

Exhibit No.

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Rate of Return

Jay W. Moore, CMA, CRRA

Direct Testimony

MO PSC Staff

GR-93-172

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

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MISSOURI PUBLIC SERVICE,

A DIVISION OF UTILICORP UNITED INC.

ACCOUNTING DEPT.
PSC SERVICE COMMISSION

CASE NUMBER GR-93-172

FILED

MAY 28 1993

PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

JAY W. MOORE, CMA, CRRA

Jefferson City, Missouri

May 1993

1 DIRECT TESTIMONY

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3 JAY W. MOORE, CMA, CRRA

4 MISSOURI PUBLIC SERVICE,

5 A DIVISION OF UTILICORP UNITED INC.

6 CASE NUMBER GR-93-172

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8
9 Q. Please state your name.

10 A. My name is Jay W. Moore.

11 Q. Please state your business address.

12 A. My business address is P.O. Box 360, Jefferson City, Missouri, 65102.

13 Q. What is your present occupation?

14 A. I am employed as Manager of the Financial Analysis Department for the Missouri
15 Public Service Commission. I accepted this position in November 1990. From November 1987
16 to October 1990, I was employed as a Financial Analyst with the Missouri Public Service
17 Commission (Commission).

18 Q. Were you previously employed before you joined the Commission's staff (Staff)?

19 A. Yes, I was employed by Summit Bank of Marion, Indiana from August 1985 to
20 October 1987, in a Management Trainee position. I trained and assisted in the overall
21 operation of the entire bank. I received training in the following departments: the operations
22 department, commercial and mortgage loan departments, investment department and the trust
23 department.

24 Q. What is your educational background?

25 A. In 1985, I earned a Bachelor of Science degree in Mathematics with a minor in
26 Business from Central Missouri State University. In 1987, I earned a Master of Business

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1 Administration degree with a concentration in Finance from Ball State University, Muncie,
2 Indiana.

3 Q. Are you a member of any professional associations?

4 A. Yes, in December 1990, I was appointed as a member of the National Association
5 of Regulatory Utility Commissioners' (NARUC's) Staff Subcommittee on Economics and
6 Finance. I am also a member of the National Society of Rate of Return Analysts and the
7 Institute of Management Accountants.

8 Q. Do you hold any professional designations?

9 A. Yes. On May 20, 1992, I was awarded the professional designation of "Certified
10 Rate of Return Analyst" (CRRA) by the National Society of Rate of Return Analysts. This
11 designation is based upon education, experience and the successful completion of a
12 comprehensive examination. In addition, on June 1, 1992, I was awarded the professional
13 designation of "Certified Management Accountant" (CMA) by the Institute of Certified
14 Management Accountants. This designation is a result of completing the CMA Examination
15 and the fulfillment of the experience requirement.

16 Q. What is the purpose of your testimony in this case?

17 A. My testimony is presented to provide a recommendation to the Commission as
18 to a fair and reasonable rate of return for the Missouri jurisdictional natural gas distribution
19 utility rate base of UtiliCorp United Inc.'s Missouri Public Service division (MPS).

20 Q. Did the Staff enter into an agreement with MPS concerning the overall rate of
21 return for this proceeding?

22 A. Yes. The Staff and MPS entered into an agreement on May 25, 1993, which
23 states that " . . . for purposes of this case an overall rate of return of 10.2% is just and
24 reasonable and should be utilized by the Commission for purposes of setting rates in this case.

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1 The parties also agree that the 10.2% rate of return includes a weighted cost of debt
2 component of 4.75%."

3 Q. What analysis can you provide to support that the terms of the agreement are
4 reasonable?

5 A. My analysis compares the agreed upon rate of return for MPS's gas operations
6 with Staff's testimony and schedules filed in Case Number ER-93-37, MPS's pending electric
7 rate case, as well as the MPS's direct testimony and schedules filed in this case.

8 Q. Did you testify to a fair and reasonable rate of return for MPS's electric operations
9 in Case Number ER-93-37?

10 A. Yes. I sponsored a study entitled "An Analysis of the Cost of Capital for UtiliCorp
11 United Inc.'s Missouri Public Service Division, Case Number ER-93-37".

12 Q. What did you conclude was the cost of capital for MPS's electric operations?

13 A. My analysis in Case Number ER-93-37 led me to conclude that the cost of capital
14 for MPS's electric operations was in the range of 9.64 to 9.82 percent.

15 Q. Is this range appropriate for MPS's natural gas distribution operations?

16 A. No. The Staff had agreed to conduct a true-up audit in Case Number ER-93-37,
17 in which I was going to review the updated capital structure including the balance of UtiliCorp
18 United Inc.'s (UtiliCorp) short-term debt, net of Construction Work In Progress (CWIP). Mr.
19 John C. Dunn (MPS's cost of capital witness) provided me with information which showed that,
20 as of March 31, 1993, after UtiliCorp financed the \$78 million acquisition of a Nebraska gas
21 distribution system from funds obtained through UtiliCorp's just completed \$131 million
22 common stock issuance and \$125 million unsecured senior note issuance, UtiliCorp's balance
23 of short-term debt, net of CWIP, was negative. As a result of the negative balance, I believe

1 the short-term debt component should not be included at this time in the cost of capital
2 calculations for MPS.

3 Q. What would be the result to your recommended overall rate of return range of
4 9.64 percent to 9.82 percent for MPS's electric operations if you were to remove the short-
5 term debt component?

6 A. If you were to remove the short-term debt component from the weighted cost of
7 capital as of September 30, 1992 for UtiliCorp (as calculated in Case Number ER-93-37), the
8 corresponding weighted cost of capital for MPS's electric operations would increase to the
9 range of 10.12 percent to 10.31 percent.

10 It should be noted that the Staff and MPS agreed that the "... [agreed upon] rate of
11 return [of 10.2%] also recognizes that the cost of equity for MPS's gas distribution operations
12 is historically higher than the cost of equity for MPS's electric operations. This makes the
13 return on equity from the pending electric rate case appropriate for use in this proceeding after
14 adjustments are made to reflect the historically higher risk of the gas distribution operations."

15 Q. Please summarize your testimony.

16 A. I am recommending that MPS's natural gas distribution operations be allowed to
17 earn a return on its original cost rate base of 10.20 percent. Through my analysis, I believe
18 that MPS and the Staff have agreed to a fair and reasonable return which when applied to
19 UtiliCorp United Inc.'s Missouri Public Service division's Missouri jurisdictional natural gas
20 distribution utility rate base will allow Missouri Public Service the opportunity to earn the
21 revenue requirement developed in this rate case.

22 Q. Does this conclude your prepared direct testimony?

23 A. Yes, it does.

My Commission expires