

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office in
Jefferson City on the 6th day of
December, 2001.

Staff of the Missouri Public Service
Commission,

Complainant,

v.

Union Electric Company,
d/b/a AmerenUE,

Respondent.

Case No. EC-2002-1

**ORDER ESTABLISHING TEST YEAR
AND PROCEDURAL SCHEDULE**

This order establishes the test year as that period from July 1, 2000, to June 30, 2001. Ordering all parties to use a common test year is "...necessary in order to identify and quantify issues. Conflicting test years would result in the parties basing their cases on a different set of underlying events, transactions, and measurements that are embedded in different periods."¹

The test year is a central component in a rate review process. Rates are usually established based upon a historical test year which focuses on four factors: (1) the rate of return the utility has an opportunity to earn; (2) the rate base upon which a return may be earned; (3) the depreciation costs of plant and equipment; and (4) allowable operating

¹ Staff's response to direction from the Chief Regulatory Law Judge to submit pleading regarding test year and procedural schedule.

expenses.² From these four factors is calculated the "revenue requirement," which, in the context of rate setting, is the amount of revenue ratepayers must generate to pay the costs of producing the utility service they receive while yielding a reasonable rate of return to the investors.³ A historical test year is used because the past expenses of a utility can be used as basis for determining what rate is reasonable to be charged in future.⁴

Staff proposed a test year which would run from July 1, 1999, until June 30, 2000. Staff is joined in that request by the Office of the Public Counsel, and the State of Missouri as represented by the Attorney General. Although Staff's proposed test year is one which is easily audited and reviewed, that ease of use comes from the fact that the proposed test year is long over. Because the test year is used to forecast what future earnings and revenues should be, Staff's proposal would result in the Commission setting rates for implementation during the spring and summer of 2002 but these rates would be based upon data which reaches back to 1999. During the times of traditional rate of return regulation, at a time when there was little or no competition in the marketplace, this might have been a safe and appropriate test year.

Union Electric has asserted that "...Staff's test year is seriously out of date and inappropriate for the setting of rates which would become effective in mid-2002."⁵ In

² *State ex rel. Union Electric Company v. Public Service Commission*, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

³ *State ex rel. Capital City Water Co. v. Missouri Public Service Commission*, 850 S.W.2d 903, 916 n. 1 (Mo. App., W.D. 1993).

⁴ *See State ex rel. Utility Consumers' Council of Missouri, Inc. v. Public Service Commission*, 585 S.W.2d 41, 59 (Mo. banc 1979).

⁵ Union Electric Company's Motion to Establish a Test Year and Proposed Procedural Schedule.

support of its proposal, Union Electric states that load and customer-base change from year to year, economic conditions change and inflation steadily drives costs upward and for that reason a more recent test year will usually be a better vehicle for anticipating future costs.

Irrespective of the test year used, the Commission has a common practice of updating test year data with post-period data in order to provide a better basis for future projection. While this practice might be necessitated for certain items, it is not logical to add to the updating process an entire year's worth of data. This is especially true when that data is already known prior to the establishment of the test year. The use of the Staff's proposed test year would result in the Commission establishing rates based upon data which would be nearly three years old at the time the Commission issues its order. The use of Union Electric's proposed test year immediately reduces the lag and similarly provides a significant reduction in the need for updating the case data late in the adjudication process.

The Commission has determined that the test year from July 1, 1999, to June 30, 2000, would result in rates based on outdated cost information and a significant but unnecessary increase in the number of issues to subsequently be adjusted and decided by the Commission. The Commission has further determined that the use of Union Electric's proposed test year will result in rates being based on more current and therefore more accurate data.

Lastly, in order to address Staff's concern that the use of UE's proposed test year might delay the case, UE has affirmed, both on the record at the pre-hearing and in writing, that it would agree that the rates which result from this case shall be retro-active to April 1,

2002. This ensures that if there were any delay necessitated by the choice of this test year, it would not delay the implementation date for new rates.

The Commission cannot order retroactive rates but UE can voluntarily agree to retroactive rates and based, in part, upon UE's agreement to be bound by rates which are retroactive to April 1, 2002, the Commission will order the test year as proposed by UE. In doing so, however, the Commission will expect the utmost cooperation of the UE in exchanging and providing data which will facilitate the use of its proposed test year.

With this designation of the test year the Commission will also establish the remaining procedural dates. The evidentiary hearing has, for some time now, been scheduled to begin on March 4, 2002. Though the Commission has accepted the logic of using the most recent data, as proposed by UE's test year, it does not similarly accept UE's argument that additional time will be needed. The Commission has accepted UE's proposed test year with the expectation that the evidentiary hearing will be convened as scheduled. Therefore, UE will be held to the schedule proposed by the Commission staff and supported by the Office of the Public Counsel and the State of Missouri as represented by the Attorney General. That procedural schedule is set out below. The parties are encouraged to accomplish their respective filings on schedule.

IT IS THEREFORE ORDERED:

1. That the test year shall be the period from July 1, 2000, to the period ending upon July 30, 2001.
2. That the procedural schedule for this case shall be as follows:

Rebuttal Testimony of Office of the
Public Counsel and Interveners

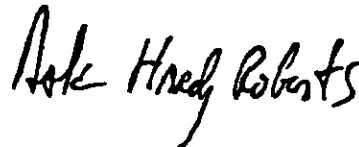
December 20, 2001

Rebuttal Testimony of Union Electric Company	January 4, 2002
Prehearing Conference	January 7, 2002
Supplemental Direct of Staff as needed, List of Issues from all Parties	January 22, 2002
Surrebuttal Testimony of Staff, Cross-Surrebuttal Testimony of Union Electric Company, Office of the Public Counsel, and Interveners	February 19, 2002
Order of Issues, Order of Witnesses, Order of Cross-Examination, List of Positions	February 21, 2002
Evidentiary Hearing Starting On	March 4, 2002

3. That this order shall become effective on December 16, 2001.

(S E A L)

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

Simmons, Ch., Murray,
Lumpe, and Forbis, CC., Concur.
Gaw, C., Dissent.

Roberts, Chief Regulatory Law Judge