

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Water Quality  
District Cost of Service  
Capital Investment  
Trippensee/Rebuttal  
Public Counsel  
WM-2001-309

## **REBUTTAL TESTIMONY**

**OF**

**RUSSELL W. TRIPPENSEE**

**FILED**

**JUN 26 2001**

**Missouri Public  
Service Commission**

Submitted on Behalf of  
the Office of the Public Counsel

**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**

**Case No. WM-2001-309**

June 26, 2001

**REBUTTAL TESTIMONY OF  
RUSSELL W. TRIPPENSEE  
CASE NO. WM-2001-309**

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**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 )  
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 with and into )  
Missouri-American Water Company )  
and, in Connection therewith, )  
Certain Other Related Transactions )

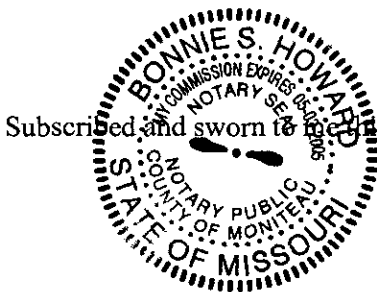
Case No. WM-2001-309

**AFFIDAVIT OF RUSSELL TRIPPENSEE**

STATE OF MISSOURI        )  
                                  ) ss  
COUNTY OF COLE        )

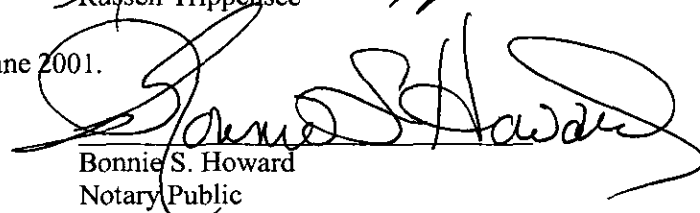
Russell Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell Trippensee. I am Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 11 and schedule RWT-1.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Subscribed and sworn to before me this 26<sup>th</sup> day of June 2001.

  
Russell Trippensee

  
Bonnie S. Howard  
Notary Public

My commission expires May 3, 2005

**REBUTTAL TESTIMONY**  
**OF**  
**RUSSELL W. TRIPPENSEE**  
**MISSOURI AMERICAN WATER COMPANY**  
**ST. LOUIS COUNTY WATER COMPANY**  
**&**  
**JEFFERSON CITY WATER COMPANY**  
**d/b/a**  
**MISSOURI-AMERICAN WATER COMPANY**  
  
**CASE NO. WM-2001-309**

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

2 A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my  
3 business address is P.O. Box 7800, Jefferson City, Missouri 65102.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public  
6 Counsel).

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in  
9 Accounting, in December 1977. I attended the 1981 NARUC Annual Regulatory Studies Program  
10 at Michigan State University.

11 **Q. HAVE YOU PASSED THE UNIFORM CPA EXAM?**

1 A. Yes, I hold certificate number 14255 in the State of Missouri. I have not met the two-year  
2 experience requirement necessary to hold a license to practice as a CPA.

3 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

4 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public  
5 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a  
6 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III  
7 and assumed my present position.

8 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

9 A. I served as the chairman of the Accounting and Tax Committee for the National Association of State  
10 Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I am a  
11 member of the Missouri Society of Certified Public Accountants.

12 **Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**  
13 **STAFF.**

14 A. Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations  
15 of the books and records of public utility companies operating within the State of Missouri with  
16 regard to proposed rate increases.

17 **Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**  
18 **THE PUBLIC COUNSEL?**

19 A. I am responsible for the Accounting and Financial Analysis sections of the Office of the Public  
20 Counsel and coordinating their activities with the rest of our office and other parties in rate

1 proceedings. I am also responsible for performing audits and examinations of public utilities and  
2 presenting the findings to the MPSC on behalf of the public of the State of Missouri.

3 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?**

4 A. Yes. I filed testimony in the cases listed on Schedule RWT-1 of my testimony on behalf of the  
5 Missouri Office of the Public Counsel or MPSC Staff.

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

7 A. To present an overview of Public Counsel's recommendation on the merger of the various Missouri  
8 based subsidiary companies of American Water Works Company Inc. (AWWC) into a single legal  
9 entity. I will also recommend conditions the Commission should require the merged entity to  
10 comply with if the merger is approved.

11 **Q. CAN YOU DESCRIBE THE CORPORATE RELATIONSHIP OF THE APPLICANT**  
12 **PARTIES IN THIS CASE?**

13 A. Yes I can. However, for the purposes of not burdening the record with duplicative descriptions, I  
14 would refer the Commission to Company witness James M. Jenkins direct testimony, pages 2  
15 through page 4, line 16 for a complete discussion of the relationships. Simply stated, Missouri-  
16 American Water Company (MAWC) and St. Louis County Water Company (SLCWC) are wholly  
17 owned by AWWC and Jefferson City Water Works Company (JCWWC) is wholly owned by  
18 MAWC. This application requests that the Commission approve the legal merger of these three  
19 separate legal entities into a merged company called Missouri-American Water Company  
20 (Company or Merged Company).

1   **Q.   PLEASE OUTLINE PUBLIC COUNSEL'S POSITION REGARDING THE**  
2       **PROPOSED MERGER OF AMERICAN WATERWORKS INC. SUBSIDIARY**  
3       **COMPANYS THAT ARE PROVIDING REGULATED WATER SERVICE WITHIN**  
4       **THE STATE OF MISSOURI.**

5   A.   Public Counsel would recommend that the Commission approve this merger of the legal entity  
6       applicants with certain conditions to ensure that Missouri customers do not face any possible  
7       detrimental effects subsequent to the merger.

8   **Q.   PLEASE SUMMARIZE WHAT CONDITIONS PUBLIC COUNSEL BELIEVES THIS**  
9       **COMMISSION SHOULD IMPOSE ALONG WITH ITS APPROVAL OF THE**  
10      **MERGER IN ORDER TO ENSURE THAT THERE ARE NO DETRIMENTAL**  
11      **EFFECTS OF THE MERGER?**

12   A.   Public Counsel would recommend that the Commission extend its ruling regarding a Cost  
13       Allocation Manual in Case No. WR-2000-844 involving SLCWC to incorporate all the affiliated  
14       transactions involving the merged entity and its affiliates. Mr. James Dittmer will address this issue  
15       on behalf of Public Counsel. Public Counsel recommends the Commission adopt performance  
16       standards that address water quality which directly correspond to the product being provided to the  
17       public. Public Counsel recommends that district specific financial and operating data be maintained  
18       in order to allow the parties and the Commission to address the unique rate design questions that  
19       result from a multi-district but geographically segregated utility. Public Counsel's final  
20       recommendation regards ensuring the Merged Company does not reduce its commitment to make

1 the necessary investments in infrastructure to provide safe and adequate service at just and  
2 reasonable rates.

3 **Q. WHY IS PUBLIC COUNSEL PROPOSING THAT CONDITIONS BE PLACED ON**  
4 **MERGED COMPANY AS A PREREQUISITE FOR COMMISSION APPROVAL?**

5 A. It is my understanding that the standard the Commission must apply when considering whether or  
6 not to approve the merger is a "no detriment" standard. That is, the consuming public should be no  
7 worse off as a result of the merger. The conditions proposed by Public Counsel either provide  
8 measurements of operations to quantify if any degradation in service occurs subsequent to the legal  
9 entity merger or provides for the continued flow of information to allow the Commission to  
10 continue to same level of regulation (i.e. rate design) available prior to the merger.

11 **WATER QUALITY**

12 **Q. PLEASE EXPLAIN PUBLIC COUNSEL'S RECOMMENDATION REGARDING**  
13 **WATER QUALITY.**

14 A. Water, unlike other utility services regulated by this Commission, has unique physical qualities that  
15 effect its value to the customer. Inadequately treated water can have taste or odor problems that  
16 cause the water to be less than desirable to the recipients. Excessive levels of water hardness can  
17 also have detrimental effects on customers' appliances and internal piping within their residence.

18 Public Counsel recommends the Commission require the Company submit reports to its Staff and  
19 Public Counsel detailing the level of hardness in the finished water delivered to the system in each

1 of its operating districts. The benchmark for comparison should be the average level of hardness for  
2 each district over the two-year period immediately prior to the merger.

3 **Q. WHAT IS THE REPORTING FREQUENCY RECOMMENDED IN PUBLIC**  
4 **COUNSEL'S RECOMMENDATION?**

5 A. Public Counsel recommends reports be filed on a quarterly basis which compare actual results with  
6 the benchmark on a district specific basis. Such report shall be provided to the Staff and Public  
7 Counsel within sixty days of the end of the calendar quarter. An annual report (based on a calendar  
8 year) shall be filed within ninety days after the end of the year that compares actual annual results to  
9 the benchmark. The report shall explain any deviations from the benchmark and outline any actions  
10 to be taken to improve the water quality and bring it into line (at a minimum) with the benchmark.  
11 The associated costs of such corrective actions shall also be addressed in the report. If the Company  
12 wishes to adjust the benchmark, the proposed changes should be set out in the annual report along  
13 with a detailed discussion of the explanation for making any such adjustments. Staff and Public  
14 Counsel would be afforded the opportunity to respond to any proposed changes with the final  
15 determination to be made by the Commission.

16 **DISTRICT COST OF SERVICE**

17 **Q. PLEASE OUTLINE PUBLIC COUNSEL'S RECOMMENDATION REGARDING**  
18 **DISTRICT SPECIFIC DATA.**

19 Public Counsel recommends the Commission specifically order the Company to maintain financial  
20 data and operating statistics on a district specific basis for direct costs and implement an allocation

1 procedure to address indirect or shared (often called common) costs among the districts. The  
2 purpose of this recommendation is to ensure that sufficient information is available to allow parties  
3 to recommend and the Commission consider district specific rate design proposals. The financial  
4 data would include a district specific tracking of assets, liabilities, revenues, and expenses including  
5 but not limited to:

- 6 \* Utility Plant in Service and Accumulated Depreciation
- 7 \* Construction Work in Progress
- 8 \* Accounts Receivable and Reserve for Doubtful Accounts
- 9 \* Inventory Accounts
- 10 \* Accrued Utility Revenues
- 11 \* Miscellaneous Accounts Receivable
- 12 \* Accrued Property Taxes
- 13 \* Contributions in Aid of Construction
- 14 \* Customer Advances for Construction
- 15 \* Direct labor, power, chemical, maintenance, and other direct costs
- 16 \* Allocation amounts of indirect costs by cost category and expense account.

17 Operating statistical data that would be required to be maintained on a district specific basis would  
18 include but not be limited to:

- 19 \* Gallons of water sold
- 20 \* Gallons of water produced (by source if appropriate)
- 21 \* Customer numbers by meter size
- 22 \* Chemicals
- 23 \* Power

24 **Q. PLEASE EXPLAIN WHY INFORMATION ON A DISTRICT SPECIFIC BASIS**  
25 **IS NECESSARY.**

1 A. Upon approval of this merger, the Company will be providing regulated utility water service in nine  
2 separate geographic service areas, which are not interconnected by any physical property allowing  
3 for the transportation of water between the service areas with one exception. The Commission  
4 found in the recent MAWC case, Case No. WR-2000-281, that a rate design known as district  
5 specific pricing was appropriate. Various parties who support district specific rate design or the  
6 Commission in the event it wishes to consider and approve such proposals require that adequate  
7 information be available with which to develop the required overall cost-of-service (i.e. revenue  
8 requirement) studies by district

9 **Q. PLEASE EXPLAIN THE EXCEPTION YOU REFERENCED IN YOUR RESPONSE**  
10 **TO THE PREVIOUS ANSWER.**

11 A. The St. Charles district of MAWC is in extremely close proximity to the service territory of  
12 SLCWC. It is my understanding, based on discussions with SLCWC personnel, that efforts will be  
13 undertaken to link the two systems via a transmission line run under the Missouri River which  
14 provides a natural border between the two service areas. Once physically linked, the two service  
15 areas will be receiving the same product, or at a minimum, the possibility exists that they will be  
16 receiving the same product. This possibility does not currently exist between any other service  
17 areas of the Company.

18 **CAPITAL INVESTMENT**

19 **Q. PLEASE OUTLINE PUBLIC COUNSEL'S RECOMMENDATION REGARDING**  
20 **CAPITAL INVESTMENT.**

1 A. Public Counsel believes the Company should be required make the necessary capital investments in  
2 its Missouri operations in order to continue its ability to provide safe and adequate service at just  
3 and reasonable rates. Public Counsel specifically recommends that for a minimum of five years, the  
4 Company shall make capital investments equal to the average aggregate business-as-usual  
5 investment in plant over prior three years by MAWC, STLWC, and JCWWC. This amount is  
6 approximately \$39 Million.

7 **Q. PLEASE EXPLAIN WHY YOU USED THE TERM, BUSINESS-AS-USUAL.**

8 A. MAWC and JCWWC made major capital investments during the prior three years that would distort  
9 the average investment necessary to determine the benchmark for a "no detriment" standard for  
10 normal infrastructure needs. MAWC made investments in its St. Joseph district for a completely  
11 new water acquisition and treatment facility, a major modification of the treatment plant at Mexico,  
12 and the addition of an ozone and hydrogen sulfide treatment process at its Warrensburg district.  
13 JCWWC installed a completely new chemical feed process and related buildings and piping at its  
14 treatment plant in Jefferson City. Each of these projects are unusual in nature and could be  
15 classified as non-recurring and therefore not appropriate to be compared to on-going investments in  
16 the replacement or new installation of water mains and other routine or non-major plant-in-service  
17 replacements or additions.

18 **Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES THAT NEW CAPITAL**  
19 **INVESTMENT LEVEL BELOW THE AGGREGATE AVERAGE OVER THE LAST**  
20 **THREE YEARS WOULD BE DETRIMENTAL TO THE PUBLIC INTEREST.**

1 A. This Commission is well aware of the investment needs of the water industry in general and this  
2 Company specifically. The Weston Model identified almost \$150 Million of water main  
3 replacements that could be economically justified for immediate replacement in the SLCWC  
4 system. The Commission's Report and Order, Case No. WR-2000-844 addressed the need for  
5 SLCWC to make minimum levels of capital investment with respect to its water main infrastructure.  
6 If approved, this merger would allow the Company to effectively divert funds provided by other  
7 operating districts to meet its obligation in the old SLCWC service territory. In the specific case of  
8 SLCWC service territory, failure to make the necessary investments has led to higher maintenance  
9 costs associated with water mains and placed certain financial pressures on SLCWC because of the  
10 need to now inject large amounts of capital.

11 Public Counsel's recommendation ensures the detrimental impact capital diversion would have, will  
12 not have a detrimental effect on capital needs of the non-SLCWC districts as a result of the merger.  
13 Without burdening the record with information previously provided the Commission over the last  
14 eight years regarding SLCWC, I would point out that Public Counsel continues to believe that a  
15 ramping up of capital investment is necessary regarding SLCWC's water main infrastructure.  
16 However, the "no detriment" standard only provides for no degradation of service and cost to the  
17 customers, not an improvement.

18 **Q. IS PUBLIC COUNSEL ASSERTING THAT SLCWC IS NOT PROVIDING SAFE**  
19 **AND ADEQUATE SERVICE TODAY?**

20 A. No. However the complete phrase is safe and adequate service at just and reasonable rates. The  
21 Weston Model has identified plant in need of replacement on an economic basis. The practical

1 effect of SLCWC's failure to have previously made the necessary investments places upward  
2 pressure on the cost-of-service. Failure to make the necessary investments in the future likewise  
3 places similar upward pressure.

4 **R. DOES PUBLIC COUNSEL'S PROPOSAL CONSTITUTE PREAPPROVAL THAT**  
5 **THE AGGREGATE AVERAGE OF INVESTMENT IS PRUDENT?**

6 A. No. The Company will still be under the obligation to make prudent decisions. In the event the  
7 Company believes that the capital expenditure of approximately \$39 Million in any year would not  
8 be prudent, the Company would be obligated to file for a variance from this merger condition.  
9 Likewise, the aggregate average serves only as a minimum threshold (absent the Commission  
10 finding a variance is appropriate). If the Commission subsequently finds a higher level of  
11 investment should have been made, an order similar to that issued in Case No. WR-200-844 would  
12 be appropriate. Other parties such as OPC or Staff would still have the duty and right to review all  
13 prudence issues (both decision process and implementation) associated with capital expenditures as  
14 OPC has done in every STLCW case since 1994 and the recent MAWC case involving the St.  
15 Joseph treatment plant.

16 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

17 A. Yes.

Rebuttal Testimony  
Russell W. Trippensee  
Case No. WM-2001-309

Missouri Power & Light Company, Steam Dept., Case No. HR-82-179  
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180  
Missouri Edison Company, Electric Dept., Case No. ER-79-120  
Southwestern Bell Telephone Company, Case No. TR-79-213  
Doniphan Telephone Company, Case No. TR-80-15  
Empire District Electric Company, Case No. ER-83-43  
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181  
Missouri Public Service Company, Electric Dept., Case No. ER-81-85  
Missouri Water Company, Case No. WR-81-363  
Osage Natural Gas Company, Case No. GR-82-127  
Missouri Utilities Company, Electric Dept., Case No. ER-82-246  
Missouri Utilities Company, Gas Dept., Case No. GR-82-247  
Missouri Utilitites Company, Water Dept., Case No. WR-82-248  
Laclede Gas Company, Case No. GR-83-233  
Great River Gas Company, Case No. GR-85-136 (OPC)  
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)  
United Telephone Company, Case No. TR-85-179 (OPC)  
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)  
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)  
KPL/Gas Service Company, GR-86-76 (OPC)  
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)  
Union Electric Company, Case No. EC-87-115 (OPC)  
Union Electric Company, Case No. GR-87-62 (OPC)  
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)  
St. Louis County Water Company, Case No. WR-88-5 (OPC)  
West Elm Place Corporation, Case No. SO-88-140 (OPC)  
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)  
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)  
Osage Utilities, Inc., Case No. WM-89-93 (OPC)  
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)  
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)  
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)  
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)  
Capital City Water Company, Case No. WR-90-118 (OPC)

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Laclede Gas Company, Case No. GR-90-120 (OPC)  
Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)  
Empire District Electric Company, Case No. ER-90-138 (OPC)  
Associated Natural Gas Company, Case No. GR-90-152 (OPC)  
Southwestern Bell Telephone Company, Case No. TO-91-163  
Union Electric Company, Case No. ED-91-122  
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360  
The Kansas Power and Light Company, Case No. GR-91-291  
Southwestern Bell Telephone Co., Case No. TO-91-163  
Union Electric Company, EM-92-225 and EM-92-253  
Southwestern Bell Telephone Company, TO-93-116  
Missouri Public Service Company, ER-93-37, (January, 1993)  
Southwestern Bell Telephone Company, TO-93-192, TC-93-224  
Saint Louis County Water Company, WR-93-204  
United Telephone Company of Missouri, TR-93-181  
Raytown Water Company, WR-94-300  
Empire District Electric Company, ER-94-174  
Raytown Water Company, WR-94-211  
Missouri Gas Energy, GR-94-343  
Capital City Water Company, WR-94-297  
Southwestern Bell Telephone Company, TR-94-364  
Missouri Gas Energy, GR-95-33  
St. Louis County Water Company, WR-95-145  
Missouri Gas Energy, GO-94-318  
Alltel Telephone Company of Missouri, TM-95-87  
Southwestern Bell Telephone Company, TR-96-28  
Steelville Telephone Exchange, Inc., TR-96-123  
Union Electric Company, EM-96-149  
Imperial Utilites Corporation, SC-96-247  
Laclede Gas Company, GR-96-193  
Missouri Gas Energy, GR-96-285  
St. Louis County Water Company, WR-96-263  
Village Water and Sewer Company, Inc. WM-96-454  
Empire District Electric Company, ER-97-82

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UtiliCorp d/b/a Missouri Public Service Company, GR-95-273  
Associated Natural Gas, GR-97-272  
Missouri Public Service, ER-97-394, ET-98-103  
Missouri Gas Energy, GR-98-140  
St. Louis County Water, WO-98-223  
United Water Missouri, WA-98-187  
Kansas City Power & Light/Western Resources, Inc. EM-97-515  
St. Joseph Light & Power Company, HR-99-245  
St. Joseph Light & Power Company, GR-99-246  
St. Joseph Light & Power Company, ER-99-247  
AmerenUE, EO-96-14, (prepared statement)  
Missouri American Water Company, WR-2000-281  
Missouri American Water Company, SR-2000-282  
UtiliCorp United Inc./St. Joseph Light & Power Company, EM-2000-292  
UtiliCorp United Inc./Empire District Electric Company, EM-2000-369  
St. Joseph Light & Power Company, EO-2000-845  
St. Louis County Water Company, WR-2000-844  
Union Electric Company, EO-2001-245  
Laclede Gas Company, GM-2001-342  
Empire District Electric Company, ER-2001-299  
Missouri-American Water Company, et. al., WM-2001-309