 1986, to prescribe uniform methods of keeping accounts, records and books to be observed by water corporations engaged in the sale of water for any purpose. Pursuant to this statute the Commission has adopted the NARUC Uniform System of Accounts by promulgation of Commission Rule 4 CCR 240-50.030. Therefore, the Commission concludes that the Company should update

and maintain its Continuing Property Records in the form and manner recommended by the Commission's Staff.

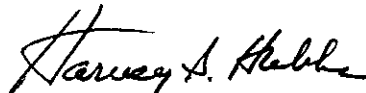
It is, therefore,

ORDERED: 1. That Capital City Water Company is directed hereby to update and maintain its Continuing Property Records in accordance with the recommendations made by the Commission's Staff herein.

ORDERED: 2. That Capital City Water Company is directed hereby to complete the recommendations enumerated by Staff as outlined herein on or before April 30, 1990, or before the filing of the Company's next rate case, whichever occurs sooner.

ORDERED: 3. That this Supplemental Report and Order shall become effective on the 24th day of October, 1988.

BY THE COMMISSION


Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Musgrave, Mueller,
Hendren and Fischer, CC., Concur.

Dated at Jefferson City, Missouri,
this 14th day of October, 1988.

Prepared Testimony of
Malvin T. Love

1 use of such items." Currently, the Company uses a benchmark of \$750
2 instead of the \$50 specified in the USOA.

3 Q. What are Staff's recommendations concerning the Company's
4 plant records?

5 A. Staff recommends the Company (1) make a complete inventory
6 of all general plant property and make the necessary accounting entries to
7 retire from the books those items which do not exist, or are not used and
8 useful and in public service; (2) update all plant property additions and
9 retirements by primary plant account and vintage year including year
10 retired, beginning with the Commission Staff's original cost study
11 performed in 1959, and to construct a continuing property record,
12 acceptable to Staff, detailing property units and associated unit costs by
13 vintage year and primary plant account beginning with the Commission
14 Staff's original cost study performed in 1959; (3) file with the Staff a
15 list of plant property units and plant property accounting instructions
16 specifying the proper accounting thereof; and (4) perform a depreciation
17 rate study. All tasks listed above should be accomplished within eighteen
18 months from the date of the Commission's order in this proceeding, or no
19 later than the next rate filing, whichever is a shorter time frame.

20 Q. Does this conclude your direct prepared testimony?

21 A. Yes.
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