

Exhibit No.:
Issues: *True-up*
Witness: *Stephen M. Rackers*
Sponsoring Party: *MOPSC*
Type of Exhibit: *Direct Testimony*
Case Nos.: *WR-2007-0216, et al.*
Date Testimony Prepared: *June 05, 2007*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY
OF
STEPHEN M. RACKERS

MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2007-0216, et al.

Jefferson City, Missouri
June 2007

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

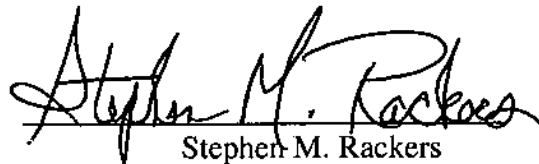
In the Matter of Missouri-American Water)
Company's request for Authority to)
Implement a General Rate Increase for)
Water Service provided in Missouri)
Service Areas)

Case No. WR-2007-0216, *et al*

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)


Stephen M. Rackers, 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 4 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.


Stephen M. Rackers

Subscribed and sworn to before me this 4th day of June, 2007.



ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06886978


Notary Public

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DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2007-0216, *et al.*

Q. Please state your name and business address.

A. Stephen M. Rackers, 9900 Page Avenue, Suite 103, Overland, Missouri 63132.

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

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

Q. Please describe your educational background.

A. I attended the University of Missouri – Columbia, where I received a Bachelor of Science degree in Business Administration with a major in Accounting in 1978. I have passed the Uniform Certified Public Accountant examination and am licensed to practice in the state of Missouri.

Q. What has been the nature of your duties while in the employment 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, I have. Please refer to Schedule 1, attached to this Direct testimony, for a list of cases in which I have previously filed testimony.

1 Q. With reference to Case No. WR-2007-0216, have you made an investigation of
2 the books and records of Missouri-American Water Company (MAWC or Company)?

3 A. Yes, with the assistance of other members of the Commission Staff (Staff). I
4 reviewed Company workpapers and testimony, Company responses to Staff data requests as
5 well as various data request responses provided to other parties participating in this rate case.
6 I also obtained information from Company personnel during various meetings as well as from
7 the websites of the Company. I also examined the Stipulation and Agreement and the
8 Commission's Report and Order from the most recent rate proceeding involving MAWC as
9 part of Case No. WR-2003-0500.

10 Q. What is the purpose of this Direct testimony?

11 A. I will discuss the Staff's proposed true-up audit.

12 **TEST YEAR AND TRUE-UP AUDIT**

13 Q. What test year has the Staff utilized in this case?

14 A. The Staff has used a test year ending June 30, 2006, updated through
15 December 31, 2006.

16 Q. Will the test year, as updated through December 31, 2006 also be Trued-Up?

17 A. Yes. The Staff will perform a True-Up audit through May 31, 2007, provided
18 that the necessary information is available in a timely manner. This True-Up audit must
19 maintain an appropriate relationship between rate base, expenses and revenues. The
20 following items should be considered in the true-up audit:

21 **Rate Base:** Plant-in-service, depreciation and amortization reserves, the deferred
22 asset for other post-employment benefits, contributions in aid of construction (CIAC),
23 customer advances, the pre-1971 investment tax credit balance, deferred income taxes and the

1 accrued pension liability. Cash working capital and the income tax and interest offsets will
2 also change, to the extent these amounts are affected by other True-Up items.

3 **Income Statement:** Depreciation expense as affected by changes in plant and CIAC,
4 revenues associated with customer and volume changes, postage, payroll and related payroll
5 taxes as a result of changes in employee levels and wage rates, and income taxes, as affected
6 by all the True-Up items.

7 **Capital Structure and Associated Embedded Costs:** True-up information regarding
8 the Company's capital structure and embedded costs will be evaluated to determine if any
9 changes should be made.

10 To be considered in the True-Up audit, all items must be known, evidenced by
11 documentation (i.e., inspection, monthly operating reports, invoices, Company ledgers, etc.)
12 and the effect must be measurable.

13 The above items, at a minimum, will be examined in the context of a True-Up audit.
14 In addition, other items may be subject to review, as events may warrant.

15 Q. Why is maintaining the appropriate relationship between rate base, expenses
16 and revenues important?

17 A. If the appropriate relationship is not maintained, the resulting revenue
18 requirement will be skewed in favor of either the shareholder or the ratepayer. For example,
19 if increases in the cost of service are recognized for items such as plant additions without also
20 recognizing decreases in the cost of service for reductions in expenses or increases in
21 revenues for customers, the revenue requirement will be skewed in favor of the shareholder.
22 For this reason the Commission has previously stated that it will not consider a True-Up of

1 isolated adjustments, but will examine only a “package” of adjustments designed to maintain
2 the proper revenue-expense-rate base match at a proper point in time.

3 Q. Have you included an estimate of the value of True-Up?

4 A. Yes. The Staff has included an estimate of the change in revenue requirement
5 resulting from the True-Up audit. This amount appears in Schedule 1, Revenue Requirement,
6 for each district. The actual change in the revenue requirement will be determined based on
7 an examination of all the items listed above during the Staff’s True-Up audit.

8 Q. Does this conclude your Direct testimony?

9 A. Yes, it does.

Regulatory Case Proceeding Participation

Stephen M. Rackers

Issue	Case Number	Exhibit	Case Name
Pension Liability, Income Tax Expense, Deferred Income Taxes, Income Tax Expense, Deferred Income Taxes – Rate Base Offset, Pension Liability, Income Taxes, Territorial Agreements	EC20021	Direct, Surrebuttal	AmerenUE d/b/a Union Electric Company
Income Taxes, Pension Liability	EC20021025	Direct	AmerenUE d/b/a Union Electric Company
Income Tax, Territorial Agreement, Overview, Income Taxes, Alternative Regulation Plan and Agreements, Pension Liability	EM96149	Direct, Surrebuttal	Union Electric Company
Overview, Income Tax, Territorial Agreements, Alternative Regulation Plan and Agreement	EO9614	Direct, Surrebuttal	Union Electric Company
Territorial Agreements	EO99599	Rebuttal	Union Electric Company / Ozark Border Electric Cooperative
Purchase Power	ER2002217	Direct	Citizens Electric Corporation
Application Recommendation	GM2001342	Rebuttal	Laclede Gas Company
ISRS Income Taxes	GO20040443	Direct	Laclede Gas Company
Incentive Compensation, Post-Retirement Benefits Other than Pensions, Prepaid Pension Assets, Pensions	GR2001629	Direct	Laclede Gas Company
Copper Surveys, Net Salvage Expense, Environmental Cost, Test Year & True-Up, Accounting Authority Orders, Laclede Pipeline, Safety and Copper Service Replacement Program	GR2002356	Direct, Rebuttal, Surrebuttal	Laclede Gas Company
True-Up, Other Rate Base Items, MGP Sites, Income Taxes	GR20060387	Direct	Atmos Energy Corporation
Safety Deferral, FAS 87, FAS 88, FAS 106, Prepaid Pension Asset, Environmental Cost, Computer Cost, Supplemental Pension, Accounting Authority Orders	GR99315	Direct, Rebuttal, Surrebuttal	Laclede Gas Company

Regulatory Case Proceeding Participation

Stephen M. Rackers

Issue	Case Number	Exhibit	Case Name
Financial Aspects	GT20030117	Direct	Laclede Gas Company
Staff's Explanation and Rationale for Supporting the Stipulation Agreement	SR2000282	Direct in Support of Stipulation Agreement	Missouri-American Water Company
Pension Liability, AFUDC, Deferred OPEB Asset, Pension Expense – FAS 87, New St. Joseph Treatment Plant Phase-In, OPEBS – FAS 106, Phase-In, Accounting Authority Order, Phase-In	SR2000282	Direct, Rebuttal, Surrebuttal	Missouri-American Water Company
Lease Classification & Terms	WA9746	Rebuttal	Missouri-American Water Company
St. Joseph Treatment Plant, AAOs, Depreciation, Transaction Costs, Old St. Joseph Treatment Plant, Security Accounting Authority Order, Acquisition Adjustments	WC20040168	Direct, Surrebuttal	Missouri-American Water Company
Lease Classification & Terms	WF97241	Rebuttal	Missouri-American Water Company
Merger Recommendation, Cost Allocation Manual	WM2001309	Rebuttal, Surrebuttal	Missouri-American Water Company, et al
Main Replacement Program, Order-Infrastructure, Accounting Authority, Main Replacement Programs	WO98223	Direct	St. Louis County Water Company
Staff's Explanation and Rationale for Supporting the Stipulation Agreement	WR2000281	Direct in Support of Stipulation Agreement	Missouri-American Water Company
Pension Expense-FAS 87, Pension Liability, AFUDC, Deferred OPEB Asset, New St. Joseph Treatment Plant Phase-In, OPEBS-FAS 106, Accounting Authority Order, Phase-In, St. Joseph Treatment Plant	WR2000281	Direct, Rebuttal, Surrebuttal	Missouri-American Water Company

Regulatory Case Proceeding Participation

Stephen M. Rackers

Issue	Case Number	Exhibit	Case Name
Merger Cost and Savings, Infrastructure Replacement Deferrals, Income Taxes, Net Salvage Expense, Revenue Requirement, Merger Costs and Savings, Accounting Authority Orders (AAO's), Infrastructure Replacement, Depreciation	WR2000844	Direct, Rebuttal, Surrebuttal	St. Louis County Water Company
Transaction Costs, Depreciation, AAO's, Acquisition Adjustment, Security Accounting Authority Order, Old St. Joseph Treatment Plant	WR20030500	Direct, Surrebuttal	Missouri-American Water Company
Amortization of Depreciation Reserve Deficiency, Appointment Meter Reading, Main Incident Expense, Income Tax, Infrastructure Replacement Deferral, Property Tax	WR97382	Direct	St. Louis County Water Company
Affidavit in Support of the Stipulation and Agreement on various issues.	GR20050284	Affidavit	Laclede Gas Company
True-Up, Income Taxes, MGP Sites, Other Rates Base Items, Revenue Requirement and OPEB	GR20070387	Direct, Rebuttal	ATMOS Energy Company
Income Taxes, Accumulated Deferred Income Taxes in Rate Base, Taum Sauk Generating Plant, Pinckneyville and Kinmundy Generating Plants, Accumulated Income Deferred Income Tax Balance, Income Tax Expense	ER20070002	Direct, Rebuttal	