

**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-2008-0311
A General Rate Increase for Water and Sewer)	SR-2008-0312
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 December 31, 2007, 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 Grubb Direct, p. 8.

REQUEST FOR TRUE-UP

2. MAWC further requests a true-up audit and hearing as of September 30, 2008. 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 four general rate cases in which the Company has been involved (Cases Nos. WR-2000-281, WR-2000-844, WR-2003-0500 and WR-2007-0216).

5. Further, the true-up date suggested by MAWC – September 30, 2008 - is reasonably conservative. This date is five months prior to the operation of law date in this case (February 28, 2009). MAWC believes that an audit could start as early as October 10, 2008.

6. MAWC’s proposal in this case is driven by several factors. First, based on current projections, MAWC anticipates that approximately \$125 million of plant will be placed into service between January 1, 2008, and September 30, 2008.

7. Second, as is described in the Direct Testimony of MAWC witness Kevin Dunn, MAWC will be completing a number of special construction projects. For example, in the City of Joplin, it is estimated that there will be approximately \$31.8 million of investment related to the Joplin production facilities that will be placed into service by the end of September 2008.

For the St. Louis District, \$34.6 million of plant improvements, main replacements and main relocations are scheduled to be completed by September 2008.

8. Third, the Company plans to complete a debt issuance in the amount of \$70,000,000 in the time frame of the true-up (on or about July 31, 2008). An equity infusion of \$35,000,000 is also expected during the proposed true-up period. These financings will have a material impact on the Company's capital structure.

9. Accordingly, the Company seeks inclusion in its revenue requirement and rates of 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 September 30, 2008. 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
- Fire Hydrant Painting Expense

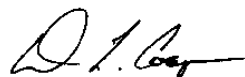
10. If the Company's request for true-up audit and hearing is denied and the above-enumerated items of revenues, expenses and investments are not taken into account in the setting of its rates, the Company will be denied an opportunity to earn the authorized rate of return which the Commission determines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

11. 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 December 31, 2007, trued-up, to

include known and measurable changes, through September 30, 2008.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 15TH day of April, 2008, to:

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