

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 7th
day of March, 1997.

In the Matter of St. Louis County)	
Water Company's Tariff Designed to)	Case No. <u>WR-96-263</u>
Increase Rates for Water Service to)	
Customers in the Company's Service Area))	

ORDER REGARDING CLARIFICATION AND REHEARING

On December 31, 1996, the Commission issued its Report and Order in this matter, with an effective date of January 9, 1997. On January 3, 1997, St. Louis County Water Company (County Water) filed a motion for clarification. Responses to the County Water motion were filed by both the Staff of the Commission (Staff) and the Office of the Public Counsel (OPC). On January 8, 1997, the OPC filed a motion for rehearing.

In its motion for clarification, County Water maintains that "the Commission has left unanswered the question of whether or not the Company can continue to accrue infrastructure replacement costs in an AAO." The term "AAO" refers to accounting authority order. Further, County Water states that "the question of continuation of the methodology through the authorization of another similar AAO extending into the future, presumably until the culmination of the Company's next case, was before the Commission in this case, but was unresolved by the Report and Order."

Responses to this motion were filed by both the Staff and the OPC. The Staff agrees that the Commission should clarify its order by addressing the question "as to whether County Water is authorized to continue to accrue infrastructure replacement costs and to specify a time limit for

County Water to file a rate case for recovery of the deferred costs, if the AAO process is continued."

The OPC contends that no clarification is necessary. It is the understanding of the OPC that the Report and Order of December 31, 1996, contains no new AAO for the deferral of additional infrastructure replacement costs. In support of its position, the OPC cites the following from the Report and Order:

"In the previous case, WR-95-145, the Commission granted County Water an Accounting Authority Order (AAO), limited in time and scope. . . . As both the OPC and the Staff point out, the Commission has, to date, granted AAO accounting treatment exclusively for one-time outlays of capital caused by unpredictable events, acts of government, and other matters outside the control of the utility or the Commission." See Report and Order (Dec. 31, 1996) at 10, 13.

The Commission finds that its Report and Order should be clarified. Because the infrastructure replacement costs appear to be of such an extraordinary, infrequent and unusual nature when the rate of their increases is considered, an AAO should be granted. While the Commission reserves ratemaking treatment of this regulatory asset for a future decision, the AAO will give the Company an opportunity to earn its allowed rate of return. The motion for clarification will be granted.

In its application for rehearing, filed January 8, 1997, OPC maintains "to the extent that the December 31, 1996 Report and Order grants County Water additional rate base and additional amortization expense in recovery that corresponds to costs deferred by the September 19, 1995 accounting authority order, the matching principle, the prohibition against single issue ratemaking, and the prohibition against retroactive ratemaking are violated." In addition, the OPC contends that "it is unreasonable to allow County Water recovery of AAO deferrals because its infrastructure

replacement efforts are not unusual nor extraordinary, and are most definitely recurring."

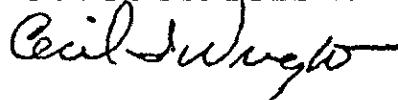
Finally, the OPC states that the return on equity of 11.60%, authorized by the Commission in the December 31, 1996 Report and Order, was unsupported by substantial and competent evidence.

The Commission finds that the points raised by the OPC in regard to the treatment of the amounts accumulated under the accounting authority order granted in the previous rate case were considered by the Commission in the instant decision. In addition, the Commission finds no sufficient reason to reconsider the return on equity granted County Water in the Report and Order of December 31, 1996. Therefore, the application for rehearing will be denied.

IT IS THEREFORE ORDERED:

1. That the motion for clarification, filed January 3, 1997, by St. Louis County Water Company, is granted for the reasons as set out above.
2. That the application for rehearing, filed January 8, 1997, by the Office of the Public Counsel, is denied for the reasons as set out above.
3. That this order shall become effective on the date hereof.

BY THE COMMISSION



**Cecil I. Wright
Executive Secretary**

(S E A L)

Zobrist, Chm., McClure,
Crumpton, and Drainer, CC., Concur.

ALJ: Derque