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Missouri Public Service Commission

*Exhibit No.:* 16
*Issues:* *Pensions; Other Post Employment Benefits (OPEBs); Income Taxes; Reserve Deficiency Amortization*
*Witness:* *Doyle L. Gibbs*
*Sponsoring Party:* *MoPSC Staff*
*Type of Exhibit:* *Direct Testimony*
*Case Nos.:* *WR-2003-0500 and WC-2004-0168*
*Date Testimony Prepared:* *October 3, 2003*

# MISSOURI PUBLIC SERVICE COMMISSION

## UTILITY SERVICES DIVISION

# DIRECT TESTIMONY

# OF

# DOYLE L. GIBBS

## MISSOURI-AMERICAN WATER COMPANY

## CASE NOS. WR-2003-0500 AND WC-2004-0168

*Jefferson City, Missouri*
*October 2003*

Exhibit No. 16
Case No(s). WR-2003-0500
Date 12/16/03 Rptr SLM

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of the General Rate Increase for Water and Sewer Service Provided by Missouri-American Water Company. | ) ) ) | Case No. WR-2003-0500 |

| | | |
|---|---|---|
| Staff of the Missouri Public Service Commission,<br><br>Complainant,<br><br>v.<br><br>Missouri-American Water Company,<br><br>Respondent. | ) ) ) ) ) ) ) ) ) | Case No. WC-2004-0168 |

AFFIDAVIT OF DOYLE L. GIBBS

STATE OF MISSOURI )
) ss.
COUNTY OF COLE )

Doyle L. Gibbs, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 18 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Doyle L. Gibbs
Doyle L. Gibbs

Subscribed and sworn to before me this 2nd day of October 2003.

Toni M Charlton

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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**DOYLE L. GIBBS**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NOS. WR-2003-0500**

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**DIRECT TESTIMONY**

**OF**

**DOYLE L. GIBBS**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NOS. WR-2003-0500**

**AND WC-2004-0168**

Q. Please state your name and business address.

A. Doyle L. Gibbs, 1845 Borman Court, Suite 101, St. Louis, Missouri 63146.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (Commission) as a Regulatory Auditor.

Q. Please describe your educational background.

A. I attended the University of Missouri – St. Louis, where I received a Bachelor of Science degree in Business Administration with a major in Accounting in 1976. I passed the Uniform Certified Public Accountant examination in 1988. I have been licensed as a Certified Public Accountant in the state of Missouri since February 1989.

Q. What has been the nature of your duties while in the employ of this Commission?

A. I have conducted and assisted with the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before the Commission?

A. Yes. Please see Schedule 1, attached to my testimony, for the list of cases in which I have previously filed testimony. Included on Schedule 1 are the issues covered in some of my recent testimony filings.

Q. With reference to Case No. WR-2003-0500, have you made an investigation with respect to Missouri-American Water Company's (Missouri-American, MAWC or Company) rate change request?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. What did your investigation entail?

A. My investigation included the review and examination of the Company's filing, its supporting work papers and underlying financial reports and records including such items as tax returns and actuarial reports. Information and data was further obtained through the issuance of Data Requests and conversations with Company personnel, review of work papers and other information generated from past Company cases, Commission Orders and Staff testimony on related issues in other utility company cases filed.

Q. What is your primary responsibility in this case?

A. My primary areas of responsibility in this case are Pension and Other Post Employment Benefits (OPEBs) expenses and income taxes. I am also responsible for creating and maintaining the calculation of the proposed revenue requirement presented in the Staffs Accounting Schedules.

Q. What knowledge, skill, experience, training or education do you have in these matters?

A. As previously stated, my college degree had an emphasis in Accounting and I successfully passed the Certified Public Accounts Exam, which included sections on accounting practice, theory and auditing. During my 27 years of employment with the Commission, I have acquired general knowledge of these topics through my experiences and analyses in prior rate cases before this Commission, some of which include MAWC cases or cases involving Missouri Cities Water Company and St. Louis County Water Company, companies that have since been acquired by MAWC. I have also acquired knowledge through review of Staff testimony and Commission decisions regarding these areas and have reviewed the Company's testimony, work papers and responses to Staff's data requests in this case addressing these topics.

Q. What is the purpose of your direct testimony?

A. The primary purpose of my direct testimony is to discuss, in general, the Staff's Revenue Requirement calculation that is presented in the Accounting Schedules and how it was modified to address the multi-district operations of the Company. Specifically, I am sponsoring and will explain Accounting Schedules 1, 9, 10 and 11, which are Revenue Requirement, Income Statement, Adjustments To Income Statement and Tax Calculation, respectively. I am also sponsoring and will explain the following Staff adjustments contained in Accounting Schedule 10, Adjustments To Income Statement.

| | |
|---|---|
| Pension Expense | S-14.15 |
| OPEB expense | S-14.16 |
| OPEB amortization | S-14.17 |
| Reserve Deficiency Amortization | S-16.1 |
| Current Income Tax | S-18.1 |
| Deferred Income Tax | S-19.1 |

Additionally, I will address the Deferred OPEB Asset, Pre-71 Investment Tax Credit (ITC), Deferred Income Taxes and Accrued Pension Liability reflected on Accounting Schedule 2, Rate Base.

**<u>COMPANY OPERATIONS</u>**

Q. Please describe the operations of MAWC in Missouri.

A. MAWC is comprised of nine operating water districts and one sewer district. The nine operating water districts are referred to by location and include Brunswick, Jefferson City, Joplin, Mexico, Parkville (or Platte County), St. Charles, St. Joseph, St. Louis County and Warrensburg districts. The sewer district is referred to as the Parkville (Platte County) Sewer District.

The operating water districts in Brunswick, Mexico, Parkville, St. Charles and Warrensburg, as well as the Parkville Sewer District, formerly known collectively as Missouri Cities Water Company (Cities), were purchased in 1993 from Cities' parent, Avatar Properties, Inc. (Avatar). The former Cities operations were merged into MAWC operations effective December 31, 1994. The Jefferson City district, formerly United Missouri Water and St. Louis County Water Company were purchased in 2000 and 2001, respectively, and merged with MAWC effective January 1, 2002. In addition to the operating districts, the Company has a non-operating Corporate District. Costs recorded by the Company on the books of the Corporate District are generally costs that are for the benefit of the system as a whole that cannot be directly assigned to a specific operating district. The majority of customer accounting and administrative functions for all the operating districts, as well as income tax expense, are recorded on the books of the Corporate District, which is physically located in the St. Louis County District.

**ACCOUNTING SCHEDULES**

Q. Please provide a general description of the Accounting Schedules.

A. This filing consists of 13 sets of Accounting Schedules; one for each of the nine operating water districts, one for the operating sewer district, one for the Corporate District, a combined water operations (Total Water) and a Total Company run that combines both water and sewer. Each set of Accounting Schedules for the operating districts (water, sewer or total) are identical in format and content; that is, a particular line item description or adjustment number in one set of Accounting Schedules will be the same in the Accounting Schedules for the other operating districts. The Accounting Schedules for the Corporate District are not for the purpose of calculating a revenue requirement for the Corporate District, but for informational purposes to show the accumulation of adjusted costs of the Corporate District that have been allocated to and included in the development of the revenue requirements of the operating districts. As such, the Corporate District schedules do not contain Accounting Schedules 1, 8 and 11, which are Revenue Requirement, Cash Working Capital and Tax Calculation, respectively.

Q. Please describe how the Corporate District costs were allocated to the operating districts.

A. The intent in the allocation of the Corporate District costs is to distribute the costs in a way that is the most reflective of the nature or origin of the cost. As such, the Staff has developed a number of allocation factors to facilitate the distribution of the Corporate District costs. Schedule 2, attached to my testimony, provides a list of the Corporate Allocation Factors used by the Staff. The title of each of the allocation factors on Schedule 2 reflects the basis on which the allocation factor was developed. Schedule 3, attached to my testimony, provides the cost categories to which the allocation factors were applied.

Q. How do the allocation factors used by the Staff in this proceeding compare to the allocation factors found to be appropriate by the Commission in the last MAWC case, Case No. WR-2000-281?

A. The allocation factors used by the Staff in this case were developed essentially using the same methodology used in WR-2000-281. However, in the current case, some additional allocation factors have been developed that, in the Staff's opinion, reflect a refinement to the cost allocation process.

Q. Would you please elaborate on the difference between the allocations in the current case from those in Case No. WR-2000-281?

A. In Case No. WR-2000-281, water treatment expense recorded at the Corporate District was allocated based on the number of customers. In the current case, over 97 percent of the Corporate District recorded water treatment expense consists of chemical expense. Therefore, it is the Staff's opinion that annualized chemical expense would be a better allocation factor than the number of customers. In addition, Corporate administrative and general (A&G) expenses for OPEB amortization and charges from Belleville Labs in the current case are allocated on factors other than the composite labor allocation factor used in the previous case. The expense attributable to the Belleville Labs has been allocated based on the number of test analyses performed for each of the operating districts. The amortization of an OPEB regulatory asset has been allocated on the composite labor allocation factor modified to exclude the Jefferson City and St. Louis County districts. The amortization is associated with an OPEB regulatory asset created prior to the acquisition of the Jefferson City and St. Louis County districts. It is more appropriate to allocate this amortization cost to the districts to which it relates.

Q. Please explain Accounting Schedule 1.

A. Accounting Schedule 1, Revenue Requirement, for each of the operating districts is the Staff's calculation of the Revenue Requirement based on the rates of return sponsored by Staff witness David Murray of the Financial Analysis Department. The impact of a proposed true-up audit is included in Staff's revenue requirement recommendation. Please refer to the testimony of Auditing Staff witness John P. Cassidy for an explanation of the true-up quantification.

Q. Please explain Accounting Schedule 9.

A. Accounting Schedule 9 is the Income Statement for the test year ending December 31, 2002, updated through June 30, 2003. Each adjustment included on the income statement is a summary of the adjustments itemized on Accounting Schedule 10, Adjustments to Income Statement. Column "B" on the income statements reflects the test year costs directly assigned and recorded at the district level. Column "C" summarizes the district specific adjustments from the accompanying Schedule of Adjustments, Accounting Schedule 10, for the specific district. Column "E" is the total adjusted Corporate District costs that have been allocated to the district that, when summed with Columns "B" and "C", reflect the total adjusted cost for the district.

Q. Please explain Accounting Schedule 10, Adjustments To Income Statement.

A. Accounting Schedule 10 itemizes the adjustments to the income statement made by the Staff. The adjustment detail on Accounting Schedule 10 is strictly district specific. As previously mentioned, the Corporate District was separately adjusted and allocated in total to the operating districts.

An additional schedule has been included with the Total Company Accounting Schedules. Immediately following Accounting Schedule 10, Adjustments To Income Statement, there is a supplemental scheduled titled Adjustments To Income Statement By District. This schedule summarizes all the adjustments made to the income statement by district, including the adjustments made to the Corporate District and provide a visual of how each adjustment that has been made by the Staff effects each of the districts, as well as the Total Company.

Q. Please explain Accounting Schedule 11.

A. Accounting Schedule 11, Income Tax, reflects the Staff's calculation of current income taxes expense for the adjusted test year and for the recommended revenue requirements based on the recommended rates of return. I will discuss the various details concerning the income tax calculation later in this testimony.

**PENSION EXPENSE**

Q. Please identify the adjustment you are sponsoring to pension expense.

A. Adjustment S-14.15 adjusts pension expense to reflect the use of the pay-as-you-go method for pension expense.

Q. How did you calculate your adjustment?

A. As implied, the annualized pension expense was determined based on the required actual cash outlay of the Company. That amount was compared to the test year level of pension expense recorded on the books of the Company to determine the amount of the adjustment.

Q. How does the Company calculate its pension expense?

A. The Company pension expense in its financial statements is determined by an actuary using Statement of Financial Accounting Standard (FAS) 87. The Financial Accounting Standards Board (FASB) approved the accrual accounting method for financial statement recognition in 1987.

Q. Has the Staff ever recommended the use of FAS 87 to determine pension expense for ratemaking?

A. Yes, it has. The Staff, in all major rate cases from approximately 1994 through 2000, including MAWC's last rate case, Case No. WR-2000-281, recommended the use of FAS 87 with a five-year average amortization of unrecognized gains and losses. However, the calculation of pension expense for ratemaking purposes has been an evolving issue. The Staff had been an advocate of using pay-as-you-go for pension expense based on the minimum contribution required under the Employee Retirement Income Security Act of 1974 (ERISA) until legislation passed in 1994 (House Bill 1405 (Section 386.315, RSMo)) required the adoption of FAS 106 for setting rates. FAS 106 calculates other post employment benefits (OPEBs) and parallels the calculation of pension expense under FAS 87. In Commission cases following the date that House Bill 1405 became law, the Staff began recommending the use of the FAS 87 accrual accounting method for pension costs in order to use a similar accrual accounting method for all post-retirement employee benefit costs. At the time when Staff began recommending the use of FAS 87, most pension funds for major utilities were so well funded that no minimum contribution under ERISA was required and substantial unamortized gains existed. By amortizing unrecognized gains and losses over a five-year period, FAS 87 expense was reduced to more closely reflect the zero minimum ERISA contribution.

Q. Has this situation changed?

A. Yes. Currently, even with the significant devaluation of the stock market in 2001 and 2002, the pension fund of American Water Works (AWW), the parent of MAWC, is funded in excess of 100% of the assets required to pay any pension liabilities. As a result, ERISA funding requirements have remained at zero. However, a $6 million unamortized gain balance in 1998 has turned into a $42.9 million unamortized loss balance in 2002. This has caused AWW's FAS 87 pension expense during this time frame to increase from $6 million to $17 million a year, while funding based on minimum ERISA has remained at zero.

Q. What has been the effect of this change?

A. Since August 1994, through the end of the Staff's test year ending December 31, 2002, MAWC had accrued a pension liability of approximately $4.8 million to account for the difference between FAS 87 and ERISA funding. From the end of the Staff's test year through the June 30, 2003 update period, an additional $1.7 million pension liability has been accrued and, based on its filing, the Company anticipates that an additional pension liability of approximately $2.9 million will be accrued during the remainder of 2003. Since FAS 87 is increasing while the ERISA minimum remains at or near zero, the use of FAS 87 for ratemaking will only cause the growth of this pension liability to continue and to be funded by the ratepayer.

Q. As a result of this change, is the Staff recommending a return to the pay-as-you-go method for regulatory pension expense?

A. Yes. Asking the ratepayer to continue to fund an expense, which far exceeds the actual cash payments of the Company, is not appropriate. Therefore, the Staff recommends a return to setting pension expense based on the pay-as-you-go method.

Q. Has the Staff recommended a return to the pay-as-you-go method for any other Missouri utilities?

A. Yes. In Case No. EC-2002-1 for Union Electric Company d/b/a AmerenUE and Case No. GR-2002-356 for Laclede Gas Company, the Staff recommended the pay-as-you-go method for the determination of rates.

Q. What treatment has the Staff given the pension liability created through the use of FAS 87 for ratemaking?

A. The balance of the pension liability created since the 1994 implementation of FAS 87 for ratemaking, net of any related deferred income tax, has been used to reduce the Rate Base on which the Company has the opportunity to earn a return. The continued increase in this rate base offset and its funding by ratepayers will cease if the Staff's recommendation is accepted. As will be discussed later in my testimony, the Staff is examining a method to reduce the pension liability balance.

**OPEBs**

Q. Please identify the adjustments you are sponsoring to OPEBs.

A. I am sponsoring two adjustments that affect OPEB expense. Adjustment S-14.15 adjusts OPEB expense based on FAS 106 and Adjustment S-14.16 increases expense to reflect the amortization of a "permanent" regulatory OPEB asset.

Q. You previously testified that FAS 106 and FAS 87 are similar calculations, yet the Staff is recommending deviating from FAS 87 by returning to the pay-as-you-go method for pension expense. What delineates FAS 87 from FAS 106 that would cause different treatment for ratemaking?

A. As previously stated, House Bill 1405 requires the use of FAS 106 for ratemaking. However, the use of FAS 87 is not required for ratemaking. Additionally, House Bill 1405 requires any public utility that uses FAS 106, to fund the OPEB expense through an independent external funding mechanism. MAWC fully funds its OPEB expense, therefore, although based on FAS 106, the funding requirement of House Bill 1405 and the Company's funding policy, in essence, puts OPEBs on a pay-as-you-go basis. FAS 87, as previously discussed, is not representative of the contribution requirements to the pension fund.

Q. Did the Staff make any adjustments to the FAS 106 calculation?

A. No adjustment was made to the FAS 106 calculation itself, however, included in the annualized OPEB cost, represented in Adjustment S-14.15, is an amortization of a deferred OPEB asset that was authorized by this Commission in Case No. WR-95-205.

Q. You have identified Adjustment S-14.16 as an increase to expense related to an amortization of a "permanent" regulatory OPEB asset. How was this permanent regulatory OPEB asset created?

A. The permanent regulatory OPEB asset represents contributions the Company made to an external fund in 1993 and 1994, before the implementation of FAS 106 for ratemaking.

Q. How long has this "permanent" regulatory OPEB asset been included in the Company's Rate Base?

A. It was first included in the Company's Rate Base in Case No. WR-95-205 and has been included in every case the Company has filed since.

Q. What future implication is there if the regulatory asset is not amortized?

A. If the OPEB asset were to remain in rate base without any amortization, the Company, over a period of approximately 25 years, would earn a net return equal to the amount of the asset. Beyond that period, naturally, the accumulated net earnings attributable to the asset will exceed the cost of the asset. By providing an amortization of the asset, the Company will receive recovery of the asset and the ratepayer would not be required to provide a return in perpetuity.

Q. What amortization period are you recommending?

A. Adjustment S-14.16 reflects a 10-year amortization.

Q. Why did you pick 10 years?

A. During Case No. WR-95-205, when the "permanent" OPEB asset was identified, there was approximately $530,000 of deferred OPEB costs that the Commission allowed to be amortized for ratemaking purposes. This amortization was previously referenced with respect to the discussion of Adjustment S-14.15. A 10-year amortization of the "permanent" OPEB asset will closely align itself with the expiration of the amortization of the OPEBs that are being amortized and incorporated in the annualization of FAS 106.

Q. You previously mentioned that the Staff was examining a way to reduce the pension liability. How would this reduction occur?

A. During this proceeding the Staff will discuss the possibility of netting the OPEB assets and the Pension Liability. This netting would reduce the number of items that must be tracked from case to case. After these items have been netted, the Staff recommends that an appropriate amortization period be adopted for the remaining balance.

**RESERVE DEFICIENCY AMORTIZATION**

Q. Please discuss Adjustment S-16.1.

A. This adjustment eliminates the reserve deficiency amortization based on the recommendation of Staff Witness Gregory E. Macias of the Engineering and Management Services Department.

**INCOME TAXES**

Q. Please explain the mechanics employed in Accounting Schedule 11 to calculate current income tax expense.

A. Net operating income (NOI), as calculated on Accounting Schedule 9, Income Statement, is the starting point of the test year income tax calculation (column B) on Accounting Schedule 11. The NOI for each rate of return (Line 1, columns C, D and E) was calculated on Accounting Schedule 1, Revenue Requirement. The adjusted current and deferred income taxes are added back to NOI to determine the NOI before income taxes (NOIBT). NOIBT is then adjusted for various tax-timing differences to determine the amount of taxable income. The Federal and State income taxes are calculated based on current statutory rates applied to the taxable income after allowances for applicable income tax deductions and credits. State income taxes are deductible in the determination of Federal taxable income and one-half of Federal income taxes are deductible for State taxable income.

Q. What is the justification for the additions and subtractions that were used to adjust NOIBT?

A. The justification for any difference between NOIBT (as reported on the books and adjusted by the Staff) and taxable income is dictated by the Internal Revenue Code (Code). These differences are referred to as timing differences or Schedule M items.

Schedule M is the Federal tax form in which the Company annually reconciles the difference between book income and taxable income. The Staff has added or subtracted the Schedule M items from NOIBT necessary for ratemaking purposes.

Q. Please discuss the depreciation adjustments to NOIBT.

A. Tax depreciation, not book depreciation, is the appropriate expense for tax purposes. Mechanically, to reflect the appropriate deduction for the calculation of income tax, on Accounting Schedule 11 Staff adds back the book depreciation (Line 9) and subtracts tax depreciation, which is the sum of Lines 16 and 17.

Q. Why is there a difference between book depreciation and tax depreciation?

A. A difference exists between book and tax depreciation because the depreciable tax basis for plant is different from what is recorded on the books. The basis difference is the result of items capitalized or expensed on the books, but treated differently for tax purposes. The tax basis of the property can be more or less than what is recorded on the books depending on how the Code dictates the item to be treated for tax purposes. In addition, the Code provides for a quicker recovery of the tax basis plant investment through the use of accelerated depreciation methods.

Q. Why is tax depreciation separated into the components tax straight-line and excess?

A. Each of these components of tax depreciation has a distinct impact on total income tax expense. Tax straight-line depreciation is the equivalent of book depreciation, restated to reflect the tax basis of the plant in service, and is provided "flow-through" rate treatment. The difference between total tax depreciation and tax straight-line depreciation, identified as excess tax depreciation, is required by the Code to be "normalized."

Q. What is meant by the terms "flow-through" and "normalization?"

A. Flow-through is the tax treatment that equates the amount provided by the ratepayer for income tax expense with the amount paid to the taxing authority. Under normalization, the impact of a tax timing difference on current income tax expense is offset by the creation of a deferred income tax expense. The ratepayer provides the funds to the Company as if the tax timing difference did not exist and the deferred income taxes were actually paid.

Q. How were the two components of tax depreciation determined?

A. In response to a Staff data request, MAWC provided the tax basis of its plant in service as of the end of the historical test year, December 31, 2002. A calculation was then made to develop the ratio of that tax basis to the per book basis of plant in service at December 31, 2002. That ratio was applied to the Staff's annualized book depreciation in order to get the equivalent straight-line depreciation for tax purposes. The tax straight-line depreciation was then subtracted from the total tax depreciation calculated by the Company.

Q. Please describe the other adjustments to NOIBT to compute taxable income on Accounting Schedule 11.

A. The other additions to NOIBT include the following:

1. **Contributions in Aid of Construction (CIAC)** - For tax purposes, non-extension related CIAC received is reported as income. This timing difference is normalized and, as a result, has no effect on total income tax expense.

2. **Nondeductible Reserve Deficiency Amortization** – A portion of the reserve deficiency amortization previously authorized by the

Commission is not deductible for tax purposes. The add back has been adjusted to zero to reflect the Staff's position, with regard to depreciation rates, which result in the elimination of the reserve deficiency amortization as previously discussed.

3. **Miscellaneous Non-deductible Expenses** - This category includes such items as travel, meals, dues, gifts and lobbying expenses which are only 50% deductible for tax purposes. An add-back to NOIBT is necessary to reflect the limit imposed by the Internal Revenue Service (IRS).

The remaining subtractions from NOIBT include:

1. **Interest expense** - Interest expense was calculated by multiplying rate base by the Staff's calculated weighted cost of debt, sponsored by Staff witness Murray. This method of determining interest expense is known as interest synchronization because the interest used in the calculation of income tax expense is matched with the interest expense the ratepayers are required to provide to the Company in rates. Interest synchronization has been consistently used by the Staff and adopted by the Commission in past orders.

**2.** **Cost of Removal** – This amount is the cost of removal that the Staff has included in the annualized depreciation expense on Line 9 of the tax calculation that was added back to NOIBT. Staff is proposing the recovery of the cost of removal as it is incurred. Because it was added back to NOIBT as part of annualized book depreciation, it must now be deducted separately in the income tax calculation.

Q. How did you quantify the income tax adjustment you are sponsoring for current income tax expense?

A. I determined the adjustment to current income tax expense, adjustment S-18.1, by subtracting the test year recorded income tax expense from the current income tax calculated on Accounting Schedule 11.

Q. Please describe adjustment S-19.1.

A. Adjustment S-19.1 adjusts deferred income tax expense to reflect the normalization of the timing difference related to excess depreciation and CIAC, as discussed above with regard to adjustments made to determine the level of taxable income. The accumulated deferred income taxes related to depreciation, CIAC and the unamortized balances of regulatory assets and liabilities at June 30, 2003 have been included in the determination of Rate Base.

Q. Why has the Staff used Pre-71 ITC to reduce Rate Base?

A. Beginning in 1971, the Code imposed restrictions that prevented the use of ITC as a reduction to Rate Base. Since the restrictions do not apply to Pre-71 ITC, it is being provided the same treatment by the Staff as other deferred income taxes that have been funded by the ratepayer.

Q. Does this conclude your direct testimony?

A. Yes, it does.

# CASE PROCEEDING PARTICIPATION

## DOYLE L. GIBBS

| PARTICIPATION | | TESTIMONY |
|---|---|---|
| **COMPANY** | **CASE NO.** | **ISSUES** |
| Union Electric (dba AmerenUE) | EC-2002-1025 | Direct-Allocations, Territorial Agr & I&D |
| Union Electric Company | EC-2002-1 | Direct - Revenue, Uncollectibles, Gross Receipts Tax, Territorial Agreements, Allocations, Payroll, Incentive Compensation, Payroll Taxes, Injuries & Damages, Depreciation |
| Laclede Gas Company | GR-2001-629 | Environmental Costs; Cost of Removal Accounting Authority Orders; Incomes Taxes |
| St. Louis County Water Company | WR-2000-844 | Direct – Accounting Schedules, Revenue, Purchased Water, Fuel & Power, Chemicals, Uncollectibles, Pensions, OPEBs, Outside Services |
| Missouri-American Water Company | SR-2000-282 | True-up Rebuttal – Chemicals, Property Taxes |
| Missouri-American Water Company | SR-2000-282 | True-up Direct – Impact of True-up audit |
| Missouri-American Water Company | SR-2000-282 | Direct - True-up, Plant, Depreciation Reserve, Depreciation Expense, Materials & Supplies, Prepayments, Deferred Income Tax, Customer Deposits & Advances, Property Tax, Income Tax |
| Missouri-American Water Company | WR-2000-281 | True-up Rebuttal – Chemicals, Property Taxes |
| Missouri-American Water Company | WR-2000-281 | True-up Direct – Impact of True-up audit |
| Missouri-American Water Company | WR-2000-281 | Direct - True-up, Plant, Depreciation Reserve, Depreciation Expense, Materials & Supplies, Prepayments, Deferred Income Tax, Customer Deposits & Advances, Property Tax, Income Tax |
| United Water Missouri | WR-99-326 | Accounting Schedules |
| Laclede Gas Company | GR-99-315 | True-up Direct – Impact of True-up audit |
| Laclede Gas Company | GR-99-315 | Direct – True-up, Plant, Depreciation Reserve, Depreciation Expenses |
| Laclede Gas Company | GR-98-374 | Direct – Income Tax, Injuries & Damages, Rate Case Expense |
| Missouri-American Water Company | WO-98-204 | Direct – Revenue Requirement for District Specific Pricing |
| Missouri-American Water Company | WR-97-237 | Payroll, Employee Benefits, Payroll Taxes, Other Insurance, Non-recurring Credits, True-up |

| PARTICIPATION | | TESTIMONY |
|---|---|---|
| **COMPANY** | **CASE NO.** | **ISSUES** |
| Atmos Energy Corporation/ United Cities Gas Company | GM-97-70 | Rebuttal – Public Detriment, Accounting for merger, Merger Premium |
| Laclede Gas Company | GR-96-193 | Direct – Income Tax, AAO's, Pensions, OPEBs, PSC Assessment |
| Empire District Electric Company | ER-95-279 | Direct - Income Tax, Non-group insurance |
| Laclede Gas Company | GR-94-220 | |
| St. Louis County Water Company | WR-94-166 | |
| Missouri-American Water Company | WM-93-255 | |
| Southwestern Bell Telephone Company | TC-93-224 | |
| Missouri-American Water Company | WR-93-212 | |
| St. Joseph Power & Light | ER-93-41 | |
| Missouri Pipeline | GR-92-314 | |
| Laclede Gas Company | GR-92-165 | |
| St. Louis County Water Company | WR-91-361 | |
| Missouri Cities | WR-91-172 | |
| Missouri Cities | WR-90-236 | |
| Missouri-American Water Company | WR-89-265 | |
| Missouri Cities Water Company | SR-89-179 | |
| Missouri Cities Water Company | WR-89-178 | |
| St. Louis County Water Company | WR-88-5 | |
| St. Louis County Water Company | WR-87-2 | |
| Missouri Cities Water Company | SR-86-112 | |
| Missouri Cities Water Company | WR-86-111 | |
| Southwestern Bell Telephone Company | TR-86-84 | |
| Arkansas Power & Light Company | ER-85-265 | |
| Missouri Cities Water Company | SR-85-158 | |
| Missouri Cities Water Company | WR-85-157 | |
| Arkansas Power & Light Company | ER-85-20 | |
| Union Electric Company | ER-84-168 | |

| PARTICIPATION | | TESTIMONY |
|---|---|---|
| **COMPANY** | **CASE NO.** | **ISSUES** |
| St. Louis County Water Company | WR-83-264 | |
| Union Electric | ER-83-163 | |
| Missouri Cities Water Company | SR-83-15 | |
| Missouri Cities Water Company | WR-83-14 | |
| Laclede Gas Company | GR-82-200 | |
| Capital City Water Company | WR-82-117 | |
| Union Electric Company | ER-82-52 | |
| Union Electric Company | HR-81-259 | |
| Laclede Gas Company | GR-81-245 | |
| Union Electric Company | ER-81-180 | |
| Citizens Electric Cooperative | ER-81-79 | |
| Southwestern Bell Telephone Company | TR-80-256 | |
| Laclede Gas Company | GR-80-210 | |
| Lake St. Louis Sewer Company | SR-80-189 | |
| Union Electric Company | ER-80-17 | |
| Southwestern Bell Telephone Company | TR-79-213 | |
| Associated Natural Gas Company | GR-79-126 | |
| Citizens Electric Cooperative | ER-79-102 | |
| St. Louis County Water Company | WR-78-276 | |
| Laclede Gas Company | GR-78-148 | |
| Missouri Cities Water Company | SR-78-108 | |
| Missouri Cities Water Company | WR-78-107 | |
| St. Joseph Water Company | WR-77-226 | |
| Union Electric Company | ER-77-154 | |
| Laclede Gas Company | GR-77-33 | |
| Missouri Cities ** | 18510 | |

Missouri-American Water Company
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**Corporate Allocation Factors**

| Allocation Basis | Bruns-wick | Jefferson City | Joplin | Mexico | Parkville Water | St. Charles | St. Joseph | St. Louis County | Warrens-burg | Parkville Sewer | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Customers - Test Year End as Updated | 0.108% | 2.412% | 5.120% | 1.110% | 1.144% | 6.289% | 7.141% | 75.227% | 1.425% | 0.023% | 100.00% |
| Total Number of Bills - Test Year End as Updated | 0.215% | 4.823% | 10.237% | 2.219% | 2.288% | 12.573% | 14.276% | 50.473% | 2.850% | 0.046% | 100.00% |
| Total Customers & Bills Composite | 0.122% | 2.739% | 5.813% | 1.260% | 1.299% | 7.140% | 8.107% | 71.874% | 1.618% | 0.026% | 100.00% |
| Length of Mains | 0.000% | 0.003% | 0.009% | 0.002% | 0.002% | 0.011% | 0.015% | 99.955% | 0.002% | 0.000% | 100.00% |
| Annualized Labor Composite | 0.420% | 3.233% | 5.489% | 1.533% | 1.284% | 2.818% | 7.861% | 76.333% | 1.003% | 0.026% | 100.00% |
| Labor Composite Excluding Jefferson City and St. Louis | 2.053% | 0.000% | 26.864% | 7.504% | 6.285% | 13.791% | 38.472% | 0.000% | 4.906% | 0.125% | 100.00% |
| Adjusted Water Revenue | 0.130% | 1.771% | 5.045% | 1.545% | 1.759% | 5.328% | 10.153% | 72.723% | 1.546% | 0.000% | 100.00% |
| Adjusted Net Plant | 0.173% | 2.114% | 4.520% | 2.023% | 2.082% | 7.471% | 13.106% | 66.602% | 1.900% | 0.009% | 100.00% |
| Taxable Income | -0.609% | -3.122% | 6.029% | 0.489% | 2.112% | 10.011% | 12.307% | 69.938% | 2.857% | -0.013% | 100.00% |
| Tax Timing Differences For Deferral | 0.058% | 2.240% | 3.382% | 1.100% | -0.214% | 1.905% | 8.992% | 82.855% | -0.321% | 0.003% | 100.00% |
| Net Plant Book/Tax Basis Difference | 0.469% | 4.771% | 9.895% | 3.858% | 2.800% | 4.229% | 12.451% | 59.858% | 1.636% | 0.033% | 100.00% |
| Direct Assigned Customer Advances | 0.000% | 0.058% | 3.488% | 0.222% | 2.818% | 3.275% | 1.677% | 87.488% | 0.973% | 0.000% | 100.00% |
| Direct Assigned ITC Balances | 0.000% | 0.000% | 12.292% | 0.000% | 0.000% | 0.000% | 16.611% | 71.096% | 0.000% | 0.000% | 100.00% |
| Water Test Analyses | 4.378% | 8.275% | 12.440% | 5.873% | 15.910% | 6.300% | 15.376% | 23.118% | 8.329% | 0.000% | 100.00% |
| Annualized Chemical Expense | 0.145% | 3.771% | 2.094% | 1.225% | 1.888% | -0.102% | 5.672% | 84.769% | 0.540% | 0.000% | 100.00% |



Schedule 2

Missouri-American Water Company
Case No. WR-2003-0500

**Application of Corporate Allocation Factors**

| Allocation Basis | Application |
|---|---|
| Total Customers - Test Year End as Updated | Other Revenue<br>Source of Supply Expense<br>Pumping Expense<br>Customer Accounts:<br>Contract and Order Expense<br>Customer Service and Information |
| Total Number of Bills - Test Year End as Updated | Customer Accounts - Billing and Collection Expenses |
| Total Customers & Bills Composite | Customer Accounts - Supervision and Miscellaneous Expenses |
| Length of Mains | Transmission and Distribution Expenses |
| Annualized Labor Composite | Administrative and General expense with the exception of:<br>Belleville Lab charges<br>OPEB amortization<br>Corporate General Plant and related:<br>Depreciation Reserve<br>Depreciation Expense (Book and Tax)<br>Property Taxes<br>Insurance<br>Accrued Pension Liability |
| Labor Composite Excluding Jefferson City and St. Louis | Regulatory OPEB Asset and OPEB Amortization |
| Adjusted Water Revenue | PSC Assessment |
| Adjusted Net Plant | Corporate Franchise Tax |
| Taxable Income | Per Book Current Income Tax Expense |
| Tax Timing Differences For Deferral | Per Book Deferred Income Tax Expense |
| Net Plant Book/Tax Basis Difference | Accumulated Deferred Income Tax |
| Direct Assigned Customer Advances | Corporate Recorded Customer Advances |
| Direct Assigned ITC Balances | ITC Amortization |
| Water Test Analyses | Belleville Lab Charges |
| Annualized Chemical Expense | Water Treatment Expense<br>Materials & Supplies - Chemicals |