

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

In the Matter of the General Rate Increase)	
for Water and Sewer Service Provided)	Case No. WR-2007-0216
by Missouri-American Water Company.)	SR-2007-0217

**REPLY CONCERNING TEST YEAR
AND TRUE-UP PLEADINGS**

Comes now Missouri-American Water Company (MAWC or Company), and, in reply to the various pleadings concerning the proper test year, update period and true-up, states as follows to the Missouri Public Service Commission (Commission):

MAWC PROPOSAL

1. On December 15, 2006, MAWC filed proposed tariff sheets initiating the subject general rate case. On December 22, 2006, MAWC filed its recommendation concerning an appropriate test year and further requested a true-up audit and hearing.

2. MAWC proposed a test year consisting of the twelve months ended June 30, 2006. This test year has been addressed in the Company's prepared direct testimony and schedules. MAWC further requested a true-up audit and hearing to include in its revenue requirement and rates 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 May 31, 2007. A list of revenue, expense and investment items proposed to be included in the True-Up was supplied by MAWC.

3. The Company stated its belief that the specified items represented significant changes in revenues, expenses and investments which will have occurred, or be known and measurable, no later than the end of May 2007 (or approximately five and one-half months prior to when rates to be set in this proceeding will, in all likelihood, become effective).

RESPONSES OF THE OTHER PARTIES

4. As a part of its Suspension Order and Notice, Order Setting Hearings, and Order Directing Filing, the Commission directed that the Commission Staff (Staff), the Office of the Public Counsel (OPC) and any interveners file by January 24, 2007, a pleading stating their recommendation as to test year and true-up.¹

5. The Staff's recommendation indicated that it did not object to the Company's proposed test year (twelve months ended June 30, 2006). It further proposed that the test year be updated for known and measurable changes through December 31, 2006. Lastly, the Staff stated a need to conduct its audit before taking a position as to the proposed true-up. Staff stated that it would provide a statement of its position with its revenue requirement direct testimony.

6. The City of Joplin generally supported the Staff as it indicated no objection to a test year ending June 30, 2006, proposed that the test year be updated through December 31, 2006, and did not yet have a position as to the proposed true-up and audit.

7. OPC also concurred with the recommendation as to the proper test year. OPC further encouraged the Commission to not make a decision as to the necessity of a true-up at this stage of the case. Instead, OPC proposed that the Commission reserve the identified true-up dates and allow OPC to state its position as to true-up at the time of its direct testimony. OPC further stated that in the event a true-up is not utilized, that the Commission should direct the parties to update the test year for known and measurable changes through December 31, 2006.

¹ The Utility Workers Union of America Local 335 AFL-CIO, Metropolitan St. Louis Sewer District, City of St. Joseph and Missouri Energy Group all filed pleadings stating that they took no position on these issues. The Missouri Industrial Energy Consumers, City of Jefferson City, City of Warrensburg and Public Water Supply District Nos. 1 and 2 of Andrew County and Public Water Supply District No. 1 of DeKalb County did not file a pleading concerning this subject.

8. AG Processing Inc. (AGP) stated that it had no objection to the test year proposed by the Company. However, AGP opposed any update and stated that it did not see a need for a true-up to be scheduled at this time.

TEST YEAR

9. No party appears to object to establishing the test year as the twelve months ending June 30, 2006. Thus, the Commission should issue its order establishing this as the test year.

UPDATE

10. The Staff and the City of Joplin propose to update the test year for known and measurable changes through December 31, 2006. While MAWC did not propose such an update, it concurs with the Staff recommendation as to an update. Moving the case forward in this way will be a step toward providing more timely and relevant information upon which to base whatever rates may result from this case. However, the Company believes that there are other significant events that will occur and which will be known and measurable after December 31, 2006, and prior to May 31, 2007. These events should be reflected in MAWC's revenue requirement. For this reason, a true-up is also appropriate in this case.

TRUE-UP

11. 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).

12. 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.*

13. 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 constant capital investment being made by the Company. In fact, a true-up process has been ordered in at least the last three general rate cases in which the Company has been involved (Cases Nos. WR-2003-0500, WR-2000-844 and WR-2000-281).

14. Further, the true-up date suggested by MAWC – May 31, 2007 - is fairly conservative. This date is five and one-half months prior to the operation of law date in this case. MAWC believes that an audit could start as early as June 6, 2007. Thus, the dates the Commission has reserved for the true-up hearing - July 30, 2007 through August 3, 2007 – would provide sufficient time for audit and testimony.

15. MAWC's proposal in this case is driven by several factors. First, over the last three years, MAWC has averaged over \$50 million dollars of capital investment on a yearly basis. DeBoy Dir., p. 3. Based on current projections, MAWC anticipates that approximately \$43 million of plant will be placed into service between January 1, 2007, and April 30, 2007.

16. Second, as is described in the Direct Testimony of MAWC witness Alan DeBoy, MAWC will be completing a special construction project in the City of Joplin related to the Joplin production facilities. It is estimated that there will be approximately \$10,000,000 of investment that will be placed into service in the Joplin district alone, by the end of May 2007. DeBoy Dir., p. 27.

17. Third, the Company plans to complete financings in the time frame of the true-up (Case No. WF-2007-0279). These financings will have a material impact on the Company's capital structure. MAWC anticipates that debt and equity transactions of approximately \$130,000,000 will be known during the proposed true-up period.

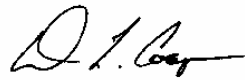
18. Lastly, the Metropolitan St. Louis Sewer District (MSD) has filed a complaint against MAWC concerning fees it pays for obtaining MAWC's water usage data (Case NO. WC-2007-0040). That case is scheduled to be heard by the Commission on March 7, 2007. MSD currently pays MAWC over \$750,000 on an annual basis for this usage data. MSD alleges that they should not have to pay anything for the data. The revenues currently received from MSD are recorded above the line for rate making purposes. Therefore, the outcome of this complaint case could have a significant impact on the appropriate balance of MAWC's revenue, expense and rate base.

19. MAWC's request proposed a package of adjustments 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, 2006, updated through December 31, 2006, and ordering that a true-up audit and hearing be conducted concerning the items specified in MAWC's Recommendation Concerning Test Year and Request for True-Up Audit and Hearing through May 31, 2007.

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 1st day of February, 2007, to:

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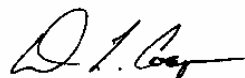
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