

Exhibit No.:
Issues: Rate Design
Valuation
Witness: James M. Jenkins
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2000-281
SR-2000-282
Date: May 25, 2000

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2000-281

CASE NO. SR-2000-282

FILED

MAY 25 2000

SURREBUTTAL TESTIMONY

**Missouri Public
Service Commission**

OF

JAMES M. JENKINS

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

JEFFERSON CITY, MISSOURI


BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI


IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED RATES)	CASE NO. WR-2000-281
FOR WATER AND SEWER SERVICE IN THE)	CASE NO. SR-2000-282
MISSOURI SERVICE AREA OF THE COMPANY)	

AFFIDAVIT OF JAMES M. JENKINS

James M. Jenkins, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of James M. Jenkins"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge.


James M. Jenkins

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
before me this 23rd day of May 2000.


Notary Public, Sharon K. Lee

My commission expires:

SHARON K. LEE, NOTARY PUBLIC
STATE OF MISSOURI, ST. LOUIS COUNTY
MY COMMISSION EXPIRES FEBRUARY 21, 2003

SURREBUTTAL TESTIMONY
JAMES M. JENKINS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2000-281
CASE NO. SR-2000-282

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WITNESS INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. James M. Jenkins, 535 N. New Ballas Rd., St. Louis, Missouri.

3 **Q. ARE YOU THE SAME JAMES M. JENKINS THAT PREVIOUSLY FILED**
4 **REBUTTAL TESTIMONY IN THIS CASE?**

5 A. Yes, I am.

6 **PURPOSE**

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. I will provide testimony to address the financial impact that the plant disallowance and
9 rate phase-in plan variations found in rebuttal testimony will have upon Missouri-
10 American Water Company ("MAWC").

11 **Q. WHAT PLANT DISALLOWANCE WILL YOU ADDRESS?**

12 A. I will address the Missouri Public Service Commission Staff's ("Staff") proposed plant
13 disallowance related to the capacity of the St. Joseph treatment plant and related facilities.
14 This disallowance recommendation is found in the rebuttal testimony of Staff witness
15 James A. Merciel, Jr.

16 **Q. WHAT PHASE-IN PROPOSAL WILL YOU ADDRESS?**

17 A. I will address the Office of the Public Counsel's ("OPC") phase-in proposal. The OPC
18 has provided additional details concerning its phase-in proposal in the rebuttal testimony
19 of OPC witness James A. Busch and OPC witness Russell W. Trippensee.

20 **STAFF PLANT DISALLOWANCE**

21 **Q. WHAT IS THE NATURE OF STAFF WITNESS MERCIEL'S PLANT**
22 **DISALLOWANCE?**

23 A. Mr. Merciel believes that there is "excess capacity" at the St. Joseph treatment plant and

1 related facilities and he therefore recommends the disallowance of certain costs related to
2 the construction of the plant.

3 **Q. PLEASE QUANTIFY MR. MERCIEL'S RECOMMENDATION.**

4 A. Mr. Merciel has recommended a disallowance of \$2,271,756 based upon his belief that
5 certain plant components could have been differently sized or not installed at this time.
6 Mr. Merciel recommends that these capital cost be excluded for ratemaking purposes.

7 **Q. WILL YOU ADDRESS THE ISSUE OF WHETHER THERE IS IN FACT**
8 **"EXCESS CAPACITY" AT THE ST. JOSEPH TREATMENT PLANT AND**
9 **RELATED FACILITIES?**

10 A. No. That subject will be addressed in the surrebuttal testimony to be filed by MAWC
11 witness John Young. I have merely analyzed the impact on the Company if this
12 recommendation is accepted by the Commission.

13 **OPC PHASE-IN**

14 **Q. PLEASE DESCRIBE THE OPC'S PHASE-IN PLAN AS IDENTIFIED IN ITS**
15 **DIRECT TESTIMONY.**

16 A. OPC Witness Busch proposed a rate design phase-in plan in his direct testimony that
17 would cap rate increases to no more than 15% per district. The plan would not guarantee
18 MAWC a 15% increase in revenues each year because not all districts would be receiving
19 such an increase under the OPC rate design proposal. The length of the plan was not
20 defined in direct testimony.

21 **Q. HOW HAS THE OPC'S PROPOSAL DEVELOPED IN ITS REBUTTAL**
22 **TESTIMONY?**

23 A. The OPC has now linked its proposal to a revenue requirement and specified the length of
24 time over which it is recommending the phase-in be accomplished. The OPC has also
25 explained that its phase-in plan contains an additional year in order to implement a rate
26 reduction related to the "return on" portion of the revenue requirement.

1 **Q. WHAT LENGTH OF TIME IS PROPOSED BY THE OPC?**

2 A. The OPC is proposing a five-year phase-in for St. Joseph and Warrensburg and a seven
3 year phase-in for Brunswick, Mexico and Parkville.

4 **FINANCIAL IMPACT**

5 **Q. GENERALLY, WHAT IMPACT WILL A PHASE-IN PLAN AND/OR A PLANT**
6 **DISALLOWANCE HAVE ON MAWC'S FINANCIAL STATEMENTS?**

7 A. Statement of Financial Accounting Standards No. 90 ("SFAS 90") requires an immediate
8 write-off of any portion of cost related to the St. Joseph treatment plant and related
9 facilities not included in rate base. Statement of Financial Accounting Standards No. 92
10 ("SFAS 92") prohibits capitalization of costs deferred for future recovery under phase-in
11 plans relating to plants constructed after January 1, 1988. MAWC witness Michael J.
12 Hamilton of PricewaterhouseCoopers LLP will address these concepts in greater detail in
13 his surrebuttal testimony.

14 **Q. WHAT FINANCIAL IMPACT WOULD THE STAFF'S ORIGINAL**
15 **RECOMMENDATION HAVE HAD ON MAWC?**

16 A. As stated in my Rebuttal Testimony, the original phase-in plan offered by the Staff would
17 cause MAWC to under-earn its allowed return on equity ("ROE") in the deferral period
18 and over-earn its allowed ROE when higher revenues are permitted in future years.

19 **Q. HAVE YOU REVISED YOUR SCHEDULES TO REFLECT THE STAFF'S**
20 **DISALLOWANCE RECOMMENDATION?**

21 A. Yes. Schedule JMJ-3 modifies my rebuttal Schedule JMJ-2-3 to reflect Staff witness
22 Merciel's excess capacity adjustment by reducing Staff's first year revenue requirement.

23 **Q. WHAT ROE IS NOW REFLECTED DURING THE COURSE OF THE STAFF'S**
24 **PHASE-IN?**

25 A. The Staff's five-year phase-in proposal would now result in equity returns that begin at
26 approximately 1.21% in Year 2000 and escalate to approximately 13.39% in Year 2004.

1 **Q. WHAT FINANCIAL IMPACT WOULD THE OPC'S ORIGINAL PROPOSAL**
2 **HAVE ON MAWC?**

3 A. The original disallowance and phase-in plan offered by the OPC caused MAWC to
4 under-earn its allowed ROE in the deferral period and would have made MAWC's ROE
5 extremely volatile over the next five years.

6 **Q. HAVE YOU REVISED YOUR SCHEDULES TO REFLECT THE OPC'S MORE**
7 **SPECIFIC RECOMMENDATION FOUND IN ITS REBUTTAL TESTIMONY?**

8 A. Yes. Schedule JMJ-4 modifies my rebuttal Schedule JMJ-2-1 to reflect the current length
9 of the OPC's phase-in proposal and to reflect the OPC's revenue requirement
10 recommendation.

11 **Q. WHAT ROE NOW RESULTS FROM THE OPC'S RECOMMENDATION**
12 **DURING THE COURSE OF THE OPC'S PHASE-IN?**

13 A. The OPC's phase-in proposal and plant disallowance would result in equity returns of
14 approximately a negative 48.56% in Year 2000, rise to approximately 8.35% in Year
15 2003 and fall back to approximately 5.17% in Year 2004.

16 **Q. DID YOU MODEL ALL SEVEN YEARS OF THE OPC'S PROPOSAL?**

17 A. No.

18 **Q. WHY NOT?**

19 A. In an effort to maintain consistency with the modeling performed previously and the
20 modeling of other phase-in proposals, I utilized five years.

21 **Q. WHAT EFFECT HAVE THE CHANGES MADE BY THE STAFF AND OPC IN**
22 **THEIR REBUTTAL TESTIMONY HAD ON YOUR FINANCIAL**
23 **PROJECTIONS?**

24 A. The addition of a plant disallowance to the Staff's recommendation and an expanded
25 phase-in period to the OPC's recommendation have magnified the problems highlighted
26 in my Rebuttal Testimony.

1 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

2 **A. Yes, it does.**

MISSOURI-AMERICAN WATER COMPANY
STAFF PROPOSAL
FINANCIAL IMPACT ANALYSIS
(IN THOUSANDS DOLLARS)

	2000	2001	2002	2003	2004
Return On Avg Common Equity	1.21%	4.30%	8.77%	11.23%	13.39%
Dividends	948	2,598	4,922	6,314	7,650
Debt to Equity Ratio					
Debt	93,089	82,623	92,157	91,691	91,225
Preferred Stock	2,716	2,690	2,678	2,666	2,654
Common Equity	55,094	55,094	55,094	55,094	55,094
Retained Earnings	12,069	12,611	13,928	15,708	17,934
	<u>162,968</u>	<u>163,018</u>	<u>163,857</u>	<u>165,159</u>	<u>166,907</u>
Ratios					
Debt	57.1%	56.8%	56.2%	55.5%	54.7%
Preferred Stock	1.7%	1.6%	1.6%	1.6%	1.6%
Common Equity	<u>41.2%</u>	<u>41.5%</u>	<u>42.1%</u>	<u>42.9%</u>	<u>43.8%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%
Maximum Debt issue	12,840	13,339	14,350	15,682	17,265
Short-Term Debt Balance	14,404	10,767	7,277	16,897	11,120
Interest Coverage Ratio - per Indenture					
Income:					
Operating Revenue	32,156	36,607	40,368	44,436	48,840
Other Income	(1,400)	357	292	647	261
AFUDC	961	210	104	662	24
Total	<u>31,717</u>	<u>37,174</u>	<u>40,765</u>	<u>45,745</u>	<u>49,124</u>
Expenses:					
O&M	14,528	15,095	15,702	16,351	17,037
Depreciation	3,825	5,314	5,505	5,895	6,267
General Taxes	2,979	2,979	2,979	2,979	2,979
	<u>21,332</u>	<u>23,389</u>	<u>24,186</u>	<u>25,225</u>	<u>26,283</u>
Income Less Exp.	10,385	13,785	16,579	20,519	22,841
Annual Interest Charge	5,495	5,922	5,922	5,922	5,922
Times Interest	1.9	2.3	2.8	3.5	3.9

Witness: J. M. Jenkins
Schedule: JMJ-3

MISSOURI-AMERICAN WATER COMPANY
PUBLIC COUNSEL PROPOSAL
FINANCIAL IMPACT ANALYSIS
(IN THOUSANDS DOLLARS)

	2000	2001	2002	2003	2004
Return On Avg Common Equity	-48.56%	2.31%	7.77%	8.35%	5.17%
Common Stock Dividends	2,419	0	0	0	0
Preferred Stock Dividends	183	0	0	0	1,033
Debt to Equity Ratio					
Debt	93,089	92,623	92,157	91,691	91,225
Preferred Stock	2,716	2,690	2,678	2,666	2,654
Common Stock	55,094	55,094	55,094	55,094	55,094
Retained Earnings	(12,158)	(11,154)	(7,603)	(3,465)	(724)
	<u>138,741</u>	<u>139,253</u>	<u>142,326</u>	<u>145,986</u>	<u>148,249</u>
Ratios					
Debt	67.1%	66.5%	64.8%	62.8%	61.5%
Preferred Stock	2.0%	1.9%	1.9%	1.8%	1.8%
Common Equity	<u>30.9%</u>	<u>31.6%</u>	<u>33.4%</u>	<u>35.4%</u>	<u>36.7%</u>
	100.0%	100.0%	100.0%	100.0%	100.0%
Maximum Debt issue	0	0	354	3,199	5,136
Short-Term Debt Balance	15,389	12,709	8,404	17,085	11,180
Interest Coverage Ratio - per Indenture					
Income:					
Operating Revenue	31,324	33,452	36,091	38,300	38,878
Other Income	(37,826)	(37)	(101)	264	261
AFUDC	2,219	210	104	662	24
Total	<u>(4,283)</u>	<u>33,625</u>	<u>36,094</u>	<u>39,226</u>	<u>39,163</u>
Expenses:					
O&M	14,528	15,095	15,702	16,351	17,037
Depreciation	3,307	4,278	4,469	4,859	5,231
General Taxes	2,979	2,979	2,979	2,979	2,979
	<u>20,814</u>	<u>22,352</u>	<u>23,150</u>	<u>24,189</u>	<u>25,247</u>
Income Less Exp.	(25,096)	11,273	12,944	15,037	13,916
Annual Interest Charge	5,495	5,922	5,922	5,922	5,922
Times Interest	(4.6)	1.9	2.2	2.5	2.3

Witness: J. M. Jenkins
Schedule: JMJ-4