

*Exhibit No.:*

*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*

**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**  
**AND WC-2004-0168**

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**DIRECT TESTIMONY**

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**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?

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

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

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

8           Q.     What did your investigation entail?

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

15          Q.     What is your primary responsibility in this case?

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

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

22          A.     As previously stated, my college degree had an emphasis in Accounting and I  
23    successfully passed the Certified Public Accounts Exam, which included sections on

1 accounting practice, theory and auditing. During my 27 years of employment with the  
2 Commission, I have acquired general knowledge of these topics through my experiences and  
3 analyses in prior rate cases before this Commission, some of which include MAWC cases or  
4 cases involving Missouri Cities Water Company and St. Louis County Water Company,  
5 companies that have since been acquired by MAWC. I have also acquired knowledge through  
6 review of Staff testimony and Commission decisions regarding these areas and have reviewed  
7 the Company's testimony, work papers and responses to Staff's data requests in this case  
8 addressing these topics.

9 Q. What is the purpose of your direct testimony?

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

17 Pension Expense S-14.15

18 OPEB expense S-14.16

19 OPEB amortization S-14.17

20 Reserve Deficiency Amortization S-16.1

21 Current Income Tax S-18.1

22 Deferred Income Tax S-19.1

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

4   **COMPANY OPERATIONS**

5           Q.     Please describe the operations of MAWC in Missouri.

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

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

1 **ACCOUNTING SCHEDULES**

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

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

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

18 A. The intent in the allocation of the Corporate District costs is to distribute the  
19 costs in a way that is the most reflective of the nature or origin of the cost. As such, the Staff  
20 has developed a number of allocation factors to facilitate the distribution of the Corporate  
21 District costs. Schedule 2, attached to my testimony, provides a list of the Corporate  
22 Allocation Factors used by the Staff. The title of each of the allocation factors on Schedule 2



1 reflects the basis on which the allocation factor was developed. Schedule 3, attached to my  
2 testimony, provides the cost categories to which the allocation factors were applied.

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

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

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

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

1 and St. Louis County districts. It is more appropriate to allocate this amortization cost to the  
2 districts to which it relates.

3 Q. Please explain Accounting Schedule 1.

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

10 Q. Please explain Accounting Schedule 9.

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

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

21 A. Accounting Schedule 10 itemizes the adjustments to the income statement  
22 made by the Staff. The adjustment detail on Accounting Schedule 10 is strictly district

1 specific. As previously mentioned, the Corporate District was separately adjusted and  
2 allocated in total to the operating districts.

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

10 Q. Please explain Accounting Schedule 11.

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

15 **PENSION EXPENSE**

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

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

19 Q. How did you calculate your adjustment?

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

1 Q. How does the Company calculate its pension expense?

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

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

8 A. Yes, it has. The Staff, in all major rate cases from approximately 1994 through  
9 2000, including MAWC's last rate case, Case No. WR-2000-281, recommended the use of  
10 FAS 87 with a five-year average amortization of unrecognized gains and losses. However,  
11 the calculation of pension expense for ratemaking purposes has been an evolving issue. The  
12 Staff had been an advocate of using pay-as-you-go for pension expense based on the  
13 minimum contribution required under the Employee Retirement Income Security Act  
14 of 1974 (ERISA) until legislation passed in 1994 (House Bill 1405 (Section 386.315, RSMo))  
15 required the adoption of FAS 106 for setting rates. FAS 106 calculates other post  
16 employment benefits (OPEBs) and parallels the calculation of pension expense under FAS 87.  
17 In Commission cases following the date that House Bill 1405 became law, the Staff began  
18 recommending the use of the FAS 87 accrual accounting method for pension costs in order to  
19 use a similar accrual accounting method for all post-retirement employee benefit costs. At the  
20 time when Staff began recommending the use of FAS 87, most pension funds for major  
21 utilities were so well funded that no minimum contribution under ERISA was required and  
22 substantial unamortized gains existed. By amortizing unrecognized gains and losses over a

1 five-year period, FAS 87 expense was reduced to more closely reflect the zero minimum  
2 ERISA contribution.

3 Q. Has this situation changed?

4 A. Yes. Currently, even with the significant devaluation of the stock market in  
5 2001 and 2002, the pension fund of American Water Works (AWW), the parent of MAWC, is  
6 funded in excess of 100% of the assets required to pay any pension liabilities. As a result,  
7 ERISA funding requirements have remained at zero. However, a \$6 million unamortized gain  
8 balance in 1998 has turned into a \$42.9 million unamortized loss balance in 2002. This has  
9 caused AWW's FAS 87 pension expense during this time frame to increase from \$6 million to  
10 \$17 million a year, while funding based on minimum ERISA has remained at zero.

11 Q. What has been the effect of this change?

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

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

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

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

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

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

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

17       **OPEBs**

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

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

22          Q.     You previously testified that FAS 106 and FAS 87 are similar calculations, yet  
23 the Staff is recommending deviating from FAS 87 by returning to the pay-as-you-go method

1 for pension expense. What delineates FAS 87 from FAS 106 that would cause different  
2 treatment for ratemaking?

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

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

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

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

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

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

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

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

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

8 Q. What amortization period are you recommending?

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

10 Q. Why did you pick 10 years?

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

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

19 A. During this proceeding the Staff will discuss the possibility of netting the  
20 OPEB assets and the Pension Liability. This netting would reduce the number of items that  
21 must be tracked from case to case. After these items have been netted, the Staff recommends  
22 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.

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

4 Q. Please discuss the depreciation adjustments to NOIBT.

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

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

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

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

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

1 Q. What is meant by the terms “flow-through” and “normalization?”

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

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

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

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

17 A. The other additions to NOIBT include the following:

- 18 1. **Contributions in Aid of Construction (CIAC)** - For tax purposes,  
19 non-extension related CIAC received is reported as income. This  
20 timing difference is normalized and, as a result, has no effect on total  
21 income tax expense.
- 22 2. **Nondeductible Reserve Deficiency Amortization** – A portion of the  
23 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

1 back to NOIBT as part of annualized book depreciation, it must now be  
2 deducted separately in the income tax calculation.

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

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

8 Q. Please describe adjustment S-19.1.

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

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

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

20 Q. Does this conclude your direct testimony?

21 A. Yes, it does.

## **CASE PROCEEDING PARTICIPATION**

**DOYLE L. GIBBS**

<b>PARTICIPATION</b>		<b>TESTIMONY</b>
<b>COMPANY</b>	<b>CASE NO.</b>	<b>ISSUES</b>
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

Case No. WR-2003-0500

**Corporate Allocation Factors**

Allocation Basis	Brunswick	Jefferson City	Joplin	Mexico	Parkville Water	St. Charles	St. Joseph	St. Louis County	Warrensburg	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 Source of Supply Expense Pumping Expense Customer Accounts: Contract and Order Expense 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: Belleville Lab charges OPEB amortization Corporate General Plant and related: Depreciation Reserve Depreciation Expense (Book and Tax) Property Taxes Insurance 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 Materials & Supplies - Chemicals