

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

In the Matter of Missouri-American)
Water Company's Request for Authority)
to Implement a General Rate Increase)
for Water Service Provided in Missouri)
Service Areas)

Case No. WR-2007-0216

**PRE-HEARING BRIEF OF THE
OFFICE OF THE PUBLIC COUNSEL**

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PRE-HEARING BRIEF OF THE OFFICE OF THE PUBLIC COUNSEL

COMES NOW the Office of the Public Counsel (Public Counsel) and states for its Pre-Hearing Brief as follows:

On February 22, 2007, the Commission issued its *Order Adopting Procedural Schedule and Approving Motion to Modify Suspension Order and Notice*. Therein, the Commission directed that the parties file by July 30, 2007, a Final List of Issues, List of Witnesses, Order of Cross-Examination, Order of Opening, Final Reconciliation. On July 30, 2007, the Commission issued its order extending the deadline for this filing to August 1, 2007.

On August 1, 2007, the parties filed their Final List of Issues to be tried in this case. This brief will only address in detail the issues on which Public Counsel is sponsoring witnesses and testimony. As filed, dozens of issues were raised in the parties' testimony, and Public Counsel has not analyzed all of them in order to take a position. This brief will, on issues other than those of Public Counsel witnesses, indicate Public Counsel's position. On a number of issues, Public Counsel has not yet developed a position. Public Counsel reserves the right to support issues raised by other parties at the hearing or in post-hearing briefs.

ISSUES

REVENUE REQUIREMENT

Rate of Return Issues

Return on Common Equity: What return on common equity should be used for determining MAWC's rate of return?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Capital Structure: What capital structure should be used for determining MAWC's rate of return?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Revenue Issues

Revenue Normalization (Weather): What is the appropriate weather-normalized revenue to be included in MAWC's cost of service?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Revenue Annualization: What is the appropriate level of customers and water usage revenues to be used in determining MAWC's test year annualized revenue?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

AWR Compensation to MAWC: What amount of revenues, if any, should be included in MAWC's cost of service as compensation for services provided to American Water Resources by MAWC?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Expense Issues

Depreciation: What are the appropriate depreciation rates to be applied to MAWC's depreciable plant?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Pension/OPEB Methodology: How should pension and OPEB expense be treated for purposes of the revenue requirement and how should it be accounted for on a going forward basis?

Public Counsel supports Staff position on this issue.

Amortization of Pension/OPEB assets: What is the appropriate level of expense to be included in MAWC's cost of service related to recovery of the regulatory asset created by the transition to accrual accounting for pensions and OPEBs?

Public Counsel supports Staff position on this issue.

Insurance Other than Group: What is the appropriate level of expense to be included in MAWC's cost of service related to insurance other than group?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Uncollectible-Present Rates: What amount of uncollectibles/bad debt should be included in MAWC's cost of service?

Public Counsel's analysis based on updated data as compared to the data used by MAWC shows that the appropriate level of Uncollectible Expense to be included in the overall cost of service for water is \$1,505,751 which results in an adjustment to decrease test year expense by \$408,472. Public Counsel's analysis indicates that a declining trend is occurring when actual net cash write-offs (accounts written off less cash subsequently collected on these accounts) is compared to revenues. Additionally the level of net cash write-offs has not varied materially in the last three years despite a 13% growth in revenues. In fact, during 2005 and 2006, actual net write-offs declined while revenues grew over \$11Million.

Uncollectible-Rate Increase: Should the uncollectibles/bad debt expense be adjusted to reflect the total revenues, including any rate increase in Missouri jurisdictional retail revenues awarded in this proceeding?

No. As discussed with respect to the Uncollectible-Present Rates, the level of uncollectible expense when measured using the traditional method of analyzing actual net cash write-offs reveal that in-material changes have occurred during the last three years despite a large growth in revenue. The analysis of updated information in Public Counsel's analysis does not reveal a linear relationship that could be used to justify increasing expense under the assumption that a revenue increase would result in increased expense.

Audit Fees: What is the appropriate level of expense to be included in MAWC's cost of service related to audit fees for Sarbanes-Oxley compliance?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Tank Painting Expense: What is the appropriate level of expense to be included in MAWC's cost of service related to tank painting expense?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Capitalized Software: Should any of the costs associated with computer software and/or maintenance agreements be capitalized? If so, what amount?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Incentive Compensation: What is the appropriate amount of costs associated with MAWC's incentive compensation plan that MAWC should recover from its customers?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

External Affairs: What is the appropriate level of expense to be included in MAWC's cost of service related to its external affairs department/employees?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Overtime Hours: What is the appropriate level of expense to be included in MAWC's cost of service related to employee overtime?

Public Counsel supports Staff position on this issue.

Fuel & Power/Chemicals Due to Unaccounted-for Water: What is the appropriate amount of fuel & power/chemical expenses to be included in MAWC's cost of service for weather-normalized sales?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Belleville Lab: What is the appropriate amount of costs to be included in MAWC's cost of service for its use of the Belleville Laboratory facility?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Management Fees Capitalized: Should some portion of the management fee paid by MAWC be capitalized? If so, what amount?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Rate Base Issues

Warren County Sewer Plant and Cedar Hill Sewer Plant: Should the entire cost of construction of the Warren County and Cedar Hill sewer plants be included in plant in service?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Shared Services and Call Center Transition Costs: What is the appropriate way in which to recognize the costs which MAWC has incurred in transitioning to its National Shared Services Center and Call Center?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Cash Working Capital (Management Fee lag): What is the appropriate amount to be included in MAWC's rate base for cash working capital as it relates to the management fees expense lag?

Public Counsel supports Staff position on this issue.

Rate base for security deferral: Should the unamortized balance of deferred Security costs be included in rate base?

Public Counsel supports Staff position on this issue.

RATE DESIGN/COST OF SERVICE

Rate Design/Cost-of-Service: How should any revenue increase for MAWC that results from this case be implemented in rates?

Public Counsel generally supports district revenues to be aligned with district costs; however, the deficiency for Brunswick and Warren County is too significant to accomplish movement to full cost of service in this case. In order to make a significant movement toward cost of service while mitigating rate shock, the district increase for Brunswick and Warren County should be set at the highest percentage increase experienced by any other district. Recovery from other districts should be based on district specific revenue requirements with the exceptions that the subsidy needed to cover Brunswick's under-collection be collected from St. Louis and the subsidy needed to cover Warren County's under-collection be collected from St. Charles. (Meisenheimer Surrebuttal, pg. 2, lines 3-12)

District Pricing v. Other: What is the appropriate way to allocate costs among MAWC's various operating districts?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

District Specific Costs: What are the costs of each district?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Allocations: What is the appropriate basis upon which to allocate MAWC Corporate Administrative and General Expenses to the various districts?

Public Counsel supports Staff position on this issue.

District Specific Revenues: What are the normalized revenues associated with each district?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Joplin Overcharge (WR-2000-281 Appeal): Should an adjustment be made related to the appeal of Commission Case No. WR-2000-281? If so, what adjustment should be made?

No adjustment should be made in this case.

Class Identification/Cost of Service: What is the appropriate way in which to identify classes and to allocate costs among customer classes within each operating district?

Public Counsel supports using tariffed Rate Schedules or common characteristics to group classes. (Meisenheimer Direct, pg. 6, lines 2-4; Meisenheimer Rebuttal, pg. 2, lines 12-16)

Generally, Public Counsel supports allocating costs consistent with the allocation methods set forth in the preliminary cost studies filed in the direct and rebuttal testimony of Public Counsel witness Meisenheimer. (Meisenheimer Direct, pg. 4, line 15 through pg.12, line 11) However, Public Counsel is not proposing to use the CCOS study results in setting specific rates, the studies are helpful as a guide. (Meisenheimer Direct, pg. 4, lines 2-9) Public Counsel does not oppose consideration of the MAWC class cost of service study results filed in rebuttal testimony, the Staff cost study results filed in direct testimony and the Public Counsel preliminary cost study results filed in direct and rebuttal testimony. Based on review of the Company, Staff and Public Counsel class cost of service study results, Public Counsel believes that no intra-district shifts in revenue responsibility are needed. (Meisenheimer Direct, pg. 4, lines 2-9; Meisenheimer Rebuttal, pg. 5, lines 1-14, pg. 5, lines 2-17; Meisenheimer Surrebuttal, pg. 2, lines 17-21)

MISCELLANEOUS

Jefferson City Issues: Are MAWC's Jefferson City facilities adequate as related to backup power generation, storage and small main replacement?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Joplin Surcharge: Should MAWC be allowed to implement its proposed Joplin plant improvement surcharge?

No. The proposed surcharge would be inconsistent with traditional regulatory principles and unlike the ISRS has no legislative mandate. The ISRS is also based on audited data reflecting actual plant in service with the ISRS being charged customers after the plant has been placed in service. The proposed Joplin surcharge would require a pre-approval of a series of tariffs that are designed to pay the carrying charge (financing costs) of plant under construction. The Joplin surcharge is premised on customers being charged for costs associated with plant under construction NOT plant in service.

Consolidated Billing: Should the proposed consolidated billing tariff be approved?

No. The number of customers that would qualify for consolidated billing and the class revenue impacts of such a proposal are unknown. Public Counsel opposes the proposal unless it can be designed and implemented in a manner that avoids shifts in cost recovery between classes. (Meisenheimer Rebuttal, pg. 7, line 19, through pg. 8, line 7)

Triumph Foods/ St. Joseph Issue: Should an adjustment be made associated with the rate paid by Triumph Foods, LLC in St. Joseph?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Union Training Issues: Are MAWC's efforts in regard to asbestos-cement and lead jointed piping adequate and appropriate? Confidentiality of Payroll? Proper Allocation of Funds from the Rate Increase to Ensure the Provision of Safe & Adequate Service?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Customer Charge Revenue: Should there be any adjustment related to the capacity charge MAWC has proposed in Case No. ST-2007-0443?

Public Counsel did not file testimony on this issue and reserves the right to base a final position on the testimony provided at hearing.

Respectfully submitted,

OFFICE OF THE PUBLIC COUNSEL

/s/ Christina L. Baker

By:_____

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CERTIFICATE OF SERVICE

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