

Exhibit No.:
Issue: True-up
Witness: Stephen M. Rackers
Sponsoring Party: MoPSC Staff
Type of Exhibit: Supplemental True-up Direct
Testimony
Case No: WR-2007-0216
Date Testimony Prepared: July 19, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SUPPLEMENTAL TRUE-UP DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2007-0216

STAFF Exhibit No. 7
Case No(s) WR-2007-0216
Date 8-14-07 Rptr DF

Jefferson City, Missouri
July 2007

STAFF-7

1 **SUPPLEMENTAL TRUE-UP DIRECT TESTIMONY**

2 **OF**

3 **STEPHEN M. RACKERS**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2007-0216**

6 Q. Please state your name, occupation and business address.

7 A. My name is Stephen M. Rackers. I am a member of the Missouri Public
8 Service Commission's (Commission) Auditing Staff (Staff). My business address is
9 9900 Page Avenue, Suite 103, Overland, Missouri 63132.

10 Q. Have you previously filed direct, rebuttal and true-up direct testimony in this
11 case?

12 A. Yes.

13 Q. What is the purpose of this Supplemental True-up Direct Testimony?

14 A. This testimony will address the Staff's current calculation of revenue
15 requirement, based on its true-up through May 31, 2007 and corrections to its direct filed
16 case, resulting from additional information obtained from the Company. I am sponsoring the
17 trued-up and corrected calculation of revenue requirement, which appears in the separately
18 filed True-up Direct Accounting Schedules.

19 Q. What is the value of the corrections to the Staff's case?

20 A. The value of the corrections to the Staff's case is \$488,632 at its 9.10%
21 midpoint return on equity. This amount includes items, which both increase and decrease
22 revenue requirement. Among these items is an increase in revenue requirement due to the
23 over \$400,000 reduction to Other Revenues, resulting from the recognition of the Stipulation

Supplemental True-Up Direct Testimony
of Stephen M. Rackers

1 and Agreement between Metropolitan Sewer District and Missouri-American Water
2 Company (MAWC or Company), filed on July 16, 2007.

3 Q. What is the value of the true-up of the Staff's case?

4 A. The value of the true-up to the Staff's case is \$15,347,873, at its midpoint
5 return on equity. This amount includes items, which both increase and decrease revenue
6 requirement and is based on updated information supplied by the Company, regarding
7 revenues, expenses, investment and capital structure.

8 The amount of true-up related to expenses, revenues and investment is \$8,122,790.
9 This amount compares favorably with the Staff's original true-up estimate, which appears in
10 the Staff's Accounting Schedules filed with its direct testimony. The increase in this portion
11 of the true-up amount is mainly due to a higher than estimated increase in payroll costs.

12 The additional \$7,225,083 of true-up, at the Staff's midpoint return on equity, results
13 from a change in the capital structure. This change is discussed in the True-up Direct
14 Testimony of Staff witness David Murray of the Financial Analysis Department.

15 Q. How did the Staff incorporate the change to the capital structure in its
16 determination of revenue requirement?

17 A. The Staff used the rates of return, sponsored by Mr. Murray in his True-up
18 Direct Testimony, to calculate revenue requirement. As part of this calculation, the Staff has
19 factored-up the return on common equity for income taxes. Since interest is tax deductible,
20 the return associated with long-term and short-term debt does not need to be factored-up for
21 income taxes.

22 The Staff has two outstanding data requests, which are due on July 23, 2007, to
23 clarify the tax treatment regarding the dividends associated with preferred stock. In the
24 determination of the revenue requirement appearing in the True-up Direct Accounting

Supplemental True-Up Direct Testimony
of Stephen M. Rackers

1 Schedules, the Staff has treated the preferred dividends as being deductible in the
2 computation of income taxes. Therefore, the return associated with preferred stock has not
3 been factored-up for income taxes. MAWC's response to the data requests may require the
4 Staff to revise its tax treatment for the return associated with preferred stock. If the entire
5 amount of preferred dividends in not tax deductible, the revenue requirement reflected in the
6 Staff's True-up Direct Accounting Schedules, \$19,493,370 at the midpoint, will increase by
7 approximately \$4 million.

8 Q. Does this conclude your supplemental true-up direct testimony?

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

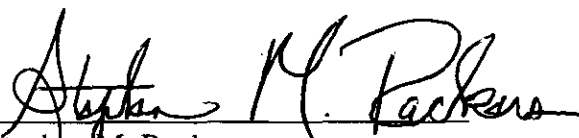
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's request for Authority to) Case No. WR-2007-0216
Implement a General Rate Increase for)
Water Service provided in Missouri)
Service Areas)

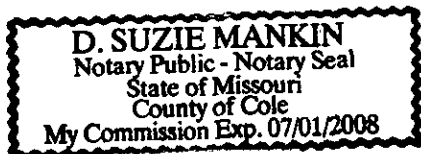
AFFIDAVIT OF STEPHEN M. RACKERS

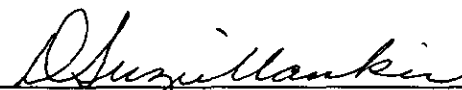
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Stephen M. Rackers, being of lawful age, on his oath states: that he has participated in the preparation of the following Supplemental True-up Direct Testimony in question and answer form, consisting of 3 pages to be presented in the above case; that the answers in the following Supplemental 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.


Stephen M. Rackers

Subscribed and sworn to before me this 19th day of July, 2007.




Notary Public