

Exhibit No.:
Issue: *Merger Recommendation*
Witness: *STEPHEN M. RACKERS*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WM-2001-309*
Date Testimony Prepared: *June 26, 2001*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY
OF
STEPHEN M. RACKERS

FILED²
JUN 26 2001
Missouri Public
Service Commission

MISSOURI-AMERICAN WATER COMPANY, ET. AL

CASE NO. WM-2001-309

Jefferson City, Missouri
June 2001

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Rebuttal Testimony of
Stephen M. Rackers

1 Q. With reference to Case Nos. WM-2001-309, have you made an
2 investigation of the books and records of Missouri-American Water Company (MAWC
3 or Company)?

4 A. Yes, with the assistance of other members of the Commission Staff
5 (Staff). As part of my investigation, I have also examined data from the books and
6 records of St. Louis County Water Company (SLCWC) and Jefferson City Water Works
7 Company (JCWWC), as it relates to this case.

8 Q. What is the purpose of your rebuttal testimony?

9 A. My testimony will rebut the testimony of Mr. James M. Jenkins, appearing
10 on behalf of the Company. I will also address the following items:

11 1) The Staff's recommendation regarding the Joint Application of
12 MAWC, SLCWC and JCWWC for authority to merge SLCWC and JCWWC with and
13 into MAWC (Application); and

14 2) The conditions, which the Staff recommends should be ordered, if the
15 Commission approves the requested Application.

16 Q. Do you agree with Mr. Jenkins' statement that the merger, as requested in
17 the Application, is not detrimental to the public interest, on page 8 of his direct testimony
18 in this case?

19 A. No. As I will discuss later, the Staff believes that approval of the
20 Application without certain conditions, would be detrimental to the public interest.

21 **STAFF RECOMMENDATION**

22 Q. What is the Staff's recommendation in this case?

1 A. The Staff recommends conditional approval of the Application. I will
2 provide a portion of the Staff's recommended conditions. Specifically, my testimony will
3 address collection of billing data, record keeping and deferred taxes.

4 Q. Why does the Staff believe its proposed conditions are necessary for
5 approval of the Application?

6 A. The Staff believes that its proposed conditions must accompany approval
7 of the Application to ensure that the merger is not detrimental to the public interest.

8 **CONDITIONS FOR APPROVAL**

9 Q. Please list the portion of the Staff's conditions that you are sponsoring.

10 A. The Staff conditions that I am sponsoring are listed below.

11 1) Collection of Billing Information: In Case Nos. WR-2000-281 and
12 WR-2000-844, MAWC and SLCWC respectively, agreed to provide on an annual basis
13 to the Staff and the Office of the Public Counsel certain billing information. The Staff
14 recommends that this collection and provision of billing data also be provided for
15 JCWWC customers beginning January 1, 2001. The language approved as part of the
16 Stipulation And Agreements in Case Nos. WR-2000-281 and WR-2000-844 regarding
17 Staff's recommended condition in this case appears in Schedule 2, attached to this
18 rebuttal testimony.

19 2) Record Keeping: Following the merger of JCWWC, SLCWC and
20 MAWC the books and records will reflect the appropriate recording of assets, liabilities,
21 revenues and expenses. The books and records will also be maintained and preserved to
22 provide the ability to determine separate tariffs and specific cost of service elements on a
23 district specific basis.

1 3) Deferred Income Taxes: The merger of MAWC, SLCWC and
2 JCWWC will not result in the elimination or reduction of any deferred income tax
3 liabilities or assets.

4 Q. Why is the Staff recommending the first condition listed above?

5 A. The Staff is recommending the additional collection of billing data to
6 facilitate the determination of normal weather in future rate cases. The determination of
7 normal weather is a significant item in the determination of rates. Since future rate cases
8 will be filed on a merged basis, the Staff believes this data should be available in a
9 consistent format for the entire MAWC system.

10 Q. Why is this the Staff recommending the second condition listed above?

11 A. MAWC, SLCWC and JCWWC currently have separate tariffs. MAWC
12 has eight districts, each with separate tariffs. Therefore, financial data must be
13 maintained to allow the determination of the cost of service for each separate set of
14 tariffs.

15 Q. Why is the Staff recommending the third condition listed above?

16 A. The accumulated deferred income taxes that currently exist were paid by
17 the customers of each company and district. Therefore, these deferred taxes should not
18 be eliminated or reduced as a result of the merger. These deferred income taxes should
19 continue to be recognized as a component of the cost of service and receive the same
20 treatment on a post-merger basis as that received prior to the merger.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Joint Application of)
Missouri-American Water Company, St. Louis)
County Water Company d/b/a Missouri-American)
Water Company and Jefferson City Water Works)
Company d/b/a Missouri-American Water Company)
for authority to merge St. Louis County Water) Case No. WM-2001-309
Company d/b/a Missouri-American Water Company)
and Jefferson City Water Works Company d/b/a)
Missouri-American Water Company with and into)
Missouri-American Water Company and, in)
connection therewith other related transactions.)

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI)
COUNTY OF COLE) ss.

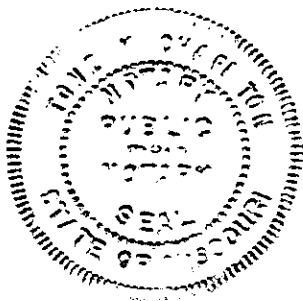
Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he 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 16 day of June 2001.



TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004



RATE CASE PROCEEDING PARTICIPATION

STEPHEN M. RACKERS

<u>Company</u>	<u>Case Number</u>
Bowling Green Gas Company	GR-78-218
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Fidelity Telephone Company	TR-80-269
St. Louis County Water Company	WR-80-314
Union Electric Company	ER-81-180
Laclede Gas Company	GR-81-245
Great River Gas Company	GR-81-353
Union Electric Company	ER-82-52
Laclede Gas Company	GR-82-200
St. Louis County Water Company	WR-82-249
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Arkansas Power and Light Company	ER-85-20
Kansas City Power and Light Company	ER-85-128
Arkansas Power and Light Company	ER-85-265
Union Electric Company	EC-87-114
Union Electric Company	GR-87-62
Southwestern Bell Telephone Company	TC-89-14
St. Louis County Water Company	WR-89-246
Laclede Gas Company	GR-90-120
Missouri Cities Water Company	WR-91-172
St. Louis County Water Company	WR-91-361
Laclede Gas Company	GR-92-165
Missouri Pipeline Company	GR-92-314
St. Louis County Water Company	WR-92-204

<u>Company</u>	<u>Case Number</u>
St. Louis County Water Company	WR-94-166
St. Louis County Water Company	WR-95-145
Union Electric Company	ER-95-411
St. Louis County Water Company	WR-96-263
St. Louis County Water Company	WR-97-382
Laclede Gas Company	GR-99-315
Missouri-American Water Company	WR-2000-281 et al
St. Louis County Water Company	WR-2000-844

Collection and Provision of Billing Information

In consideration of the settlement of the weather normalization issue and the dollar amounts connected with weather normalization in the above numbered cases, the Company and Staff agree to accumulate more detailed histories of billing cycle information than have been provided historically. At a minimum, the additional information shall include billing cycle meter read dates, customer rerouting information and significant billing adjustments for the Company's rate classes and sales districts in the State of Missouri.

a. Volumes And Meters by Billing Month, Rate Class and Sales District.

The parties understand that the Company will continue to accumulate billing volumes and meter counts by billing month, rate class and sales district as it has historically. The parties also understand that the Company will continue to make the most recent ten (10) calendar years of this information available to the Staff and the OPC when the Company files a rate case in Missouri.

b. Water Meter Reading Dates. The purpose of this provision of the agreement is to prevent significant differences in the lengths of billing cycle years from skewing the results of weather normalization calculations. Accordingly, the Company and Staff jointly agree to accumulate scheduled water meter read dates by billing cycle, billing month, rate class (where applicable) and service area, for use in weather normalization when rate cases are filed. The scheduled meter read dates shall be accumulated for the 12 billing months in the year ending in December of 2000, and for all billing months thereafter. The Company also agrees to assist the Staff in a reasonable effort to gather meter reading schedules for previous years. When schedules of billing cycle read dates for the Company's Missouri sales districts shall have been established or modified, the Company agrees to forward them to the Manager-Water and Sewer Department of the Staff and to the OPC. The Staff agrees to archive the schedules until they are needed for weather normalization in a Company rate case.

When the Company files a rate case, the Company also agrees to notify the Staff and the OPC of those instances when events such as inclement weather force the estimation of significant numbers of bills, or alternatively, when actual meter read dates

differ significantly from the scheduled ones. However, the Company, the Staff and the OPC recognize that the billing volumes affected by such events are difficult to estimate, and therefore jointly agree to accept the use of reasonable approximations where necessary.

Finally, when the Company files a rate case, the Company agrees to provide to Staff and OPC billing cycle volumes and reading dates for those individual Commercial customers whose usage does affect weather normalization calculations. The Staff and OPC shall take reasonable precautions to preserve the confidentiality of these records.

c. Customer Rerouting. The purpose of this provision of the agreement is also to prevent significant differences in the lengths of billing cycle years from skewing the results of weather normalization calculations. Accordingly, the Company and Staff agree to accumulate meter reading date information relating to the rerouting of significantly large groups of customers from one billing cycle to another. The Company and Staff also agree to accumulate meter reading date information relating to the transition of significantly large groups of customers from quarterly to monthly billing. However, the Company and Staff recognize that such records are difficult to tabulate, and jointly agree to accept the use of reasonable approximations where necessary.

d. Billing Adjustments. The purpose of this provision of the agreement is to prevent large billing errors from skewing the results of weather normalization calculations, rather than to demand detailed accounts of minor billing errors that would have no significant effect. Accordingly, the Company and Staff jointly agree to accumulate billing month totals of volumes that were applied to bills in each billing month as adjustments for significant errors that occurred in previous billing months. The Company and Staff recognize that such records are difficult to tabulate, and jointly agree to accept the use of reasonable approximations where necessary.

Collection and Provision of Billing Information

In consideration of the settlement of the weather normalization issue and the dollar amount connected with weather normalization, the Company agrees to accumulate and provide to the Staff and OPC more detailed histories of billing cycle information than have been provided historically. At a minimum, the additional information shall include billing cycle meter read dates, customer rerouting information and significant billing adjustments for the Company's rate classes.

a. Volumes And Meters by Billing Month and Rate Class. The parties understand that the Company will continue to accumulate billing volumes and meter counts by billing month and rate class, as it has historically. The parties also understand that the Company will continue to make the most recent ten (10) calendar years of this information available to the Staff and the OPC when the Company files a rate case in Missouri.

b. Water Meter Reading Dates. The purpose of this provision of the agreement is to prevent significant differences in the lengths of billing cycle years from skewing the results of weather normalization calculations. Accordingly, the Company and Staff jointly agree to accumulate scheduled water meter read dates by billing cycle, billing month and rate class (where applicable), for use in weather normalization when rate cases are filed. The scheduled meter read dates shall be accumulated for the 12 billing months in the year ending in December of 2000, and for all billing months thereafter. The Company also agrees to assist the Staff in a reasonable effort to gather meter reading schedules for previous years. When schedules of billing cycle read dates

are established or modified, the Company agrees to forward them to the Manager-Water and Sewer Department of the Staff and to the OPC. The Staff agrees to archive the schedules until they are needed for weather normalization in a Company rate case.

When the Company files a rate case, the Company also agrees to notify the Staff and the OPC of those instances when events, such as inclement weather, force the estimation of significant numbers of bills, or, when actual meter read dates differ significantly from the scheduled ones. However, the Company, the Staff and the OPC recognize that the billing volumes affected by such events are difficult to estimate, and therefore jointly agree to accept the use of reasonable approximations where necessary.

Finally, when the Company files a rate case, the Company agrees to provide to Staff and OPC billing cycle volumes and reading dates for those large individual Commercial customers whose usage does affect weather normalization calculations. The Staff and OPC shall take reasonable precautions to preserve the confidentiality of these records.

c. Customer Rerouting. The purpose of this provision of the agreement is also to prevent significant differences in the lengths of billing cycle years from skewing the results of weather normalization calculations. Accordingly, the Company agrees to accumulate and provide to the staff and OPC meter reading date information relating to the rerouting of significantly large groups of customers from one billing cycle to another. The Company also agrees to accumulate and provide to the Staff and OPC meter reading date information relating to the transition of significantly large groups of customers from quarterly to monthly billing. The Company and Staff recognize, however, that such

records are difficult to tabulate, and jointly agree to accept the use of reasonable approximations where necessary.

d. Billing Adjustments. The purpose of this provision of the agreement is to prevent large billing errors from skewing the results of weather normalization calculations, rather than to demand detailed accounts of minor billing errors that would have no significant effect. Accordingly, the Company agrees to accumulate and provide to the Staff and OPC billing month totals of volumes that were applied to bills in each billing month as adjustments for significant errors that occurred in previous billing months. The Company and Staff recognize that such records are difficult to tabulate, and jointly agree to accept the use of reasonable approximations where necessary.