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Issues: Staff's Explanation and
Rationale for Supporting
the Stipulation and
Agreement

Witness: STEPHEN M. RACKERS

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony
in Support of
Stipulation and
Agreement

Case No.: WR-2000-281

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

**DIRECT TESTIMONY IN SUPPORT OF
STIPULATION AND AGREEMENT**

OF

STEPHEN M. RACKERS

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2000-281

**Jefferson City, Missouri
February 2000**

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Direct Testimony of
Stephen M. Rackers

1 Q. With reference to Case No. WR-2000-281, 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(Staff).

5 Q. What is the purpose of your direct testimony?

6 A. My direct testimony will discuss the Stipulation and Agreement, that was
7 signed by the Company, Office of Public Counsel (OPC) and the Staff, and was filed
8 February 22, 2000, and the Staff's rationale for entering into this agreement.

9 Q. Please list the principal terms proposed by the Stipulation and Agreement.

10 A. Under the agreement MAWC will withdraw its current rate case and refile
11 for permanent rates no later than May 31, 2000. At that time, MAWC will also cause its
12 affiliate, St. Louis County Water Company (County Water), to file a permanent rate case.
13 In addition, by the above date, both Companies will jointly file an application seeking
14 Commission approval of a merger of MAWC and County Water.

15 The principal terms of the agreement are as follows:

- 16 1. MAWC will be authorized to defer revenues at a rate of not more than
17 \$12,772,000 per year, beginning August 1, 2000, provided that MAWC's
18 new water treatment plant and associated facilities in St. Joseph, Missouri,
19 are fully operational and providing service to customers no later than the
20 date on which MAWC and St. Louis County Water Company (County
21 Water) file their new rate cases. This annual revenue deferral will end on
22 the effective date of the tariff sheets approved in connection with the new
23 rate cases that are to be filed in May 2000 by MAWC and County Water.

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2 2. No carrying charges will be calculated on or added to the amounts
3 deferred prior to amortization. In addition, the unamortized portion of the
4 revenue deferral will not be included in rate base and will not be increased
5 to include carrying charges, in any future determination of MAWC's
6 revenue requirement.

7
8 3. The actual annual revenue deferral will be amortized to expense over a
9 period of five years. An annualized amount of the amortization will be
10 included in the calculation of MAWC's annual revenue requirement,
11 which is to be determined by the Commission in the permanent rate case,
12 which MAWC will file no later than May 31, 2000.

13
14 4. No portion of the revenue deferral will be included in the cost of service
15 for County Water, either in the next rate case or at any time in the future.

16
17 5. In the new rate cases that are to be filed by MAWC and County Water,
18 none of the cost of service that is fairly allocable to the seven operating
19 districts that now comprise MAWC will be included in the proposed
20 revenue requirement for County Water. Correspondingly, none of the cost
21 of service that is fairly allocable to County Water's service territory will
22 be included in the proposed revenue requirement for MAWC. This
23 restriction will not be binding on other parties to those cases.

1 6. If the Commission issues an order adopting the terms and conditions of the
2 Stipulation and Agreement, MAWC will withdraw its pending revised
3 tariff sheets in Case Nos. WR-2000-281 and SR-2000-282, and file new,
4 revised water and sewer tariff sheets no later than May 31, 2000, in order
5 to initiate new permanent rate cases. In addition MAWC will cause
6 County Water to file revised tariff sheets on the same date that MAWC
7 files its new tariff sheets, in order to initiate a rate case for County Water.

8
9 7. In the new rate cases that are to be filed, MAWC and County Water will
10 file cost of service studies by district by customer class.

11
12 8. MAWC and County Water will jointly file an application seeking
13 Commission approval of the merger of the two companies. This
14 application will be filed no later than the date on which MAWC and
15 County Water file the revised tariffs to initiate their respective new
16 permanent rate cases.

17
18 9. The signatories will agree to support the consolidation of the MAWC and
19 County Water permanent rate cases.

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21 Q. Why is it important to the Staff that the Company agrees to withdraw the
22 current case and refile no later than May 31, 2000?

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1 A. MAWC and County Water are currently in the process of consolidating
2 their operations. This process has caused numerous changes in procedures, employees
3 and the associated costs. Withdrawal of the current case and the simultaneous filing of
4 MAWC and County Water cases will allow for a more accurate view of the ongoing
5 operations of both companies on a consolidated basis and allow all parties additional time
6 to determine the associated cost of service. Finally, agreeing to a specific filing date will
7 provide a schedule under which the deferral of revenue will end and the recovery of the
8 deferral and the ongoing cost of service in rates will begin.

9 Q. How were the amount of the deferral and the date it will begin
10 determined?

11 A. The amount of the deferral, appearing in the first term, was calculated by
12 the Company and is further discussed in the direct testimony filed in support of the
13 Stipulation and Agreement by Company witness James E. Salser. However, \$12,772,000
14 is approximately equal to the revenue requirement included in the Company's rate case as
15 currently filed, reduced to reflect a 10% rate of return on equity (ROE), the elimination of
16 the post-in-service carrying cost and deferred depreciation associated with the new St.
17 Joseph treatment plant, a reduction in the budgeted cost of the new St. Joseph treatment
18 plant, the elimination of the cost associated with the conversion to monthly billing in the
19 St. Joseph district, additional employee changes and other expected reductions in
20 operating expenses. It is important to realize, that \$12,772,000 is the maximum annual
21 amount of deferral that the Company will be allowed to record on its books. The actual
22 amount of the deferral that is eventually recovered in rates will be determined by the

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1 Commission based on evidence that all parties will have an opportunity to present in the
2 permanent rate case to be filed no later than May 31, 2000.

3 Q. Please explain the Staff's rationale for agreeing to an ROE of 10%.

4 A. The Staff believes an ROE of 10% is reasonable based on the range of
5 ROE's ordered by the Commission in recent cases. The Commission ordered ROE's of
6 10.75% in Case No. ER-97-394 for Utilicorp United, Inc. and 10.50% in Case No. GR-
7 99-315 for Laclede Gas Company.

8 Q. Please discuss the second term that addresses carrying charges and rate
9 base inclusion in relation to the deferral.

10 A. By agreeing not to increase the deferral for carrying charges or include
11 any unamortized balance of the deferral in rate base, the Company is, in effect, providing
12 an interest-free loan to ratepayers. This term allows the revenue requirement from this
13 case, as determined by the Commission, to be recovered in the future, rather than
14 currently, at no additional cost to the ratepayers.

15 Q. Why does the Staff believe that five years, as stated in the third term, is a
16 reasonable period over which to amortize the deferral?

17 A. Five years is a period that has been historically used by the Staff to reflect
18 a normal level of expense associated with an event that does not routinely occur or would
19 not be reflective of the on-going cost of service if recognized in total in one year. Also, a
20 five- year amortization beginning at the effective date of the rates resulting from the next
21 case, reflects a period of nearly six years before the total deferral will be recovered by the
22 Company. In consideration of these facts and the recognition that the deferral is interest-
23 free, the Staff believes a five-year amortization period is reasonable.

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1 Q. Please explain the significance of the fourth and fifth terms.

2 A. These terms are designed to prevent detriment to the ratepayers of County
3 Water as a result of the settlement of this case. Since only MAWC has filed tariffs to
4 include the cost of service in rates, resulting from this case, there is no current
5 opportunity for the Company to propose to shift the recovery of MAWC costs to County
6 Water ratepayers. However, without these two terms, in the permanent rate cases that
7 will be filed no later than May 31, 2000, the Company could propose such a shift. The
8 Staff believes that this shift in the recovery of cost would be detrimental to the County
9 Water ratepayers and would be a barrier to acceptance of the merger with MAWC.

10 Q. Please discuss terms six and seven.

11 A. Term six provides for the withdrawal of the current case and the filing of
12 new permanent rate cases as previously discussed on pages three and four of this
13 testimony. Term seven requires the Company to file class cost of service studies for both
14 MAWC and County Water to insure that the data exists to accommodate the
15 consideration of a variety of rate design proposals.

16 Q. Please discuss term eight.

17 A. This provision of the agreement insures that the Commission will have an
18 opportunity to consider the merger of both companies during approximately the same
19 interval that the cost of service, and consequently the impact on ratepayers, is also being
20 determined. In addition, the approval of the merger may be required to appropriately
21 reflect certain items in a consolidated cost of service.

22 Q. What is the Staff's rationale for supporting a consolidation of the MAWC
23 and County Water rate cases?

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1 A. The Staff believes that many of the same issues will be addressed and
2 several of the same parties will be involved in both cases. Consolidation of the
3 proceedings will facilitate an efficient processing of both cases.

4 Q. Do you have any summary comments regarding the Stipulation and
5 Agreement?

6 A. Yes. This agreement is the result of extensive negotiations and represents
7 a creative solution in addressing the significant financial burden on both the ratepayers
8 and the Company presented by this case. In addition, this agreement allows for the
9 delayed recognition of a large increase in revenue requirement at no additional cost to
10 ratepayers, while preserving all parties' rights regarding the determination of that
11 increase. Finally, this agreement provides a more efficient format to examine the merger
12 and consolidation of the operations of both MAWC and County Water.

13 Q. Does this conclude your direct testimony?

14 A. Yes, it does.

RATE 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

<u>Company</u>	<u>Case Number</u>
St. Louis County Water Company	WR-92-204
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