

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

In the Matter of Missouri-American Water)	
Company's Request for Authority to Implement)	Case No. WR-2010-0131
A General Rate Increase for Water and Sewer)	SR-2010-0135
Service Provided in Missouri Service Areas.)	

**RECOMMENDATION CONCERNING TEST YEAR
AND REQUEST FOR TRUE-UP AUDIT AND HEARING**

Comes now Missouri-American Water Company (MAWC or Company), and, as its recommendation concerning the proper test year and request for true-up audit and hearing, states as follows to the Missouri Public Service Commission (Commission):

TEST YEAR RECOMMENDATION

1. For purposes of the instant case, the Company proposes a test year consisting of the twelve months ended June 30, 2009, adjusted for changes that are known and measurable at this time and which will be effective by the time new rates are anticipated. This test year has been addressed in the Company's prepared direct testimony and schedules. See the Direct Testimony of Dennis R. Williams.

REQUEST FOR TRUE-UP

2. MAWC further requests a true-up audit and hearing as of April 30, 2010. In *In re Kansas City Power & Light Company*, 26 Mo.P.S.C.(N.S.) 104, 110 (1983), the Commission described the test year as follows:

The purpose of using a test year is to create or construct a reasonable expected level of earnings, expenses and investments during the future period in which the rates, to be determined herein, will be in effect. All of the aspects of the test year operations may be adjusted upward or downward to exclude unusual or unreasonable items, or include unusual items, by amortization or otherwise, in order to arrive at a proper allowable level of all of the elements of the Company's

operations. *The Commission has generally attempted to establish those levels at a time as close as possible to the period when the rates in question will be in effect.*

(emphasis added).

3. The true-up process is a tool that can be used to accomplish the goal of establishing a “reasonable expected level of earnings, expenses and investments” “at a time as close as possible to the period when the rates in question will be in effect.” The Commission further stated in *Kansas City Power & Light Company* that “[t]he true-up procedure has received broad acceptance as a proper ratemaking tool. A true-up permits adjustments outside of the test year without improperly disturbing the revenue-expense relationship.” *Id.*

4. The water industry is subject to a great amount of infrastructure investment. A true-up is generally appropriate if for no other reason than to capture the increased level of capital investment being made by the Company through the true-up. In fact, a true-up process has been provided for in at least the last five general rate cases in which the Company has been involved (Cases Nos. WR-2000-281, WR-2000-844, WR-2003-0500, WR-2007-0216 and WR-2008-0311).

5. Further, the true-up date suggested by MAWC – April 30, 2010 - is reasonably conservative. This date is five months prior to the operation of law date in this case (approximately September 30, 2010). MAWC believes that a true-up audit could start as early as May 15, 2010.

6. MAWC’s proposal in this case is driven by the significant amount of investment that will be placed into service. Based on current projections, MAWC anticipates that

approximately \$57.7 million¹ of plant will be placed into service between July 1, 2009 and April 30, 2010.

7. The following projects will be completed and placed in service from July 2009 through April 2010:

St. Louis Metro:	Rte 141 Hwy Relocation 42” main installation	\$ 3.7 m
	Page Ave Extension Hwy Relocation STC	\$ 1.8 m
	Service Center Roof Replacement	\$ 0.3 m
	Misc Mains Replaced	\$27.4 m
	Misc Mains Relocated	\$ 3.0 m
	Hydrants Replaced	\$ 0.5 m
	Meters Replaced	\$ 6.3 m
	Production Facility Replacements	\$ 1.7 m
St. Joe:	Lagoon Discharge NPDES Improvements	\$ 0.3 m
Joplin:	Hill St. Booster Station Improvement	\$ 0.7 m
Corporate:	Business Transformation	\$ 1.0 m
Various:	Misc New Mains	\$ 0.2 m
	Misc Main Replacements	\$ 1.7 m
	Misc Main Relocated	\$ 4.3 m
	Meters Replaced	\$ 0.9 m
	Production Facility Replacements	\$ 1.0 m

8. Accordingly, the Company seeks inclusion in its revenue requirement and rates of

¹ UPIS Net Additions (minus assumed retirements and advances/contributions). Gross UPIS additions would

certain revenues that will be experienced, expenses that will be incurred, investments that will be made and certain items that will be known on or before April 30, 2010. The items of revenue, expense and investment which the company proposes to True-Up are as follows:

- Plant in service and other rate base items (such as depreciation reserve, deferred income taxes, customer advances, contributions, working capital and other deferred regulatory assets and liabilities)
- Revenues (customers, production costs and uncollectible expense)
- Any change in the Commission's annual assessment
- Fuel and Power Expenses
- Chemical Expense
- Purchased Water Expense
- Waste Disposal
- Rate Case Expenses
- Labor and Labor related expenses (Employee Levels and Wage Rates and related benefits)
- Uncollectible Expense
- Depreciation Expense
- Income Taxes
- Property Taxes
- Capital Structure
- Tank Painting Expense

be \$75.2 million.

- Pension and OPEBs Trackers
- Fire Hydrant Painting Expense

9. If the Company's request for true-up audit and hearing is denied and the above-enumerated items of revenues, expenses and investments are not taken into account in the setting of its rates, the Company will be denied an opportunity to earn the authorized rate of return which the Commission determines is appropriate in this proceeding.

10. MAWC's package of adjustments is proposed with the intent of maintaining the proper matching of revenue, expense and rate base. The true-up process allows the Commission to establish rates based upon the most current data available, while maintaining the proper balance of rate elements. MAWC believes that its use in this case would accomplish that goal.

WHEREFORE, MAWC respectfully requests the Commission to issue its order adopting a test year for use in this case comprised of the twelve months ended June 30, 2009, include known and measurable changes, trued-up through April 30, 2010.

Respectfully submitted,



William R. England, III MBE# 23975
Dean L. Cooper MBE# 36592
BRYDON, SWEARENGEN & ENGLAND P.C.
312 East Capitol Avenue
P.O. Box 456
Jefferson City, MO 65102-0456
Telephone: (573) 635-7166
Facsimile: (573) 635-0427
trip@brydonlaw.com
dcooper@brydonlaw.com

ATTORNEYS FOR MISSOURI-AMERICAN
WATER COMPANY

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 2nd day of November, 2009, to:

General Counsel's Office
Missouri Public Service Commission
Governor's Office Building
200 Madison Street
P.O. Box 360
Jefferson City, Missouri 65102

Office of the Public Counsel
Governor's Office Building
200 Madison Street
P.O. Box 7800
Jefferson City, Missouri 65102


