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**Missouri Public
Service Commission**

Exhibit No.:

Issue: Chemicals

Property Taxes

Witness: DOYLE L. GIBBS

Sponsoring Party: MoPSC Staff

Type of Exhibit: True-Up Rebuttal Testimony

Case No.: WR-2000-281 et al.

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP REBUTTAL TESTIMONY

OF

DOYLE L. GIBBS

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2000-281 et al.

*Jefferson City, Missouri
June, 2000*

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OF
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2 **OF**
3 **DOYLE L. GIBBS**
4 **MISSOURI-AMERICAN WATER COMPANY**
5 **CASE NO WR-2000-281 et al.**
6

7 Q. Please state your name and business address.

8 A. Doyle L. Gibbs, 815 Charter Commons Drive, Suite 100B, Chesterfield,
9 Missouri 63017.

10 Q. Are you the same Doyle L. Gibbs that previously filed direct, surrebuttal
11 and true-up direct testimony in this case?

12 A. Yes, I am.

13 Q. What is the purpose of your true-up rebuttal testimony?

14 A. The purpose of this true-up rebuttal testimony is to address the Staff's
15 concern regarding chemical expenses and property tax expenses in the St. Joseph district,
16 as reflected in the schedules attached to the true-up direct testimony of Missouri-
17 American Water Company (MAWC or Company) witness James E. Salser.

18 **CHEMICALS**

19 Q. With respect to chemicals, what level of expense has the Company
20 included in its true-up position, compared to its original filed case?

21 A. Schedule 1, attached to my true-up rebuttal testimony, provides a
22 comparison of the chemicals by type and cost for both the "old" and "new" treatment
23 plants, as well as a comparison of the Company's original filed and true-up positions. As

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1 can be seen on Schedule 1, the annual chemical costs, based on the relatively short
2 operational existence of the plant, are \$264,594 higher than originally estimated by the
3 Company. As explained to the Staff by Company water quality personnel, the additional
4 cost is principally driven by the hardness of the water. It was originally estimated that
5 the hardness of the water from the well supplying the new plant would be 10 to
6 20 percent greater than the hardness of the water from the river, which supplied the old
7 plant. However, the current hardness is approximately 40 percent greater than the
8 hardness of the river supply.

9 Q. Does Company anticipate a future reduction in the water hardness from
10 the new ground water source?

11 A. Yes, but the Company is unsure as to the timetable or what impact there
12 might be on the required chemical composition.

13 Q. What recommendation is the Staff currently proposing with regard to
14 chemical expense at the new St. Joseph treatment plant?

15 A. Staff, in its true-up direct testimony, included pro forma chemical expense
16 based on the limited historical data available for current operations at the new treatment
17 plant, with the caveat that chemical expense may be re-examined. After additional
18 consideration, it is the Staff's recommendation that the appropriate chemical expense to
19 include in the cost of service should be the cost originally estimated by the Company in
20 its filed case. Chemical costs incurred in excess of the original estimate, determined on a
21 unit of production basis, should be capitalized and included in the cost of plant. It is the
22 Staff's opinion that the current treatment process may be an anomaly and the higher cost
23 currently being incurred is analogous to a start-up cost. The Staff believes it is

1 reasonable to allow the excess chemical cost to be capitalized for a period of one year
2 following the in-service date of the new plant. After one year the capitalization should
3 cease and this item, as well as any other change to cost of service, should be addressed in
4 a rate case.

5 **PROPERTY TAXES**

6 Q. Does the Staff agree with the Company's inclusion of the imputed
7 property tax expense related to the new St. Joseph treatment plant?

8 A. No. The Staff not only disagrees with the inclusion of property taxes
9 related to the new treatment plant, but also disagrees with the adjustment amount that was
10 calculated by the Company.

11 Q. Why is the Staff opposed to the inclusion of the property taxes related to
12 the new treatment plant?

13 A. The tax on property, which is assessed as of January 1, is due and payable
14 on December 31 in the same year as the assessment. The Company has indicated to the
15 Staff that only plant in service, not construction work in progress (CWIP), has been
16 included in the Company's property tax base in the past. Including only plant that is
17 completed and in-service is consistent with the Staff's experience at other utility
18 companies. Since the new treatment plant was part of CWIP on January 1, 2000, the first
19 payment of property tax related to the new treatment plant should not be until
20 December 31, 2001. Whether the first payment date is December 31, 2000 or
21 December 31, 2001, it is too far removed from the true-up cut-off date of April 30, 2000
22 to be reflected in the cost of service. Considering only this one item of cost, eight months

1 beyond the true-up cut-off date, will distort the proper expense, revenue and rate base
2 relationship.

3 Q. Has the Company provided any documentation that would support the
4 inclusion of property taxes related to the new treatment plant?

5 A. The Company has provided copies of correspondence from the Buchanan
6 County Assessor representing letters of increased assessment.

7 Q. Why would this correspondence not be sufficient to support the inclusion
8 of property tax based on the assessment from the Buchanan County Assessor's Office?

9 A. In discussions with the Chief Assessor from the Buchanan County
10 Assessor's Office, I was told that the Assessor's office understood that tests had been
11 performed at the plant prior to January 1. It is their contention that if tests could be run,
12 then the plant must be in service. However, the actual in-service date should be
13 defensible by the Company on appeal of the new assessment, since the plant was not
14 complete and operational until April of 2000.

15 Q. In your discussions with the Chief Assessor from Buchanan County, was
16 there an indication that the assessed value was only an estimate?

17 A. Yes. I was informed that for several months before sending the letters of
18 increased assessment, the County had unsuccessfully sought information from the
19 Company regarding the Company's new investments. It was indicated that letters of
20 increased assessment must be remitted during April, May or June to allow enough time
21 for the appeal process. Because the County had not received the information it requested
22 from the Company, it had no alternative but to make an estimate of the appraised value.

1 Q. Does the Company have a deadline for filing of an appeal with the
2 Buchanan County Assessor's Office?

3 A. Yes. The letters of increased assessment from Buchanan County indicated
4 an appeal deadline of June 19, 2000. The Company has indicated that it did file an
5 appeal on that date.

6 Q. In addition to the conceptual arguments against including property taxes
7 on the new treatment plant in the Company's cost of service, you indicated previously
8 that you disagree with the Company's determination of the level of property tax expense.
9 Please explain why you disagree with the Company calculation.

10 A. First, the Company assumed that the effective tax rate applicable to the
11 1999 assessed property value would remain unchanged. Discussions with the Buchanan
12 County Assessor's Office indicated that the rate would not be known until probably
13 November and even then, it must fit within the limitations of the Hancock Amendment.
14 Considering the proposed assessment increase being levied against the Company, one
15 would expect that the rate might have to be adjusted downward.

16 Second, as indicated above, the assessed value reflects an estimate, rather than
17 actual cost. Given these two factors, the rate and the estimated assessed value, the
18 Company's calculation would not reflect an appropriate level of property tax expense.

19 Third, the Company's calculation assumed that the assessed values presented in
20 the correspondence reflected an additional assessment just for the new treatment plant
21 rather than the total new assessment for Company properties located in Buchanan
22 County. Even if the Company's property tax calculation would be based on the new
23 "assessed values" and the effective 1999 property tax rate, the \$1.4 million adjustment on

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1 Schedule JES 3-7, attached to the true-up testimony of Company witness Salser, would
2 need to be reduced by \$296,933 to reflect the actual 1999 property taxes paid to
3 Buchanan County.

4 Q. Please summarize the Staff's recommendation for property taxes for the
5 new treatment plant.

6 A. Since the payment date of property taxes for the new treatment plant is so
7 far beyond the true-up cut-off date, including these taxes in cost of service would distort
8 the expense, revenue and rate base relationship. Including only this one item beyond the
9 true-up date without considering other changes in the cost of service would be
10 inappropriate ratemaking. In addition, since it is obvious that Buchanan County has
11 miscalculated the in-service date and has not previously included CWIP in its assessment,
12 the Company should receive a favorable ruling on its appeal.

13 For these reasons, the Staff recommends that the property taxes associated with
14 the new plant should not be included in the cost of service.

15 Q. What would be the Staff's position if the Commission determined that
16 some level of property tax related to the new treatment plant in the St. Joseph District
17 should be included in the cost of service?

18 A. Because the operation of law date in this proceeding is September 15,
19 2000, and property tax, if any, associated with the new treatment plant it will not have to
20 be paid until December 31, 2000, the Company would be collecting the tax for over three
21 months prior to its obligation to pay the tax. Therefore, if the Commission determines
22 that recovery is appropriate, it would be the recommendation of the Staff that the
23 recovery be accomplished by the application of a surcharge that would take effect when

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1 actual payment is required to be made following the Company's appeal. The amount
2 recovered through this surcharge would be examined in the next rate case. Any over
3 recovery of the property taxes collected through the surcharge would be refunded to the
4 ratepayers.

5 Q. Does this conclude your true-up rebuttal testimony?

6 A. Yes, it does.

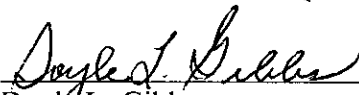
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of)	
Missouri-American Water Company's)	Case No. WR-2000-281 et al.
Tariff Sheets Designed to Implement)	
General Rate Increases for Water and)	
Sewer Service provided to Customers in)	
the Missouri Service Area of the Company.)	

AFFIDAVIT OF DOYLE L. GIBBS

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

Doyle L. Gibbs, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing True-Up 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

Subscribed and sworn to before me this 21st day of June 2000.



SHARON S WILES
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. AUG. 23, 2002

**Missouri-American Water Company
Case No. WR-2000-281 et al**

**Chemical Cost Comparison
(Dollars Per Year)**

Pro forma Chemical Cost - "Old Plant"

Chlorine (Liquid)	Chlorine (Liquid) #305	Chlorine #321	Hydro- sluosilicic Acid	Lime	Clarion A405P	Clarion A410P	Pol-E-Z 652	Robin 120 #534	Carbon	Total
16,442	288	23,566	18,477	2	47,093	31,206	998	26,813	11,295	176,180

Company Projected Chemical Cost For "New Plant"

Chlorine	Ferric Chloride	Salt	Fluosillicic Acid	Hydrated Lime	Potassium Perman- ganate	Anhydrous Ammonia	Blanket Polymer	Caustic Soda	Corrosion Inhibitors True Blended Phosphate	Total
91,880	47,008	8,072	13,078	33,774	39,619	9,281	44,515	8,984	0	296,211

True-up Cost Based On Operations of "New Plant"

91,880	47,008	8,072	11,713	18,748		14,067	55,080	131,427	182,810	560,805
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Difference Between Company Original Pro forma Cost and True-up Cost

0	0	0	(1,365)	(15,026)	(39,619)	4,786	10,565	122,443	182,810	264,594
0.00%	0.00%	0.00%	-10.44%	-44.49%	-100.00%	51.57%	23.73%	1362.90%		89.33%

Note: Based on 5,935 million gallons of water delivered to the St. Joseph system per year.