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May 7, 2002

Mr. Dale Hardy Roberts
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Missouri-American Water Company - Case No. WO-2002-273

Dear Mr. Roberts:


Enclosed for filing in the above-referenced proceeding please find an original and eight copies of the Surrebuttal Testimony of Captain Robert Young, Edward J. Grubb and Frank L. Kartmann. Please note that the testimony of Messrs. Grubb and Kartmann contains information which has been deemed to be "Highly Confidential" under the terms of the Protective Order in place in this proceeding. Consequently, also please find enclosed one copy of the Non-Proprietary version of each testimony, along with an envelope containing copies of the "HC Pages Only" of each testimony.

If you have any questions concerning this matter, then please do not hesitate to contact me.
Thank you for your attention to this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:


Dean L. Cooper *kg Pg*

DLC/rhg
Enclosures

cc: Mr. Keith Krueger, PSC
Ms. Ruth O'Neill, OPC
Mr. Stuart Conrad
Mr. Jeremiah Finnegan
Mr. James Deutsch
Ms. Jan Bond

Exhibit No.:
Issues: AAO
EITF Abstract
Four Conditions
Extraordinary Event
Witness: Edward J. Grubb
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water
Company
Case No.: WO-2002-273
Date: May 7, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WO-2002-273

SURREBUTTAL TESTIMONY

OF

EDWARD J. GRUBB

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

JEFFERSON CITY, MISSOURI

NP

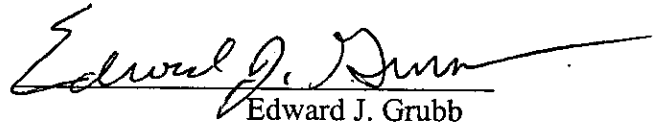
BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

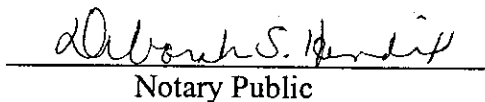
IN THE MATTER OF THE JOINT APPLICATION)	CASE NO. WO-2002-273
OF MISSOURI-AMERICAN WATER COMPANY,)	
ST. LOUIS COUNTY WATER COMPANY d/b/a)	
MISSOURI-AMEICAN WATER COMPANY AND)	
JEFFERSON CITY WATER WORKS COMPANY)	
d/b/a MISSOURI-AMERICAN WATER COMPANY)	
FOR AN ACCOUNTING AUTHORITY ORDER)	
RELATING TO SECURITY COSTS)	

AFFIDAVIT OF EDWARD J. GRUBB

Edward J. Grubb, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony and schedules entitled "Direct Testimony of Edward J. Grubb"; 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.


Edward J. Grubb

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
before me this 3rd day of May 2002.


Notary Public

My commission expires: 8/11/03

DEBORAH S. HENDRIX
Notary Public-Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Aug. 11, 2003

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SURREBUTTAL TESTIMONY

EDWARD J. GRUBB

WITNESS INTRODUCTION

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

2 A. My name is Edward J. Grubb and my business address is 535 N. New Ballas
3 Road, St. Louis, Missouri 63141.

4 **Q. ARE YOU THE SAME EDWARD J. GRUBB THAT PREVIOUSLY FILED**
5 **DIRECT TESTIMONY IN THIS CASE?**

6 A. Yes, I am.

7 **PURPOSE**

8 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

9 A. I will respond to the Rebuttal Testimony filed by Missouri Public Service
10 Commission ("Commission") Staff ("Staff") witness Janis E. Fischer and Office of
11 the Public Counsel ("Public Counsel") witness Kimberly K. Bolin. Primarily, I will
12 address the financial related aspects of those testimonies.

13 **NATURE OF AAO**

14 **Q. PUBLIC COUNSEL WITNESS BOLIN INDICATES THAT "GENERALLY, THE**
15 **DEFERRAL OF COSTS FROM ONE ACCOUNTING PERIOD TO ANOTHER**
16 **ACCOUNTING PERIOD FOR THE DEVELOPMENT OF A REVENUE**
17 **REQUIREMENT VIOLATES THE TRADITIONAL METHOD OF SETTING**
18 **UTILITY RATES" (BOLIN REB., P. 17). DO YOU AGREE WITH THIS**
19 **STATEMENT?**

1 A. No.

2 **Q. WHY NOT?**

3 A. Deferral of extraordinary expenses is a part of the "traditional method of setting
4 utility rates." Before this Commission, in Case No. GO-2002-175, Staff member
5 Charles R. Hyneman has documented that the concept of "extraordinary" costs
6 and the definition thereof "can be found in accounting industry pronouncements
7 dating back to at least 1947" (See excerpt found at Schedule EJG-1). Deferral of
8 extraordinary items is not a new concept. It is my opinion that a concept that has
9 been a part of utility regulation for 55 years is a part of the "traditional method of
10 setting utility rates."

11 **Q. WAS PUBLIC COUNSEL WITNESS BOLIN AWARE OF THE HISTORY OF**
12 **SUCH TREATMENT OF EXTRAORDINARY EXPENSES?**

13 A. No. In MAWC Data Request number OPC-5 (Schedule EJG-2), MAWC asked
14 "how long accounting authority orders, or other methods to defer costs from one
15 accounting period to another, been provided for by the uniform system of
16 accounts applicable to water utilities?"

17 Ms. Bolin responded in part as follows:

18 The USOA revised in 1976 provides account 186 – Miscellaneous
19 Deferred Debits, which includes debits not elsewhere provided for,
20 such as miscellaneous work in progress, losses on disposition of
21 property, net of income taxes, deferred by authorization of the
22 Commission, and unusual or extraordinary expenses, not included
23 in other accounts, which are in process of amortization, and items
24 the proper disposition of which is uncertain. I have not performed
25 any research beyond the 1976 revision of the USOA.

1 Thus, Ms. Bolin had not reviewed the history of treatment of extraordinary
2 expenses when she stated that an accounting authority order violates the
3 "traditional method of setting utility rates."

4 **EITF ABSTRACT**

5 **Q. ON PAGES 14-15 OF HER REBUTTAL TESTIMONY, STAFF WITNESS**
6 **FISCHER CITES TO ABSTRACTS ISSUE NO. 01-10, AS ADDRESSED BY**
7 **THE EMERGING ISSUES TASK FORCE ("EITF") OF THE FINANCIAL**
8 **ACCOUNTING STANDARDS BOARD, FOR THE PROPOSITION THAT**
9 **"FINANCIAL ACCOUNTING AUTHORITIES HAVE DENIED**
10 **EXTRAORDINARY STATUS TO COSTS INCURRED BY ENTITIES THAT**
11 **WERE DIRECTLY DAMAGED AND THAT SUFFERED LOSSES DUE TO**
12 **THOSE EVENTS." DO YOU AGREE WITH HOW MS. FISCHER USES AND**
13 **INTERPRETS THIS DOCUMENT?**

14 **A. No.**

15 **Q. WHY NOT?**

16 **A. Ms. Fischer is making an "apples to oranges" comparison. The EITF in this**
17 **abstract is not considering the application of the term "extraordinary" as found in**
18 **the uniform system of accounts, nor is it considering regulated utility rate making**
19 **decisions. The EITF noted that its "primary objective in addressing this issue**
20 **was to provide financial statement users with decision-useful information about**
21 **the financial effects of the September 11 events. . . ." (Schedule JEF 2-5, p.**
22 **1393). This is certainly not the question this Commission has before it.**

23 **Q. WHAT WAS THE ESSENCE OF THE EITF'S FINDINGS?**

1 A. The EITF explained that it would not approve identification of costs because the
2 event was essentially too extraordinary. It stated that "[t]he Task Force
3 concluded that regardless of whether the September 11 events meet the criteria
4 in Opinion 30 to be considered extraordinary, the effects of those events were so
5 wide-ranging and had such a pervasive impact on U.S. businesses and the U.S.
6 economy that the foregoing communication objectives of Opinion 30 with respect
7 to extraordinary items could not be met. The Task Force agreed that despite the
8 incredible nature of the September 11 events, extraordinary item financial
9 reporting treatment would not be an effective way to communicate the financial
10 effects of those events and, therefore, should not be used in this case." Such
11 "wide-ranging" and "pervasive impacts" could easily support a Commission
12 finding that the events of September 11, 2001, were an extraordinary event
13 within the meaning of the uniform system of accounts.

14 **Q. HAS THE FINANCIAL ACCOUNTING STANDARD BOARD ("FASB") ISSUED**
15 **A STANDARD RELATED TO DEFERRALS OF COSTS FOR REGULATED**
16 **UTILITIES?**

17 A. Yes. In its financial accounting standard No. 71, the FASB recognized that
18 certain costs that would not normally be recorded as a regulatory asset for
19 financial reporting purposes, can be recorded as such if it is more likely than not
20 that the recovery of the asset in rates will be authorized by the regulators. Staff
21 has pointed to abstracts of issue No. 01-10 related to the financial reporting of
22 the costs related to security and losses incurred as a result of the extraordinary
23 events of September 11, 2001. That abstract states that a publicly traded

1 corporation cannot identify the costs as an extraordinary item in its income
2 statement because the event was too extraordinary. All information related to
3 the impact on a corporation should be reported in the notes to the financial
4 statements. FAS No. 71 allows a regulated utility to record the costs as a
5 regulatory asset pending rate recovery at a future point in time. The Uniform
6 System of Accounts, it has been noted, also identifies an account for a utility to
7 use to record costs as a regulatory asset pending rate recovery. This
8 Commission has historically allowed utilities in certain situations to record
9 extraordinary costs as a regulatory asset and to later recover those costs in rates
10 where so ordered. In summary, both the Missouri regulators and the public
11 accounting sector have seen the need for the recording of regulatory assets and
12 their subsequent recovery in rates. The EITF Abstract cited by Ms. Fischer does
13 not change this fact. It is simply not appropriate to use that statement regarding
14 how certain costs should be communicated to the investment community and
15 use it as a broad categorization of costs associated with the deferrals related to
16 security costs.

17 **Q. HAVE ANY ENTITIES CONCERNED SPECIFICALLY WITH UTILITY RATE**
18 **MAKING WEIGHED IN ON THE ISSUE OF RECOVERY?**

19 A. Yes. As stated in the Direct Testimony of Frank L. Kartmann, the Federal
20 Energy Regulatory Commission ("FERC") issued a Statement of Policy (96
21 FERC ¶ 61,299, Docket No. PL01-6-000) which indicated a willingness to
22 address security expenses. The FERC stated as follows:

1 In light of tragic events that have taken place in our country this
2 week and the high state of alert the country is now experiencing,
3 the Commission believes it is appropriate to provide regulatory
4 guidance on certain energy infrastructure reliability and security
5 matters that may be affected by this Commission's rate jurisdiction.
6 The Commission understands that electric, gas, and oil companies
7 may need to adopt new procedures, update existing procedures,
8 and install facilities to further safeguard their electric power
9 transmission grid and gas and oil pipeline systems. The
10 Commission is aware that there may be uncertainty about
11 companies' ability to recover the expenses necessary to further
12 safeguard our energy infrastructure, especially if they are operating
13 under frozen or indexed rates. In order to alleviate this uncertainty,
14 the Commission wants to assure the companies we regulate that
15 we will approve applications to recover prudently incurred costs
16 necessary to further safeguard the reliability and security of our
17 energy supply infrastructure in response to the heightened state of
18 alert. Companies may propose a separate rate recovery
19 mechanism, such as a surcharge to currently existing rates or
20 some other cost recovery method.

21 **Q. HAVE ANY OTHER ENTITIES ISSUED STATEMENTS RELATING DIRECTLY**
22 **TO RECOVERY OF SECURITY COSTS BY REGULATED UTILITIES?**

23 A. Yes. More recently, the National Association of Regulatory Utility
24 Commissioners ("NARUC") issued its "Resolution on Guidelines for State
25 Commission Procedures Involving the Handling of Security Documents and the
26 Recovery of Prudently Incurred Security Related Costs" (a copy is attached
27 hereto as Schedule EJG -3). In its resolution, NARUC stated in part as follows:

28 WHEREAS, Jurisdictional water companies, in efforts to enhance
29 security to meet current threats, may be incurring expenses of an
30 extraordinary nature;

31 * * * * *

32 WHEREAS, The FERC also recently issued a Policy Statement
33 regarding recovery of prudently incurred security related costs;

34 * * * * *

35 RESOLVED, That State Commissions are also encouraged to . . .
36 identify and/or establish procedures for timely recovery of prudently
37 incurred security related costs.

1 **Q. WHAT IS THE SIGNIFICANCE OF THE FERC AND NARUC**
2 **COMMUNICATIONS?**

3 A. Staff witness Fischer, in describing the EITF document, stated as follows:

4 The Staff is not addressing this matter because it believes the
5 Commission must or should accept the decisions made by financial
6 accounting authorities in this area or in other matters as binding on
7 its deliberations in any way.

8 Similarly, MAWC recognizes that the FERC and NARUC communications are not
9 binding on the Commission. However, they should be more persuasive to the
10 Commission's decision-making than the EITF abstract in that the FERC and
11 NARUC deal with regulatory ratemaking issues, instead of the FASB's focus on
12 how to present information for financial statement users.

13 **Q. ON PAGE 16 OF HER REBUTTAL TESTIMONY, STAFF WITNESS FISHER**
14 **TAKES NOTE OF THE SEPTEMBER 30, 2002 10Q REPORT TO THE**
15 **SECURITIES AND EXCHANGE COMMISSION THAT WAS FILED BY THE**
16 **COMPANY'S PARENT, AMERICAN WATER WORKS COMPANY, INC. MS.**
17 **FISCHER NOTES THAT THE FILING CONTAINED LANGUAGE THAT,**
18 **BASED ON HER INTERPRETATION, INDICATES "THERE WOULD BE NO**
19 **ADVERSE FINANCIAL IMPACT RESULTING FROM THE ADDITIONAL**
20 **SECURITY COSTS." DO YOU AGREE WITH HER INTERPRETATION?**

21 A. No. If you read the 10-Q carefully, the language indicates that American Water
22 Works believes that the recovery of the security costs are probable and therefore
23 expects no significant impact on the financial position or results of operations. It
24 does not say that recovery is guaranteed or there will be no adverse impact. Ms.

1 Fischer's comments seem to attempt to connect MAWC's AAO filing with
2 attempts to reduce regulatory lag and to remove the risk of under-recovering the
3 total costs of the security upgrades. First, this Commission has stated in the
4 past that maintaining the financial integrity of a utility is not the primary reason for
5 approving an AAO. However, we must be honest and up front. When the
6 Commission approves an AAO, a benefit to the Company is that its financial
7 position is not eroded. This is a simple fact of the AAO. Second, when this
8 Commission last set rates for the Company, it is doubtful that anyone ever
9 contemplated the inclusion of a possible terrorist attack in the determination of
10 the Company's return on equity. Third, the Company will never recover all costs
11 associated with the security costs.

12 **Q. WHAT STEPS HAS THE STATE OF MISSOURI TAKEN RELATED TO THE**
13 **SECURITY OF PUBLIC UTILITIES?**

14 A. Under the leadership of the Governor and the guidance of Mr. Tim Daniels,
15 Special Advisor for Homeland Security, the Missouri Security Panel Utility
16 Committee was formed. The Committee was comprised of representatives from
17 the water, electric, telecommunications and gas companies. Also involved were
18 representatives from the University of Missouri-Columbia nuclear reactor, the
19 Missouri Department of Natural Resources and the Missouri Public Service
20 Commission.

21 **Q. WHAT WERE THE GOALS OF THE UTILITY COMMITTEE?**

22 A. The Utility Committee identified four major goals:

- 1 • Identify and assess critical utility related assets for safeguarding
- 2 management;
- 3 • Identify the best practices as they relate to deterring, preventing and
- 4 responding to a terrorist threat or incident;
- 5 • Identify those issues, which might require action by the Missouri General
- 6 Assembly; and,
- 7 • Identify any type of state, local or federal regulation that might hamper or
- 8 even prevent the implementation of various recommendations.

9 **Q. DID THE UTILITY COMMITTEE PRODUCE A LIST OF "BEST PRACTICES?"**

10 A. Yes. The Utility Committee developed a "best practice" approach for deferring,

11 preventing and responding to terrorist threats or incidents. The approach

12 evaluates issues including utility planning, security, enhanced communications

13 and response.

14 **Q. WERE ANY OF THE UTILITY COMMITTEE'S ACTIONS TARGETED**

15 **SPECIFICALLY AT THE WATER INDUSTRY?**

16 A. The Water Subcommittee made 3 recommendations related to general security

17 considerations:

- 18 • Require that all utilities serving 10,000 or more people maintain a
- 19 disinfectant residual throughout the distribution system as a means to
- 20 reduce risk during a terrorist event;
- 21 • Encourage the interconnection of water utility's distribution system so that
- 22 emergency supplies are readily available; and,

- Remove impediments to all utilities that the cost of additional security is rapidly reflected in the rates they charge, consistent with prudent implementation.

Q. DOES THIS PROCESS INDICATE ANYTHING TO YOU IN TERMS OF THE EXTRAORDINARY NATURE OF THE EVENTS UNDERLYING THIS AAO REQUEST?

A. Yes. The efforts of the Utility Committee along with its very existence further reveals the extraordinary attention given to the security of all utilities by the leaders of the State of Missouri.

STAFF'S FOUR CONDITIONS

Q. ON PAGES 10-12 OF HER REBUTTAL TESTIMONY, STAFF WITNESS FISCHER PROVIDES FOUR "CONDITIONS" WHICH SHE STATES THE STAFF RECOMMENDS THAT THE COMMISSION USE IN CONSIDERING WHETHER TO GRANT AN ACCOUNTING AUTHORITY ORDER "AAO." DOES THIS CASE APPEAR TO BE THE RIGHT PLACE FOR THE PROPOSAL OF SUCH CONDITIONS?

A. No. I have been advised that a failure to follow rule making procedures renders void purported changes in statewide policy.

Q. DOES THIS APPEAR TO BE A CHANGE IN STATEWIDE POLICY?

A. Yes. Ms. Fischer appears to be recommending that the Commission adopt these conditions for all AAO applications.

Q. DOES THE COMMISSION ALREADY HAVE A RULE CONCERNING THE STANDARDS FOR AAO APPLICATIONS?

1 A. Yes.

2 **Q. WHAT IS IT?**

3 A. The standards for the issuance of a water corporation AAO are found in the
4 uniform system of accounts, as issued by the National Association of Regulatory
5 Utility Commissioners in 1973, as revised July 1976. The Commission adopted
6 the USOA for Missouri water corporations in Commission Rule 4 CSR 240-50-
7 030.

8 **Q. THE FIRST CONDITION PROPOSED BY STAFF WITNESS FISCHER IS THAT**
9 **IN ORDER TO BE EXTRAORDINARY, THE COSTS RESULTING FROM THE**
10 **EVENT MUST REPRESENT AT LEAST 5% OF THE UTILITY'S REGULATED**
11 **MISSOURI INCOME, COMPUTED BEFORE EXTRAORDINARY ITEMS. DO**
12 **AGREE WITH THE USE OF THIS STANDARD?**

13 A. Not as an absolute rule. The Commission has previously indicated that
14 materiality standards, such as the 5% amount found in the natural gas and
15 electric uniform system of accounts, may be relevant to the extraordinary nature
16 of the costs, but are not "case dispositive." *In the Matter of Missouri Public*
17 *Service*, 1 MPSC 3d 200, 206 (1991). The Commission more recently echoed
18 this sentiment in *In the Matter of Missouri Gas Energy*, Case No. GO-99-258
19 (March 2, 2000), wherein the Commission stated that "materiality is an issue that
20 may be considered when determining whether to allow deferral of expenses.
21 However, a finding of materiality is not necessary to allow deferral" It is
22 unclear to me why the Commission would want to lose this flexibility by moving

1 to a hard and fast percentage test where 5.00% qualifies for an AAO, but
2 4.9999% does not.

3 **Q. STAFF WITNESS FISCHER WENT ON TO COMPUTE A PERCENTAGE**
4 **IMPACT ASSOCIATED WITH THE EVENT. DO YOU AGREE WITH HER**
5 **COMPUTATION?**

6 A. No. Even if the Commission does choose to apply the 5% materiality test,
7 MAWC contests the figures utilized by the Staff.

8 **Q. WITH WHAT ASPECTS OF THE COMPUTATIONS DO YOU DISAGREE?**

9 A. Staff witness Fischer argued that MAWC's analysis was flawed for three
10 reasons. First, Staff alleged that the impact was overstated because the
11 Company annualized the impact of all security related costs. While the impact is
12 lessened by only looking at the Staff's calculation for the 12 months following the
13 September 11, 2001 tragedy, the ultimate impact on the Company could be
14 measured on an annualized basis.

15 Second, Staff alleges that the Company ignored the tax benefits from deducting
16 security costs for tax purposes. The Company did not ignore all tax impacts. As
17 shown in the Company's response to Staff Data Request #1016 (Schedule EJJ-
18 4), a calculation was done for the after tax net income impact for depreciation,
19 one-time costs and the on-going costs. The Company's calculations did
20 inadvertently exclude the tax impact on the debt portion of the carrying costs and
21 the time value of the tax benefits. This oversight will be corrected in this
22 Surrebuttal Testimony.

1 Third, Staff states that the Company's upper range of its materiality assumes a
2 "highest state" of alert. The purpose of the range for materiality was simply to
3 provide the Commission with the information. If the Commission should choose
4 to apply the 5% materiality test, the lower end of the range would be more
5 appropriate than the upper end of the range.

6 **Q. DO YOU OTHERWISE AGREE WITH THE STAFF'S CALCULATION OF THE**
7 **5% MATERIALITY TEST?**

8 A. No, I do not.

9 **Q. PLEASE EXPLAIN WHY NOT.**

10 A. I will identify several adjustments that need to be made to the Staff's 5%
11 materiality test.

12 First, the Company provided to Staff in a response to Data Request #1018
13 (Schedule EJG-5), the actual monthly-deferred expenses through March, 2002,
14 with an estimate of the costs through the end of August, 2002. At the time the
15 Staff filed its testimony, this information was not yet available. Therefore, I have
16 incorporated these costs into Staff's calculation.

17 Second, Staff measured the impact of the security costs for the 12-month period
18 ending August, 2002. The measurement period should be the 12-month period
19 ending September, 2002. The Company did not make any expenditures in
20 September, either capital or deferred. Therefore, the Staff's measurement period
21 should start in October, 2001 and end September, 2002.

22 Finally, Staff measured its materiality by dividing its calculated impact on net
23 income by the 2001 level of net income of \$22,382,871. In discussing this

1 calculation on page 10, lines 9 and 10, Staff witness Fischer is recommending
2 that the security costs that are subject to deferral must represent at least 5% of
3 the **utility's regulated Missouri** net income. Included in the Company's 2001
4 net income is income that is not regulated. In 2001, the Company realized a
5 gain on the sale of land. This amount should be excluded from net income to
6 calculate the 5% materiality test.

7 **Q. WHAT IS THE IMPACT ON STAFF'S CALCULATION OF THE MATERIALITY**
8 **TEST WHEN ADJUSTED FOR THE THREE ISSUES THAT YOU DISCUSSED?**

9 A. I have attached as Schedule EJG-6, a document showing the recalculated
10 deferral. The revised analysis now shows that the total estimated deferral to be
11 **. When divided by the adjusted net income for 2001 in the amount
12 of **, this represents a materiality impact of ** which is well
13 above the 5% test that the Staff is recommending.

14 **Q. THE SECOND CONDITION PROPOSED BY STAFF WITNESS FISCHER WAS**
15 **THAT "THE UTILITY'S CURRENT RATES MUST BE INADEQUATE TO**
16 **COVER THE EVENT" (FISCHER REB., P. 11). WHAT IS MS. FISCHER'S**
17 **STANDARD FOR THIS TEST?**

18 A. Ms. Fischer indicates her belief that an AAO request should be rejected if the
19 Commission determines "that existing rates appear sufficient to cover the
20 extraordinary cost and still provide the utility with a reasonable expectation of
21 earning its authorized return."

22 **Q. WHAT RETURN DOES THE STAFF BELIEVE THAT MAWC IS CURRENTLY**
23 **EARNING?**

1 A. Apparently, the Staff does not have an opinion on this subject. In response to
2 MAWC's data request number 12, asking what rate of return the Staff believed
3 MAWC was earning, the Staff stated as follows:

4 The Staff reviewed the surveillance data submitted by MAWC for
5 2002 for MAWC, St. Louis County Water and Jefferson City Water
6 Works. This data is in MAWC's possession. Without performing
7 an analysis of this data to determine what adjustments might be
8 appropriate for ratemaking purposes to normalize and/or annualize
9 revenues, expenses and investment, the Staff cannot determine at
10 this time what MAWC's current rate of return is. The Staff has not
11 alleged that MAWC is over-earning currently.

12 (See Schedule EJG-7).

13 **Q. SO THE STAFF DOES NOT KNOW THE ANSWER TO ITS SECOND**
14 **PROPOSED CONDITION – WHETHER OR NOT EXISTING RATES APPEAR**
15 **SUFFICIENT TO COVER THE EXTRAORDINARY COST AND STILL**
16 **PROVIDE THE UTILITY WITH A REASONABLE EXPECTATION OF EARNING**
17 **ITS AUTHORIZED RETURN?**

18 A. It appears they do not. They have proposed this second condition without
19 suggesting or trying to suggest what constitutes whether a utilities' rates appear
20 sufficient to cover the extraordinary cost associated with an AAO request and still
21 allow the utility with a reasonable expectation of earning its authorized return. I
22 believe the Staff did not make a suggestion of how this issue can be addressed
23 because of its complexity and far-reaching consequences. This is an extremely
24 difficult issue to quantify and one that would have to be addressed outside the
25 bounds of an AAO case.

1 **Q. THE THIRD CONDITION PROPOSED BY THE STAFF IS THAT THE**
2 **EXPENSES RESULT EITHER FROM AN EXTRAORDINARY CAPITAL**
3 **ADDITION OF AN EXTRAORDINARY EVENT THAT IS BEYOND THE**
4 **CONTROL OF THE UTILITY'S MANAGEMENT (FISCHER REB., P. 11). DO**
5 **YOU AGREE WITH THIS CONDITION?**

6 A. No. I do not believe that there is a reason to change the Commission's prior
7 standard that the event be "extraordinary, unusual, unique, and non-recurring."
8 Staff is attempting to narrow the discretion the Commission might otherwise use
9 in assessing an AAO. Such limiting of the Commission's discretion might have
10 the effect of limiting the Commission's ability and effectiveness in insuring that
11 the State has available a strong utility infrastructure which provides utility
12 services at just and reasonable rates (just and reasonable to both the customers
13 and the utility).

14 **Q. IF THE PROPOSED CONDITION WERE APPLIED IN THIS CASE TO MAWC,**
15 **WHAT WOULD BE THE OUTCOME?**

16 A. MAWC satisfies both prongs of the condition. In the first prong, many of the
17 expenses identified are "extraordinary capital additions" "required to insure the
18 continuation of safe and adequate service." The unique condition is that rather
19 than a large individual project, the project is actually a series of projects that are
20 extremely hard to time with a rate case filing. As to the second prong, the events
21 and the resulting consequences of September 11, 2001, which drove these
22 projects are certainly "beyond the control of the utility's management."

1 **Q. THE FOURTH CONDITION RECOMMENDED BY THE STAFF IS THAT**
2 **"THERE MUST BE A SUFFICIENT REASON WHY THE UTILITY COULD NOT**
3 **FILE A RATE CASE TO RECOVER THE COSTS RESULTING FROM THE**
4 **EXTRAORDINARY EVENT." IN THE ALTERNATIVE, THE "UTILITY MUST**
5 **FILE A RATE CASE WITHIN 90 DAYS OF THE AAO APPROVAL" (FISCHER**
6 **REB., P. 11). WHAT IS THE IMPACT OF THIS CONDITION?**

7 **A.** AAO's would be almost completely eliminated.

8 **Q. WHY IS THAT?**

9 **A.** In response to MAWC data request number 11 (Schedule EJG-8), the Staff
10 indicated that the only situations it is aware of where a utility could not file a rate
11 case is where there is an existing rate moratorium or a utility proposal for a rate
12 moratorium. Thus, using this standard, there would be very few situations where
13 a utility could make use of an AAO.

14 **Q. DO YOU BELIEVE THIS IS A GOOD POLICY FOR THE COMMISSION TO**
15 **ADOPT?**

16 **A.** No. In certain circumstances, AAO's can provide a means of stabilizing a utility's
17 financial picture after it has been upset by an extraordinary, unique and non-
18 recurring event. Generally, this is done without the time and resource
19 consuming rate case process. It also allows the utility's rates to be stable for a
20 longer period of time.

21 **Q. WHAT WOULD BE YOUR OPINION OF THE STAFF'S ALTERNATIVE**
22 **PROPOSAL, THAT A UTILITY BE REQUIRED TO FILE A RATE CASE**
23 **WITHIN 90 DAYS?**

1 A. This would be unrealistically fast. It is difficult for a company the size of MAWC,
2 especially because it has ten separate rate schedules, to complete the
3 necessary preparation for the filing of a rate case and the direct testimony
4 required by the Commission. The preparation of a rate case includes the
5 coordination of both personnel and financial resources. The last St. Louis
6 County Water Company rate case required approximately six months to prepare.
7 Likewise, the Staff and OPC are generally provided around between five and six
8 months to prepare their direct testimony in a rate case. A ninety day time frame
9 is unreasonable.

10 **Q. WOULD A 90 DAY PERIOD BE CONSISTENT WITH PAST COMMISSION**
11 **AAO'S?**

12 A. No. In response to MAWC data request number 3 (Schedule EJG-9), the Staff
13 stated that the "approved AAO's since 1991, for which the resulting deferrals did
14 not begin immediate amortization, have included requirements for the utilities to
15 file rate cases to be eligible to recover deferrals from one year to three years
16 following the issuance of the AAO." Requiring a rate case within 90 days would
17 represent a drastic and unreasonable change from past practice.

18 **Q. THE FOUR CONDITIONS PROPOSED BY THE STAFF ARE SAID TO "APPLY**
19 **ONLY TO AAOs FOR WHICH ANY AMORTIZATION OF DEFERRED**
20 **AMOUNTS IS TO BE DELAYED UNTIL THE EFFECTIVE DATE OF RATES**
21 **FOR A FUTURE RATE CASE" (FISCHER REB., P. 12). PUBLIC COUNSEL**
22 **WITNESS BOLIN ALSO INDICATES HER BELIEF THAT IF AN AAO IS**
23 **GRANTED, AMORTIZATION SHOULD BEGIN IMMEDIATELY. IF MAWC IS**

1 **GRANTED AN AAO IN THIS CASE, IS MAWC WILLING TO BEGIN THE**
2 **AMORTIZATION WITH THE EFFECTIVE DATE OF THE ORDER GRANTING**
3 **SUCH AAO?**

4 A. No. The purpose of an AAO has always been to allow the utility to defer the
5 costs associated with an extraordinary event from one accounting period to
6 another and, if the costs are determined to be prudent and recovery is warranted
7 after examination of all relevant factors, allow rate recovery in a future rate case.
8 Public Counsel witness Bolin has defined the nature and purpose of the AAO in
9 her rebuttal testimony on page 3, lines 3 thru 9 in much the same fashion. Since
10 one of the purposes of an AAO related to deferring costs is future rate recovery,
11 then starting the amortization upon approval of the AAO would not be
12 appropriate.

13 **Q. IF AN AAO WERE GRANTED BY THIS COMMISSION, WHAT KIND OF**
14 **DELAY BETWEEN THE GRANT OF THE AAO AND THE FILING OF A RATE**
15 **CASE DO YOU FORESEE?**

16 A. If the Commission approved the Company's request for an AAO by October
17 2002, the Company's next rate case, which is scheduled to be filed in mid 2003,
18 would be less than 9 months after the Commission's approval date.

19 **Q. IN RESPONSE TO MAWC'S REQUEST THAT ANY AMORTIZATION BE NO**
20 **LONGER THAN THREE YEARS IN LENGTH, PUBLIC COUNSEL WITNESS**
21 **BOLIN FURTHER INDICATES THAT ANY AMORTIZATION SHOULD BE AT**
22 **TWENTY YEARS IN LENGTH (BOLIN REB., P. 4). WHAT AMORTIZATION**
23 **PERIOD DOES MAWC NOW SUPPORT?**

1 A. The Company does not agree with Public Counsel witness Bolin's suggestion of
2 a 20 year amortization period, unless the Commission also found that the
3 Company could include in rates a "return on" the unamortized balance of the
4 deferred security costs, as well as use language indicating that the Commission
5 would not change the amortization period nor eliminate the recovery in rates of
6 the "return on" the unamortized costs. If the Commission does not approve a
7 "return on" the unamortized balance, then a 3-5 year amortization period would
8 be appropriate.

9 **EXTRAORDINARY EVENT**

10 **Q. STAFF WITNESS FISCHER INDICATES THAT SHE DOES NOT BELIEVE**
11 **THAT MAWC EXPERIENCED AN EXTRAORDINARY EVENT (FISCHER REB.,**
12 **P. 24). HOW WOULD YOU RESPOND TO THIS ASSERTION FROM A**
13 **FINANCIAL PERSPECTIVE?**

14 A. This Commission in assessing the extraordinary nature of an event has
15 previously stated that a primary consideration is whether the event is of the type
16 for which the Company is compensated in its rate of return. *In the Matter of*
17 *Missouri Public Service*, 1 MPSC 3d 200, 206 (1991). I do not believe that the
18 possibility of a terrorist attack and the need to rapidly invest in security is
19 something foreseen in the setting of MAWC's rate of return. Security costs were
20 a smaller part in the past, such that the Company cannot even specifically
21 identify what amounts are currently built into rates.

22 **Q. STAFF WITNESS FISCHER IN PART BASES HER POSITION ON THE FACT**
23 **THAT SHE BELIEVES THAT MANAGEMENT COULD CHOOSE WHETHER**

1 **OR NOT TO TAKE THE SECURITY ACTIONS ASSOCIATED WITH THE**
2 **SUBJECT EXPENSES (FISCHER REB., P. 12, 24). IS THIS THE CASE?**

3 A. No more so than a utility's actions to restore power after a storm. The situation
4 presented to MAWC by the State of Missouri, through the Governor and various
5 state agencies, was one requiring immediate response. The absence of such
6 actions presented a situation where the integrity of the service to customers was,
7 and could be, threatened. With the information presented to MAWC, there was
8 no real "choice" for management. As Public Counsel witness Bolin articulated in
9 her response to MAWC Data Request number OPC-4 (See Schedule EJC-10):

10 "The security expenditures are intended to ensure that facilities that
11 physically provide water service are able to continue to provide
12 service in the current period. Absent these security measures, the
13 risk of service interruption and thereby reduced revenues may be
14 increased."

15 **Q. STAFF WITNESS FISCHER STATES ON PAGE 21 OF HER REBUTTAL**
16 **TESTIMONY THAT THIS AAO APPLICATION DOES NOT FIT NEATLY INTO**
17 **EITHER THE CATEGORY OF AAO'S ASSOCIATED WITH COMMISSION**
18 **MANDATES OR THE AAO'S ASSOCIATED WITH ACTS OF GOD. DO YOU**
19 **BELIEVE THIS APPLICATION IS COMPARABLE TO THOSE CATEGORIES**
20 **OF AAO'S IN ANY WAY?**

21 A. Yes. As stated above, the purpose of these expenditures was to protect against
22 service interruption concerns to which MAWC had been alerted by both the
23 federal and state governments. Service interruptions are generally behind "act of
24 god" type AAO's. I suppose if the Company would have waited for an actual
25 terrorist action, it would have been better positioned for an AAO. However, this

1 would not have been the prudent or appropriate action to take under the
2 circumstances.

3 The involvement of the federal and state governments in this process also gives
4 this application an element of the governmental mandate category of AAO's.

5 First, the goals are the same. Commission mandated gas safety standards were
6 instituted for the health and safety of customers. Likewise, MAWC's security
7 actions have been implemented for the health and safety of its customers.

8 Secondly, while MAWC was never directly "mandated" to provide additional
9 security, such actions were suggested, encouraged and prodded by local, state
10 and federal law enforcement actions.

11 **Q. IS THERE ANYTHING UNIQUE ABOUT THE WATER INDUSTRY THAT**
12 **MAKES ITS SECURITY ACTIONS MORE CRITICAL THAN THOSE RELATED**
13 **TO NATURAL GAS AND ELECTRIC?**

14 A. Yes. First and foremost, water is the only utility service that is ingested by its
15 customers. This makes the direct risk associated with the quality of water much
16 greater than the other utility industries. Additionally, water itself does not have
17 the inherent risks associated with natural gas and electric. Water generally will
18 not kill you if touched, breathed or ignited like natural gas and electricity. For
19 these reasons, natural gas and electric utilities have always had to have security
20 beyond that required by water utilities, if only to protect persons from the dangers
21 associated with natural gas and electricity. The result of this is that a much
22 greater effort was required from the water industry.

23 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

24 A. Yes, it does.

Exhibit No.:

Issue: Accounting Authority
Order (AAO)

Witness: Charles R. Hyneman

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: GO-2002-175

Date Testimony Prepared: April 17, 2002

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

**UTILICORP UNITED INC.
d/b/a MISSOURI PUBLIC SERVICE
AND
ST. JOSEPH LIGHT AND POWER**

CASE NO. GO-2002-175

*Jefferson City, Missouri
April 2002*

1 REBUTTAL TESTIMONY

2 OF

3 CHARLES R. HYNEMAN

4 UTILICORP UNITED INC.

5 d/b/a MISSOURI PUBLIC SERVICE

6 AND

7 ST. JOSEPH LIGHT AND POWER

8 CASE NO. GO-2002-175

9
10 Q. Please state your name and business address.

11 A. Charles R. Hyneman, 3675 Noland Road, Suite 110, Independence,
12 Missouri 64055.

13 Q. By whom are you employed and in what capacity?

14 A. I am a Regulatory Auditor with the Missouri Public Service Commission
15 (Commission).

16 Q. Please describe your educational background and work experience.

17 A. I graduated from Indiana State University in May 1985 with a Bachelor of
18 Science degree in Accounting. I earned a Masters of Business Administration degree
19 from the University of Missouri-Columbia in December of 1988. I am a Certified Public
20 Accountant holding certification in the state of Missouri.

21 In May 1985, I was commissioned as an officer in the United States Air Force. I
22 left the Air Force in December 1992 and joined the Commission in April of 1993.

23 Q. Have you previously filed testimony before the Commission?

- 1 1. Primary focus in on whether or not the event was
2 extraordinary, defined as unusual and unique, and not
3 recurring;
- 4 2. The FERC's 5 percent of income materiality standard is
5 relevant to whether the event is extraordinary, although not
6 case dispositive;
- 7 3. The determination of whether or not a cost is extraordinary
8 will be made on a case by case basis.

9 Since issuing its Report And Order in Case Nos. EO-91-358 and EO-91-360, the
10 Commission has consistently referred to this Report And Order as the basis for its
11 decision on granting or rejecting AAO applications.

12 HISTORY OF EXTRAORDINARY ITEMS

13 Q. Before addressing whether or not the event driving UtiliCorp's
14 Application in this case has met these standards, please provide a brief summary of the
15 accounting industry pronouncements that have addressed the concept of extraordinary
16 items.

17 A. As will be described later, the Commission's standards on extraordinary
18 events are derived from the Federal Energy Regulatory Commission's (FERC) definition
19 of Extraordinary items found in the Uniform System of Accounts (USOA) for electric
20 and gas utilities. This Commission has adopted the FERC USOAs for the purpose of
21 establishing accounting practices for utilities under its jurisdiction. The basis for the
22 FERC's definition can be found in accounting industry pronouncements dating back to at
23 least 1947.

24 The concept of extraordinary costs and revenues is addressed in the following
25 accounting pronouncements:

1. Accounting Research Bulletin No. 32, (ARB 32), *Income and Earned Surplus*;
2. Accounting Principles Board Opinion No. 9 (APB 9), *Reporting the Results of Operations*;
3. Accounting Principles Board Opinion No. 30 (APB 30), *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*.

Probably the earliest discussion of extraordinary costs in accounting literature was in ARB 32 issued in 1947. (ARB 32 was reissued in June 1953 as Chapter 8 of Accounting Research Bulletin No. 43.) ARB 32 was issued by the Committee on Accounting Procedure (predecessor of the Accounting Principles Board), and described the Committee's view of extraordinary items:

... it is the opinion of the committee that there should be a general presumption that all items of profit and loss recognized during the period are to be used in determining the figure reported as net income. The only possible exception to this presumption in any case would be with respect to items which in the aggregate are materially significant in relation to the company's net income and are clearly not identifiable with or do not result from the usual or typical business operations of the period. Thus, only extraordinary items such as the following may be excluded from the determination of net income for the year, and they should be excluded when their inclusion would impair the significance of net income so that misleading inferences might be drawn therefrom...

The important concepts that were included in ARB 32 and later adopted by the FERC and this Commission are:

1. A general presumption that net income shall reflect all items of profit or loss during the period.
2. To be classified as an extraordinary expense, the item must be materially significant to net income (of significant effect).

MISSOURI-AMERICAN WATER COMPANY

Case No. WO-2002-273

MAWC Data Request No. OPC-5

Date of Request: April 15, 2002

Requestor: MAWC

Question:

How long have Accounting Authority Orders, or other methods to defer a costs from one accounting period to another, been provided for by the uniform system of accounts applicable to water utilities?

ANSWER:

The USOA revised in 1976 provides account 186 – Miscellaneous Deferred Debits, which includes debits not elsewhere provided for, such as miscellaneous work in progress, losses on disposition of property, net of income taxes, deferred by authorization of the Commission, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization, and items the proper final disposition of which is uncertain. I have not performed any research beyond the 1976 revision of the USOA. The term “accounting authority order” is not referenced in the USOA.

DATE RECEIVED: _____

SIGNED BY: _____

TITLE _____

Kimberly Bolin
Public Utility Accountant

Resolution on Guidelines for State Commission Procedures Involving the Handling of Security Sensitive Documents and the Recovery of Prudently Incurred Security-Related Costs

WHEREAS, State commission procedures and existing State "freedom of information" statutes governing public access to critical drinking water infrastructure information and other sensitive documents are key to limiting the likelihood of terrorist attacks involving the nation's water supplies (as well as efforts targeting critical energy or telecommunications facilities); and

WHEREAS, Current procedures and State statutes outlining the treatment of confidential information involving financial or competitive issues may not adequately address the need for differential treatment and handling of security sensitive materials; and

WHEREAS, Review of current procedures related to the treatment of security sensitive documents internally, in hearings, and in response to document requests, may be needed to determine adequacy, applicability and effectiveness of current procedures; and

WHEREAS, Jurisdictional water companies, in efforts to enhance security to meet current threats, may be incurring expenses of an extraordinary nature; and

WHEREAS, The Water Committee has attached a proposed minimum checklist of some items commissions may wish to consider when examining their policies on treatment of security sensitive information; and

WHEREAS, Additional recommendations on reforming procedures to handle security sensitive information may be gleaned from the Federal Energy Regulatory Commission's (FERC) January 16, 2002 Notice of Inquiry into availability of critical energy infrastructure information (Docket Nos. RM02-4-000 and PL02-1-000), which suggests commissions might determine what data is critical, consider the extent to which requests can be handled outside of the State's freedom of information procedures, determine the requester's status and need for the information, verify the requester's identity and authorization to act on behalf of an organization, the role to be played by non-disclosure agreements, and consideration of any ex parte issues; and

WHEREAS, The National Association of Water Companies Rates and Revenue Committee (NAWCRRRC) has also provided a discussion paper on security costs and confidentiality to the Water Committee; and

WHEREAS, The FERC also recently issued a Policy Statement regarding recovery of prudently incurred security related costs; now therefore be it

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC) convened in special session in a March 13, 2002 teleconference call, encourages Commissions having effective procedures related to limiting public access to security sensitive information to share these procedures with Commissions embarking on the review or the

SCHEDULE EJG-3

enhancement of existing procedures and coordinate with the NARUC Ad Hoc Committee on Critical Infrastructure to the extent applicable; and be it further

RESOLVED, That NARUC's member commissions are encouraged to review the appropriate treatment of all security sensitive documents accessible to the public and consider the suggestions offered in the attached Water Committee Minimum Checklist, the attached NAWCRRRC recommendations, and the FERC proceedings cited earlier; and be it further

RESOLVED, That State Commissions are also encouraged to inquire what security-related steps jurisdictional utilities have taken, to coordinate with local or appropriate law enforcement agencies or with an information clearinghouse such as the State's emergency management agency, and to identify and /or establish procedures for timely recovery of prudently incurred security related costs; and be it further

RESOLVED, That the appropriate NARUC Industry Sector Committees are encouraged to monitor the ongoing security efforts of State and Federal Agencies, as well as industry actions/initiatives and continue to offer recommendations on infrastructure security as new and improved procedures are developed.

Proposed Minimum Checklist for Commission Review of Security Sensitive Information

The Water Committee has reviewed information from several sources and recommends State Commissions consider the following:

I. WEBSITE REVIEW:

State Commission's may wish to initiate a specific review of their websites to assure that it does not contain any security sensitive material that should be removed.

II. INTERNAL SECURITY/DOCUMENT REQUESTS:

States' may wish to initiate rule and statutory changes to insure procedures governing public requests for security sensitive data include one or more of the following recommendations:

- Requests for security sensitive information should be accepted only in writing and only from individuals with verified identification.
- Records management personnel should retain all requests and copies of identification for written requests and consider including, for "in-person" written requests, the use of video records, fingerprints or any other appropriate technology to maintain a more comprehensive record of the transaction.
- Any suspicious requests for security sensitive information should be referred to a designated State or Commission individual for appropriate

processing.

In reviewing the effectiveness of existing procedures, State Commissions' may wish to consider:

- If existing regulations or policy for confidential treatment of private information or proprietary information may legally be extended to include information relating to security; if not, amendments to existing procedures should be made.
- If the Commission process for utility requests for limiting the availability of certain information is expeditious and streamlined.
- Once the request is approved, if the Commission's physical isolation of documents is secure in that access to Commission employees, parties of record and members of the public is appropriately limited.
- In addition to procedures related to the storage of documents deemed to have restricted public availability, procedures for maintaining confidentiality during public hearings should also be addressed.
- If security clearances should be assigned to designated employees who shall be in charge of maintaining security sensitive information and/or requiring certificates of non-disclosure to be signed by employees, parties of record or others who have access to the information.
- If security sensitive materials may be better stored at the utility than the Commission subject to commission verification that the document exist and are being kept up to date, e.g., emergency response plans, risk management plans, vulnerability assessments, engineering blueprints, distribution system maps, topographic maps, lists of hazardous chemicals, or any other critical infrastructure information.

Sponsored by the Committee on Water

Adopted by the NARUC Board of Directors March 13, 2002

SCHEDULE EJG-4
HAS BEEN DEEMED TO BE
HIGHLY CONFIDENTIAL

Case No. WO-2002-273

DR #18

**DATA INFORMATION REQUEST
MISSOURI-AMERICAN WATER COMPANY
CASE NO. W0-2002-273
STAFF DATA REQUEST NO. 18**

Requested From: Jim Jenkins
Date Requested: 4/10/02
Requested By: Janis K. Fischer


Information Requested:

- 1) Please provide a quantification by month of all expenses incurred for upgrades to security related to this case for each Missouri facility (September 2001 through March 2002).
- 2) Estimate the expense for each facility by month. (April 2002 through August 2002)
- 3) If the ongoing monthly expenses identified in response to DR#4 are estimates to take beyond august to implement, please quantify those expenses by month from September 2002 until their effective date.
- 4) Provide the same information as requested in 1-3 above for the one-time costs identified for the security upgrade.

Information Provided:

See attached

The information provided in response to the above information request is true and correct based upon present facts known.


Signature

Date Request Received: 4/10/02

Date Response Sent: 4/22/02

SCHEDULE EJG-5

Missouri-American Water Company
Security Deferrals DIR No. 18
AAO Case No WO-02-273

		October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002	July 2002	August 2002
St. Louis	On-going	19,231	119,039	110,970	73,508	83,647	102,866	105,000	105,000	105,000	105,000	105,000
	One time		192,203	5,610								
	Total	19,231	311,242	116,580	73,508	83,647	102,866	105,000	105,000	105,000	105,000	105,000
St. Joseph	On-going	7,800	21,734	50,680	23,251	15,700	21,680	23,000	23,000	23,000	23,000	23,000
	One time	17,774	633	2,318	1,192	2,872						
	Total	25,574	22,367	52,998	24,442	18,572	21,680	23,000	23,000	23,000	23,000	23,000
Parkville	On-going	-	-	-	-	-	-	-	-	-	-	-
	One time	204		227		2,190	402					
	Total	204		227		2,190	402	-	-	-	-	-
Warrensberg	On-going	-	351	376	535	555	495	500	500	500	500	500
	One time			33	1,752	1,029	28					
	Total		351	409	2,286	1,584	523	500	500	500	500	500
Brunswick	On-going	-	-	-	-	-	-	-	-	-	-	-
	One time	10				567						
	Total	10				567	-	-	-	-	-	-
St. Charles	On-going	890	5,198	3,762	9,869	10,416	8,281	9,000	9,000	9,000	9,000	9,000
	One time	107										
	Total	997	5,198	3,762	9,869	10,416	8,281	9,000	9,000	9,000	9,000	9,000
Mexico	On-going	1,480	1,591	1,318	1,291	1,340	1,480	1,500	1,500	1,500	1,500	1,500
	One time											
	Total	1,480	1,591	1,318	1,291	1,340	1,480	1,500	1,500	1,500	1,500	1,500
Joplin	On-going	6,400	13,920	-	3,240	8,640	6,760	7,000	7,000	7,000	7,000	7,000
	One time	1,981	801			439						
	Total	8,381	14,721		3,240	9,079	6,760	7,000	7,000	7,000	7,000	7,000
Jefferson City	On-going	6,380	31,744	16,227	11,360	15,622	19,605	19,000	19,000	19,000	19,000	19,000
	One time		1,795									
	Total	6,380	33,539	16,227	11,360	15,622	19,605	19,000	19,000	19,000	19,000	19,000

SCHEDULE EJG-6
HAS BEEN DEEMED TO BE
HIGHLY CONFIDENTIAL

Case No. WO-2002-273

Staff Response to MAWC DR No. 12

Information Requested: For the purposes of its review of this Accounting Authority Order application:

- a) What rate of return does the Staff believe that MAWC is earning?
- b) What period(s) of time, if any, was/were examined by the Staff in its analysis of MAWC's rate of return?
- c) Please provide whatever work papers support and explain the above answers.

Information Provided:

a, b, & c) The Staff reviewed the surveillance data submitted by MAWC for 2002 for MAWC, St. Louis County Water and Jefferson City Water Works. This data is in MAWC's possession. Without performing an analysis of this data to determine what adjustments might be appropriate for ratemaking purposes to normalize and/or annualize revenues, expenses and investment, the Staff cannot determine at this time what MAWC's current rate of return is. The Staff has not alleged that MWC is over-earning currently.

Janis E. Fischer
4/26/02

Staff Response to MAWC DR No. 11:

Information Requested: On page 11 of the Rebuttal Testimony of Janis E. Fischer, it recommended that one of the criteria to be applied be that "there must be a sufficient reason why the utility could not file a rate case to recover the costs resulting from the extraordinary event."

- a) Please describe in what situations a utility could not file a rate case.
- b) Which of these situations would be "sufficient" such that they satisfied the Staff's proposed criteria?

Information Provided:

- a) The general criteria that there must be a reason why the AAO applicant could not file an immediate rate case to recover the costs proposed to be deferred came from the Commission's Report and Order in Case No. EA-2000-845, St. Joseph Light & Power Company. From the Commission's discussion of this matter in that Order, it appears that the Commission considers either the existence of a negotiated rate 'moratorium' or the proposal by the utility for a rate moratorium to be sufficient to establish that the utility "could not file" a rate case to recover the costs proposed for deferral.
- b) The Staff agrees with the Commission that either the existence of a rate moratorium or a utility proposal for a rate moratorium would be sufficient evidence to demonstrate that the utility seeking the AAO could not file a rate case to recover the costs proposed for deferral. This response is not intended to preclude the possibility that the terms of the agreement giving rise to the rate moratorium might include specific language concerning whether cost deferrals/AAO applications would be allowable during the duration of the rate moratorium.

Mark A. Olschlag
4/26/02

Staff Response to MAWC DR No. 3:

Information Requested: Commission Case No. EO-91-358 is cited on page 12 of the Rebuttal Testimony of Janis E. Fischer for the proposition that "a time limit on deferrals is reasonable since deferrals cannot be allowed to continue indefinitely."

- a) What was the time limit imposed in Commission Case No. EO-91-358?
- b) What range of time limits has been imposed by the Commission in the past?
- c) Has the Commission ever ordered that a rate case be filed within 90 days of the grant of an Accounting Authority Order?

Information Provided:

- a) The Commission ordered Missouri Public Service to defer depreciation expense and carrying costs associated with the life extension and coal conversion projects at the Sibley Generating Station beginning January 1, 1992. Missouri Public Service had to file a rate case on or before December 31, 1992 in order to recover the deferred costs. In this specific case, the time limit was 1 year.
- b) The approved AAOs since 1991, for which the resulting deferrals did not begin immediate amortization, have included requirements for the utilities to file rate cases to be eligible to recover deferrals from one year to three years following issuance of the AAO.
- c) No.

Janis E. Fischer
4/26/02

Staff Response to MAWC DR No. 4:

Information Requested: Please define "normal construction projects" as this phrase is used on page 12 of the Rebuttal Testimony of Janis E. Fischer.

Information Provided: Normal construction projects would be normal recurring projects typical in the ordinary and customary operating processes of a business. Examples would be construction of distribution lines, water plants, water wells, pump stations, etc. These projects are planned and implemented based upon management decisions and are anticipated through the business's normal budget process. Given the ongoing nature of security concerns regarding water infrastructure, construction projects designed to enhance water system security should be considered normal construction projects.

Janis E. Fischer
4/26/02