

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Cities Water Company,)
St. Charles, Missouri, for authority to file) CASE NO. WR-90-236
tariffs to implement uniform water rates for)
Company's four service areas in Missouri.)

APPEARANCES: Byron E. Francis, Attorney at Law, Armstrong, Teasdale,
Schlafly, Davis & Dicus, One Metropolitan Square,
St. Louis, Missouri 63102 for Applicant.

Carl J. Lumley, Attorney at Law, Curtis, Oetting,
Brackman & Crossen, P.C., 130 South Bemiston,
Suite 200, Clayton, Missouri 63105, for the
City of Warrensburg, Missouri.

John B. Coffman, Assistant Public Counsel, P. O. Box 7800,
Jefferson City, Missouri 65102, for the Missouri Public
Service Commission and the Public.

William K. Haas, Assistant General Counsel, P. O. Box 360,
Jefferson City, Missouri 65102, for the Staff of the
Missouri Public Service Commission.

Hearing
Examiner: Linda C. James

REPORT AND ORDER

On March 16, 1990, Missouri Cities Water Company (Company or MCWC) filed tariffs which proposed implementation of uniform rates for MCWC's five divisions. The proposed tariffs do not reflect an increase in revenue. On April 13, 1990, the Missouri Public Service Commission (Commission) issued its Suspension Order And Notice Of Proceedings which suspended the Company's proposed tariffs until February 14, 1991. On May 9, 1990, the City of Warrensburg (Warrensburg) filed an application to intervene, which was granted.

The Commission established a procedural schedule for the prefiling of testimony. Company, Staff and Public Counsel prefiled direct testimony. A prehearing conference was held in this case on September 17, 1990, and the hearing

was held on September 19, 1990. Company, Staff, Public Counsel and Warrensburg appeared at the hearing.

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.

Missouri Cities Water Company is a regulated public utility providing water service to Missouri customers within its service areas. Company filed these tariffs to receive Commission approval to implement uniform rates for Company's five divisions:

- City of Brunswick and adjacent areas
- City of Mexico and adjacent areas
- Certificated area in Platte County Missouri
- City of Warrensburg and adjacent areas
- Certificated area in St. Charles County, Missouri

The Company developed a single rate for all customers in the five districts. The single rate was developed by averaging the revenue requirement and billing determinant approved for each district in the Company's last rate Case No. WR-89-178. The Company then calculated equalization rates for each district to maintain revenue neutrality and to keep customer bills unaffected. Adding the Company-wide rate and the equalization rate will result in the same water rates for customers as approved in Case No. WR-89-178. Some of the equalization rates are positive and some negative.

The single tariff was developed through an averaging of the revenue requirements and billing determinants approved for each district and rate component in Case No. WR-89-178. All customers would be billed the single tariff rate along with applicable equalization rates for the particular district in which the customer is located.

The single tariff pricing methodology that would be used by Company exactly duplicates the customer bills that are produced under authorized existing rates and it produces no increase or decrease in revenues to the Company. Company expounds that the following ratepayer benefits will result from the implementation of a single tariff.

1. A greater stability of customer rates due to the smoothing out of rate spike effects occasioned by major plant additions and improvements;
2. A greater flexibility in the timing of plant additions as a result of a larger revenue base;
3. A decrease in rate volatility that can result from lost sales volumes;
4. A reduction in accounting costs and a simplification of accounting procedures due to the elimination of the need to allocate common costs;
5. A reduction in rate case expense and a simplification of the rate case process due to one company versus multi-district filings; and
6. A greater flexibility and ease in the administration of tariffs.

Staff proposes to leave the rates designed on the same basis as the tariffs that are in effect today. Staff feels they do not have a precedent on which to base a recommendation to spread customer costs on a company-wide basis.

It is Staff's position that Company did not ask that revenue to the various districts be changed and Staff generally recommends that rates be set on a cost-of-service basis by district. Staff recommends that rates for the Company continue to be designed on the cost of service for each district and thus opposes the setting of rates on a system-wide basis.

Public Counsel maintains that the Company intends to move to a company-wide tariff with no district differences. Differences among districts in costs per unit of water sold would be ignored. Public Counsel proposed that the district equalization rates be maintained into the foreseeable future. This would maintain a rate differential among districts that is based on current cost differences. In

future rate cases Company might file to revise only the company-wide rates and leave the equalization rates undisturbed. Such a procedure would return the major benefit of uniform rates and ameliorate the rate shocks related to plant additions.

Public Counsel contends that if the surcharges and credits of the equalization rates are eliminated, cross-subsidization will occur. However, by maintaining the present rate differentials indefinitely, the extent of cross-subsidization would be limited.

Rate shock is the result of rate changes, not rate levels. Public Counsel's proposal would allow the Company to file a company-wide increase in future rate cases while maintaining existing rate differentials. That would limit the extent of cross-subsidization and rate shock.

Public Counsel proposes that Company's uniform rate proposal be approved with the condition that the equalization rates proposed in the case not be changed in future Company rate cases. Maintaining the proposed equalization rates would limit the extent of cross-subsidization, but would allow the Company to propose rate increases on a company-wide basis.

Warrensburg opposes the Company's uniform rate proposal. Warrensburg customers feel they should not have to subsidize costs incurred for other customers nor should other customers have to subsidize costs incurred for Warrensburg customers.

The Commission has reviewed the evidence in this matter and finds that the proposal to establish a system-wide rate for water service is reasonable. These tariffs would not make everyone's water bill the same. This proposal would only make any future rate increases the same. That is, current differences in rates among the districts would remain the same but the increases would be spread equally among all customers. The Commission finds also that the proposal to establish equalization rates to maintain the current differentials between Company districts is also

reasonable. The Commission agrees with Public Counsel that the proposal will allow Company to spread future increases in rates on a system-wide basis while maintaining the current rate differential which will reduce rate shock in future cases and limit cross-subsidization. Spreading the costs to all Company customers will also allow Company greater flexibility in timing plant additions.

The Commission agrees with Public Counsel that the equalization rates should stay in effect until some future date. Even though an equalization rate might change because of changed billing determinants the Commission finds that the current rate differential should be maintained. This matter can be reviewed in some future rate case.

Conclusions of Law

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

The Commission has jurisdiction over Company pursuant to the provisions of Chapters 386 and 393, RSMo 1986. Company's tariffs, which were the subject of this proceeding, were suspended pursuant to the provisions of Section 393.150, RSMo 1986, which places upon Company the burden of proof to show that the proposed tariffs are just and reasonable.

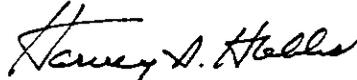
The Commission concludes that the rate design changes proposed by Company are reasonable. The Commission has found that allowing Company to increase rates on a system-wide basis is in the public interest and should be approved.

IT IS THEREFORE ORDERED:

1. That the tariffs submitted by Missouri Cities Water Company on March 16, 1990, be approved for service on and after October 23, 1990.

2. That this Report and Order shall become effective on the 23rd day of October, 1990.

BY THE COMMISSION



Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,
McClure and Letsch-Roderique, CC.,
concur and certify compliance with
the provisions of Section 536.080,
R.S.Mo. 1986.

Dated at Jefferson City, Missouri,
on this 12th day of October, 1990.