

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)	
Company's Request for Authority to Implement)	<u>Case No. WR-2008-0311</u>
a General Rate Increase for Water and Sewer)	
Service Provided in Missouri Service Areas)	

ORDER REGARDING TRUE-UP DATE AND SETTING
TRUE-UP PROCEDURAL SCHEDULE

Issue Date October 20, 2008

Effective Date: October 20, 2008

Background

On April 15, 2008, Missouri-American Water Company requested that the test year in this matter be comprised of the 12 months ending December 31, 2007. Already scheduled to be updated for known and measurable changes through March 31, 2008, MAWC requested a true-up through September 30, 2008. In response, the Staff of the Commission did not take a position on the company's request for true-up because the hearing dates, at that time, were reserved for September 17 through October 17, 2008. The hearing is now set to begin on October 30. The Office of the Public Counsel, in its response, questioned the necessity of a true-up and opposed the request because it had not performed an independent audit or analysis.

All of the other parties responding to the request took no position. Specifically, the City of Joplin stated that it took no position as to the necessity for a true-up.

On June 30, the Commission issued an order adopting a procedural schedule. In that order, the Commission noted that:

[T]he parties do not agree on a date up to which known and measurable changes in the test year might be accounted for. Staff and the Office of the Public Counsel suggest that this date be March 31, 2008. Missouri-American suggests that it be September 30.

continued . .

[B]ecause all of the parties do not agree on the date up to which known and measurable change should be accounted for the Commission will issue a subsequent order resolving this issue.

In response to the Commission's order, MAWC points out that there may be less disagreement with regard to the true-up than the Commission's order suggests and, in a subsequent pleading, recommends the following procedural schedule:

November 18, 2008	–	Simultaneous Direct True-Up Testimony
December 2, 2008	–	Simultaneous Rebuttal True-Up Testimony
December 8-9, 2008	–	True-Up Hearing

Thereupon, the City of Joplin filed a response. Pointing out that it had not taken a position on this issue until after the parties filed direct testimony, Joplin now opposes the proposed true-up period. For its relief, Joplin asked that the Commission stay any action on this issue until all rebuttal testimony was filed.

After rebuttal testimony was filed, Staff requested, on October 7, that the Commission expedite its determination regarding true-up. Staff pointed out that at the time of its filing, it had begun receiving information from MAWC for a true-up audit of plant placed in service between March 31 and September 30, 2008. The Commission immediately issued an order shortening the time for responses to Staff's request. In that order, the Commission directed that any objections to Staff's pleading be filed by October 9. On October 9, Joplin filed a pleading opposing true-up or, in the alternative, extending true-up only through June 30, 2008. On October 10, MAWC filed a reply to Joplin's response.

Discussion

In its April 15 pleading, MAWC anticipated that approximately \$125 million of plant would be placed into service between January 1, 2008 and September 30, 2008. The company set this out in direct testimony and gave an example that approximately \$31.8 million of investment related to the Joplin production facilities would be placed into service by the end of September 2008. Also, \$34.6 million of plant improvements, main replacement and main relocations would be in service in St. Louis. The company also stated that it planned to complete a debt issuance of \$70,000,000 and an equity infusion of \$35,000,000 during the true-up period.

Joplin's first concern is that there will be insufficient time, prior to the start of the hearing, on October 30, to review information concerning the additional plant in service through September 30. As pointed out by MAWC, this concern is unfounded. The hearing for the true-up has been set for December 8-9, 2008. Further, MAWC has proposed that direct and rebuttal testimony be filed beginning on November 18 and December 2. Joplin will therefore have until November 18 to review the information. Joplin does not argue whether it will have sufficient time to review prior to November. However, the premise upon which Joplin rests its conclusion, that it has until the start of the hearing on October 30 to review the information, is incorrect. The argument therefore fails.

Also in this regard, MAWC filed a Recommendation Concerning Test Year and Request for True-Up Audit and Hearing on April 15. In that pleading, MAWC set out certain costs it expected to incur between January and September of 2008, and requested that true-up be through September of 2008. Joplin has therefore been aware of this request since it was granted intervention on May 2, 2008.

Joplin also argues that the use of *any* true-up is questionable. Joplin cites a case¹ to support its position. This case includes a discussion of whether Construction Work in Progress should be included in rate base or whether the company should recover its costs through capitalization. As pointed out by MAWC, this case is not on point.

Finally, MAWC highlights a portion of a Commission case on this issue:

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.²

As pointed out by MAWC through its pleadings on this issue, a true-up through September 30, 2008 will be five months prior to the operation of law date. No party objects to the true-up period extending up to five months prior to this date.

Decision

Joplin has not shown that a true-up through September 2008, is illegal or unfair and no other party opposes the request. The Commission finds MAWC's arguments persuasive and will therefore set a true-up period through September 30, 2008, and set a procedural schedule to facilitate the true-up hearing.

THE COMMISSION ORDERS THAT:

1. The true-up period shall be through September 30, 2008.

¹ *State ex rel. Southwestern Bell Telephone Company v. Public Service Commission of Missouri*, 645 S.W.2d 44 (Mo. App. W.D. 1982)

² *In re Kansas City Power & Light Company*, 26 Mo.P.S.C. (N.S.) 104, 109 (1983).

2. The following procedural schedule is established in order to facilitate a true-up hearing:

November 18, 2008: Simultaneous Direct True-Up Testimony

December 2, 2008: Simultaneous Rebuttal True-Up Testimony

December 8-9, 2008: True-Up Hearing

3. This order shall become effective upon issuance.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', is written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Kennard L. Jones, Senior Regulatory
Law Judge, by delegation of authority
pursuant to Section 386.240, RSMo 2000.

Dated at Jefferson City, Missouri,
on this 20th day of October, 2008.