

FILED

MAY 25 2000

Missouri Public
Service Commission

Exhibit No.: _____

Issues: Phase-In
Premature Retirement

AAO

Capital Structure

Witness: James E. Salser

Exhibit Type: Surrebuttal

Sponsoring Party: MAWC

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

SURREBUTTAL TESTIMONY

OF

JAMES E. SALSER

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

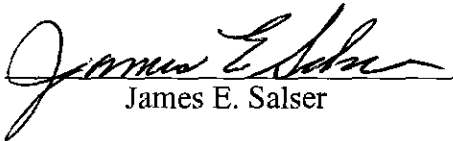
JEFFERSON CITY, MISSOURI

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

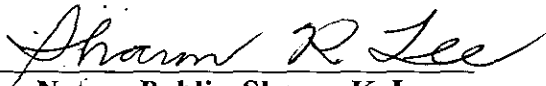
IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED RATES)	CASE NO. WR-2000-281
FOR WATER AND SEWER SERVICE IN THE)	CASE NO. SR-2000-282
MISSOURI SERVICE AREA OF THE COMPANY)	

AFFIDAVIT OF JAMES E. SALSER

James E. Salser, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of James E. Salser"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires 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 E. Salser

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 E. SALSER
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, BUSINESS ADDRESS AND EMPLOYER.**

2 A. My name is James E. Salser, my business address is Box 157AA Route 2,
3 Ravenswood, WV 26164 and I am self-employed.

4 **Q. ARE YOU THE SAME JAMES E. SALSER THAT PREVIOUSLY FILED**
5 **DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?**

6 A. Yes.

PURPOSE

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

9 A. My surrebuttal testimony will address: 1) Office of the Public Counsel ("OPC")
10 witness Trippensee's rebuttal testimony regarding the Phase-in Calculations for the
11 Brunswick, Mexico, Parkville, St. Joseph and Warrensburg Districts; 2) OPC witness
12 Bolin's rebuttal testimony related to the retirement of the existing St. Joseph
13 treatment plant; 3) Missouri Public Service Commission Staff ("Staff") witness
14 Rackers' rebuttal testimony regarding the Accounting Authority Order (AAO) and
15 resulting rate treatment requested by MAWC; and, (4) the capital structure of
16 MAWC as of April 30, 2000.

PHASE-IN CALCULATIONS

17
18 **Q. ON SCHEDULES RTW-2 THROUGH RTW-6, OPC WITNESS TRIPPENSEE**
19 **PROVIDES HIS CALCULATIONS OF THE PHASE-IN RECOMMENDED**
20 **BY THE OPC. DO THESE CALCULATIONS ACCURATELY REFLECT**

1 **THE “RETURN ON” PORTION OF THE REVENUE REQUIREMENT?**

2 A. No. Mr. Trippensee’s phase-in calculation indicates that MAWC would carry the
3 deferred revenues the first year and only begin earning a return beginning in year two
4 of the phase-in. The rough equivalent of this is if Mr. Trippensee, on September 15,
5 2000, started making a deposit each month to a saving account, but did not begin
6 earning interest on his first deposit until September 15, 2000 (a full year later). Mr.
7 Trippensee’s phase-in calculations similarly ignore the “interest” or return that
8 should be earned during year one of the OPC’s phase-in.

9 **Q. HAS THE COMPANY CHANGED ITS POSITION REGARDING A PHASE-**
10 **IN OF REVENUES?**

11 A. No. MAWC remains conceptually opposed to a phase-in for reasons addressed in the
12 testimony of MAWC witnesses Jenkins and Hamilton. However, the Company does
13 desire that the record contain an accurate calculation of the proposed deferral.

14 **Q. HAVE YOU PREPARED A SCHEDULE TO REFLECT YOUR PROPOSED**
15 **CALCULATION?**

16 A. Yes. Schedule JES-S1 shows the phase-in calculation for the St. Joseph District
17 with earnings to begin in the first year.

18 **RETIREMENT OF OLD ST. JOSEPH TREATMENT PLANT**

19 **Q ON PAGE 2 OF HER REBUTTAL TESTIMONY, OPC WITNESS BOLIN**
20 **STATES THAT THE NET ORIGINAL COST OF THE OLD ST. JOSEPH**
21 **TREATMENT PLANT AND THE ASSOCIATED COST OF REMOVAL**
22 **SHOULD NOT BE INCLUDED IN MAWC’S COST OF SERVICE**

1 **BECAUSE: (1) IT IS NOT USED OR USEFUL; AND, (2) SOME**
2 **RECOGNITION OF THE NEW ST. JOSEPH TREATMENT PLANT WILL**
3 **BE BUILT INTO THE RESULTING COST OF SERVICE. WHAT IS THE**
4 **BASIS FOR THIS NET ORIGINAL COST?**

5 A. Depreciation rates are set in order to reflect the loss of value of a piece of property
6 over time. Ideally, the net original cost should reach \$0 at the same time the plant
7 is no longer used and useful. In this case, the depreciation rate, as set by the
8 Commission, was inadequate to obtain this result. Thus, the remaining net original
9 cost represents the investment in the plant that should have been depreciated.

10 **Q. WAS THERE ANY ATTEMPT TO ADDRESS THE INADEQUATE**
11 **DEPRECIATION RATE IN THE PAST?**

12 A. Yes. In MAWC's last rate case, the Company prepared a depreciation study that
13 reflected a depreciation rate addressing the St. Joseph treatment plant being retired
14 within the next three to four years. The Staff, alternatively, proposed to amortize this
15 amount over 10 years.

16 **Q. DID THE OPC SUPPORT THIS ATTEMPT TO ADDRESS THE**
17 **INADEQUATE DEPRECIATION?**

18 A No. The OPC suggested that the retirement of the St. Joseph treatment plant was too
19 speculative. In this case, we are now faced with the actual retirement and must
20 address the remaining net original cost.

21 **Q. DO YOU AGREE WITH OPC WITNESS BOLIN THAT INCLUDING THE**
22 **REMAINING NET ORIGINAL COST IN COST OF SERVICE WOULD**
23 **VIOLATE THE "USED AND USEFUL" PRINCIPLE?**

1 A. No. The remaining net original cost is essentially depreciation that should have been
2 taken previously. The "used and useful" principle has never been applied to
3 depreciation amounts.

4 **Q. HOW DO YOU RESPOND TO OPC WITNESS BOLIN'S STATEMENT**
5 **THAT "AFTER THE TRUE-UP AUDIT, SOME RECOGNITION OF THE**
6 **NEW ST. JOSEPH WATER TREATMENT PLANT WILL BE BUILT INTO**
7 **THE COST OF SERVICE?"**

8 A. This is inconsistent with the OPC's recommendations. OPC witnesses Biddy and
9 Trippensee have suggested that MAWC should have rehabilitated the old St. Joseph
10 treatment plant. If this had been done by MAWC, the net original cost highlighted
11 by OPC witness Bolin would have rightfully remained a part of rate base and
12 MAWC would have continued to earn a return on these amounts.

13 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE RETIREMENT**
14 **OF THE ST. JOSEPH TREATMENT PLANT?**

15 A. I recommend that the remaining net original cost be recorded as a deduction to Utility
16 Plant in Service and also a deduction from Accumulated Depreciation. In MAWC's
17 next rate case, a depreciation study will be performed and the retirement of the St.
18 Joseph treatment plant could then be addressed at that time.

19 **ACCOUNTING AUTHORITY ORDER**

20 **Q. DO YOU AGREE WITH STAFF WITNESS RACKERS' STATEMENT ON**
21 **PAGE 5 OF HIS REBUTTAL TESTIMONY THAT THE CONSTRUCTION**
22 **OF THE ST. JOSEPH TREATMENT PLANT AND RELATED FACILITIES**

1 **WAS NOT AN EXTRAORDINARY EVENT?**

2 A. No, I do not. A construction project which almost doubles the rate base of a water
3 company the size of MAWC has to be considered an extraordinary event in anyone's
4 book. Additionally, I have previously identified several extraordinary circumstances
5 that lead to the construction of this project. These reasons are more fully discussed
6 in the testimony of MAWC witness Young.

7 **Q. STAFF WITNESS RACKERS INDICATES THAT INTEREST COVERAGE**
8 **DURING THE REQUESTED PERIOD DOES NOT SUPPORT AN**
9 **ACCOUNTING AUTHORITY ORDER. DO YOU AGREE WITH THE**
10 **INTEREST COVERAGE THAT MR. RACKERS IDENTIFIES ON PAGE 5,**
11 **LINE 20 OF HIS REBUTTAL TESTIMONY?**

12 A. No. The actual (May 1, 1999 through April 30, 2000) cash dollars and budgeted cash
13 dollars (May 1, 2000 through April 30, 2000) (excluding AFUDC) result in interest
14 coverage of 1.81times for the twelve months ended April 30, 2000 through
15 September 30, 2000.

16 **CAPITAL STRUCTURE**

17 **Q. ON PAGE 2 OF STAFF WITNESS MCKIDDY'S REBUTTAL TESTIMONY**
18 **AND ON PAGE 5 OF OPC WITNESS BURDETTE'S REBUTTAL**
19 **TESTIMONY IT IS STATED THAT MAWC, STAFF AND THE OPC HAVE**
20 **AGREED TO TRUE-UP THE CAPITAL STRUCTURE AND EMBEDDED**
21 **COST OF PREFERRED STOCK AND LONG-TERM DEBT AS OF APRIL**
22 **30, 2000. IS THIS CONSISTENT WITH YOUR UNDERSTANDING?**

1 A. Yes.

2 **Q. WHAT WAS MAWC'S CAPITAL STRUCTURE AS OF APRIL 30, 2000?**

3 A. Attached as Schedule JES-S2 is a spreadsheet which describes MAWC's capital
4 structure as of April 30, 2000.

5 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

6 A. Yes, it does.

Office of the Public Counsel

Phase-In Calculation

Missouri-American Water Company

WR-2000-281

ST. JOSEPH

ine	Unamortized Phase-In adjustment	YEARS				
		One	Two	Three	Four	Five
1	Unamortized Phase-In adjustment		\$1,039,296	\$1,342,001	\$671,001	\$0
2	Unamortized Phase-In adj. - Current Year	\$519,648	\$671,000	\$335,500	\$0	\$0
3	Rate Base	\$519,648	\$1,710,297	\$1,677,501	\$671,001	\$0
4	Rate of Return	8.25%	8.25%	8.25%	8.25%	8.25%
5	Net Income Required	\$42,871	\$141,099	\$136,394	\$55,358	\$0
6	Current Income Taxes on NOI	26,712	87,916	86,230	34,492	0
7	Amortization of Revenue Deferred	0	346,432	671,001	671,001	0
8	Current Income Taxes on Amortization	0	215,854	418,084	418,084	0
9	Phase-In Revenue Increase	\$69,583	\$791,301	\$1,313,709	\$1,178,935	\$0
10						
11	Revenue Requirement Responsibility	\$12,821,023	\$13,542,741	\$14,065,149	\$13,930,375	\$12,751,440
12	Current Revenue - Previous Year	9,979,848	11,134,166	12,489,143	14,065,149	13,930,375
13	One-Time Increase	\$2,841,175	\$2,408,575	\$1,576,006	(\$134,774)	(\$1,178,935)
14	One-Time Increase-Percentage	28.47%	21.63%	12.62%	-0.96%	-8.46%
15						
16	Maximum Yearly Increase Percentage	15.00%	15.00%	15.00%	15.00%	15.00%
17	Current Year Increase - Phase-In Maximum	\$1,496,977	\$1,670,125	\$1,576,006	(\$134,774)	(\$1,178,935)
18						
19	Class Shift Maximum Revenue	\$11,134,166	\$12,489,143	\$14,069,542	\$15,904,979	\$16,000,000
20	Current Revenue	9,979,848	11,134,166	12,489,143	14,065,149	13,930,375
21	Current Year Revenue - Class Shift Maximum	\$1,154,318	\$1,354,977	\$1,580,399	\$1,839,830	\$2,069,625
22						
23	Phase-In Options Deferral Account					
24	District Cap	\$1,274,615	\$619,665	\$0	\$0	\$0
25	Class Shift Cap	\$1,686,857	\$1,053,598	\$0	\$0	\$0
26						
27	Revenue Increase Deferred	\$1,686,857	\$1,053,598	\$0	\$0	\$0
28	Income Tax Factor	38.3886%	38.3886%	38.3886%	38.3886%	38.3886%
29	Income Tax Effect	647,561	404,462	0	0	0
30	Net Revenue Increase Deferred	\$1,039,296	\$649,136	\$0	\$0	\$0
31						
32	ACCUMULATED DEFERRAL					
33	Deferred Revenue Increase	\$1,039,296	\$1,688,433	\$1,688,433	\$1,688,433	\$1,688,433
34	Accumulated Amortization of URD	0	346,432	1,017,432	1,688,433	1,688,433
35	Net URD Balance - Year End	\$1,039,296	\$1,342,001	\$671,001	\$0	\$0
36						
37	Revenue Increase - Annual Amount	\$1,154,318	\$1,354,977	\$1,576,006	(\$134,774)	(\$1,178,935)
38	Revenue Increase - Annual Percentage	11.57%	12.17%	12.62%	-0.96%	-8.46%
39						
40	Inputs					
41	Rate of Return (After Tax)	8.25%				
42	Maximum Yearly Increase Percentage	15.00%				
43	Amortization Period	3				
44	Income Tax Factor	38.3886%				
45						
46						
47	Test of Revenues Received over Period					
48	Net Income Required	\$377,722				
49	Current Income Taxes on NOI	\$235,350				
50	Additional Revenue Required	\$613,072				
51						
52	Revenue Requirement Responsibility	\$63,757,200				
53	Revenues Received	64,370,273				
54	Additional Revenues Received	\$613,073				

(\$1)

SCHEDULE JES-S1

MISSOURI-AMERICAN WATER COMPANY

WR-2000-281

CAPITAL STRUCTURE

April 30, 2000

SCHEDULE JES-S2-1

Line No.					
1					
2	<u>Class of Capital</u>	<u>Amount</u>	<u>Percent to Total</u>	<u>Cost Rate</u>	<u>Weighted Cost of Capital</u>
3					
4					
5	Long-Term Debt	\$89,765,483	56.05%	6.83%	3.83%
6					
7	Preferred Equity	241,734	0.15%	5.90%	0.01%
8					
9	Preference Equity	2,461,072	1.54%	9.40%	0.14%
10					
11	Common Equity	67,693,188	42.27%	11.654%	4.93%
12					
13	Total Capitalization	<u>\$160,161,477</u>	<u>100.01%</u>		<u>8.91%</u>
16					
17					

MISSOURI-AMERICAN WATER COMPANY

WR-2000-281

CAPITAL STRUCTURE

LONG TERM DEBT

April 30, 2000

Line No.	Debt Issue Type, Coupon Rate	Issue Date	Maturity Date	Principal Amount	Outstanding @ 4/30/00	Unamortized Debt Exp.	Net Proceeds	Annual Interest	Annual Amortization	Total Annual Cost
6	<u>General Mortgage Bonds</u>									
8	9.01% Series	03/20/90	02/15/05	\$5,700,000	\$5,700,000	\$16,770	\$5,683,230	\$513,570	\$3,470	\$517,040
9	5.50% Series	05/18/93	01/01/23	5,000,000	4,950,000	294,229	4,655,771	272,250	12,981	285,231
10	7.14% Series	03/16/94	03/01/31	12,500,000	12,500,000	283,263	12,216,737	892,500	8,371	900,871
11	10% Series	10/28/87	10/15/02	5,000,000	1,360,000	3,385	1,356,615	90,500	2,451	92,951
12	7.125% Series	02/01/91	Called 2/98	4,500,000	0	122,132	(122,132)	0	94,274	94,274
13	8.58% Series	04/21/95	03/01/25	3,000,000	3,000,000	64,434	2,935,566	257,400	2,595	259,995
14	5.85% Series	07/26/96	07/01/26	6,000,000	6,000,000	390,663	5,609,337	351,000	14,930	365,930
15	7.79% Series	06/01/97	06/01/27	8,000,000	8,000,000	102,903	7,897,097	623,200	3,799	626,999
16	5.00% Series	02/01/98	02/01/28	4,500,000	4,500,000	328,302	4,171,698	225,000	11,831	236,831
17	5.00% Series	11/01/98	11/01/28	19,000,000	19,000,000	1,196,435	17,803,565	950,000	41,980	991,980
18	5.9% Series	03/31/00	03/31/30	29,000,000	29,000,000	1,442,001	27,557,999	1,711,000	44,794	1,755,794
19	0			0	0	0	0	0	0	0
20	0			0	0	0	0	0	0	0
22	Total			\$102,200,000	\$94,010,000	\$4,244,517	\$89,765,483	\$5,886,420	\$241,476	\$6,127,896
24	Cost of Long-Term Debt [Total Annual Cost/Net Proceeds]									6.83%

MISSOURI-AMERICAN WATER COMPANY

WR-2000-281

CAPITAL STRUCTURE
PREFERRED STOCK

April 30, 2000

SCHEDULE JES-S2-3

Line No.	Type, Dividend Rate, Par Value	Issue Date	April 30, 2000 Outstanding Amount	Unamortized Issuance Expense	Carrying Value	Annual Dividends	Annual Amortization	Total Annual Cost
1								
2								
3	<u>Cumulative Preferred Stock</u>							
4								
5								
6								
7	4 1/4% Series, \$100 par	12/28/49	\$14,000	\$266	\$13,734	\$595	\$266	\$861
8	5 7/8% Series, \$100 par	10/11/66	228,000	0	228,000	13,395	0	13,395
9								
10	Total		242,000	266	241,734	13,990	266	14,256
11								
12	Cost of preferred stock [Total Annual Cost/Carrying Value]							5.90%
13								
14	<u>Preference Stock</u>							
15								
16	9.18% Series, \$100 par	10/03/91	2,500,000	38,928	2,461,072	229,500	1,854	231,354
17								
18	Cost of preference stock [Total Annual Cost/Carrying Value]							9.40%
19								