

FILE COPY

FILED³

MAR 01 2000

Missouri Public
Service Commission

Exhibit No.:

Issue(s):

Witness:

Sponsoring Party:

Case Nos.:

Stipulation & Agreement

Trippensee/Direct

Public Counsel

WR-2000-281 & SR-2000-282

DIRECT TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of
the Office of the Public Counsel

MISSOURI-AMERICAN WATERCOMPANY

Case Nos. WR-2000-281 & SR-2000-282

March 1, 2000

FILED³
MAR 29 2000
Missouri Public
Service Commission

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Missouri-American Water Company's)
Tariff Sheets Designed to Implement a General Rate) Case No. WR-2000-281
Increase for Water Service Area of the Company.)

In the Matter of Missouri-American Water Company's)
Tariff Sheets Designed to Implement a General Rate) Case No. SR-2000-282
Increase for Sewer Service Provided to Customers in the)
Missouri Service Area of the Company.)

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

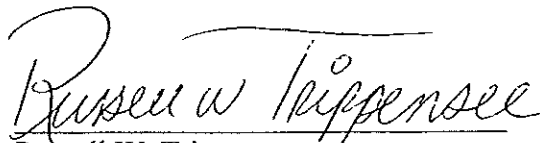
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

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

1. My name is Russell W. Trippensee. I am the Chief Public Utility Accountant for the Office of the Public Counsel.

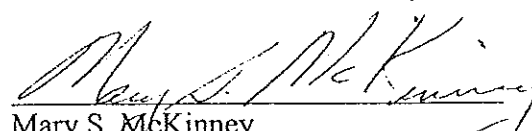
2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 11 and Schedule RWT-1.

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.



Russell W. Trippensee

Subscribed and sworn to me this 1st day of March, 2000.



Mary S. McKinney
Notary Public

My commission expires August 20, 2001

DIRECT TESTIMONY
OF
RUSSELL W. TRIPPENSEE
MISSOURI AMERICAN WATER COMPANY

CASE NO. WR-2000-281

CASE NO. SR-2000-282

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 at
10 Michigan State University.

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

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

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

15 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public
16 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a

1 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III and
2 assumed my present position.

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

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

7 **Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**
8 **STAFF.**

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

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

14 A. I am responsible for the Accounting and Financial Analysis sections of the Office of the Public
15 Counsel and coordinating their activities with the rest of our office and other parties in rate
16 proceedings. I am also responsible for performing audits and examinations of public utilities and
17 presenting the findings to the MPSC on behalf of the public of the State of Missouri.

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

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

1 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

2 A. I will provide Public Counsel's position to the Commission on why the proposed non-unanimous
3 Stipulation and Agreement (S&A) signed by OPC, MPSC Staff, and Missouri American Water
4 Company (MAWC or Company) provides the best resolution with respect to the instant cases.

5 Q. PLEASE SUMMARIZE WHY THE NON-UNANIMOUS STIPULATION AND
6 AGREEMENT BETWEEN THE THREE PARTIES RESULTS IN THE BEST
7 RESOLUTION FOR THE CURRENT CASES.

8 A. The following points outline why Public Counsel believes the S&A provides adequate protections to
9 the ratepayers of not only Missouri American Water Company, but also to the ratepayers of St. Louis
10 County Water Company (County Water) and potentially the ratepayers of United Water Missouri,
11 Inc.

12 * There is no change in the current tariffs of the Company.

13 * The deferred revenue (necessary to maintain interest coverages) is capped and
14 subject to Commission evaluation and determination as to being calculated based on
15 a just and reasonable overall cost of service (revenue requirement).

16 * The Company will be able to maintain adequate interest coverages in excess of 1.5
17 times as per the bond indenture during the deferral period.

18 * MAWC customers are not required to pay any carrying costs associated with the
19 deferred revenue and customers of County Water will not be liable for any of the
20 deferred revenue.

21 * The cost savings synergies created by the on going operational merger of MAWC
22 and County Water can be reflected in any change in tariff rates (for both MAWC
23 and County Water customers) resulting from the ultimate outcome of the current
24 cases and the future cases required by the S&A.

25 * Actual operating costs of the new water treatment plant serving St. Joseph, Missouri
26 will be available for review by all parties in the required cases to be filed no later
27 than May 31, 2000.

1 Q. WILL THERE BE ANY CHANGE IN THE CURRENT TARIFFED RATES FOR
2 MISSOURI AMERICAN WATER COMPANY CUSTOMERS?

3 A. No. The S&A provides only for the deferral of revenue with respect to the water operations of the
4 Company.

5 Q. WILL THIS DEFERRED REVENUE BE INCLUDED IN FUTURE REVENUE
6 REQUIREMENT STUDIES ON WHICH TARIFF CHANGES WOULD BE BASED?

7 A. The determination of whether or not any of the deferred revenues should be included in a subsequent
8 revenue requirement study will be based on a revenue requirement study using a test year ending
9 September 30, 1999, updated for known and measurable changes through December 31, 1999.
10 Additionally, those cost of service components normally included in a true-up recommendation (in
11 conformity with past Commission rulings) as of April 30, 2000 shall be included in the revenue
12 requirement. As part of the subsequent case (required by the S&A to be filed no later than May 31,
13 2000), the Commission shall make the final determination regarding any disputed issues as to the
14 appropriate components to include in the revenue requirement study. Each and every party to the
15 subsequent case will have the opportunity to make recommendations regarding the revenue
16 requirement based on the September 30, 1999 test year as adjusted for known and measurable items
17 and true-up.

18 The Commission determination regarding revenue requirement and the resulting revenue differential
19 resulting from existing rates will be compared to the revenue deferral provided for in the S&A. To
20 the extent the Commission-determined revenue requirement differential is less than the deferred
21 revenue, the deferred revenue to be included in subsequent revenue requirements shall be adjusted

1 downward. To the extent the Commission-determined revenue requirement differential exceeds the
2 revenue deferral, no adjustment shall be made to the deferral.

3 This procedure ensures that ratepayers will not pay the Company any monies in excess of the revenue
4 requirement found appropriate by the Commission.

5 Q. DOES THE S&A ANTICIPATE PARTIES IN THE SUBSEQUENT CASE CAN
6 ADDRESS ANY PRUDENCE OR IN-SERVICE ISSUES WITH RESPECT TO THE
7 \$87M. OF VARIOUS PLANT PROJECTS ANTICIPATED TO BE PLACED IN-
8 SERVICE PRIOR TO APRIL 30, 2000, AS THOSE PARTIES DEEM
9 APPROPRIATE?

10 A. Yes.

11 Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN THE REVENUE
12 REQUIREMENT FOR THE TEST YEAR ENDING SEPTEMBER 30, 1999 AS
13 TRUED-UP THROUGH APRIL 30, 2000 AND THE YET UNSPECIFIED TEST
14 YEAR TO BE USED IN THE CASE TO BE FILED NO LATER THAN MAY 31,
15 2000.

16 A. The revenue requirement for the test year ended September 30, 1999 as updated and trued-up will be
17 used only to determine if the deferred revenue accrued balance should be adjusted. In contrast, the
18 unspecified test year in the subsequent case will be used to determine the appropriate revenue
19 requirement from which tariff rates can be produced. Any Commission decisions should be
20 consistently reflected in each revenue requirement calculation but should be based on the respective test

1 year's specific data. As example, if the Commission approves an adjustment to remove 25% of the
2 net amount of St. Joseph treatment plant included in rate base, then an adjustment would be made to
3 remove 25% of the net plant investment as of April 30, 2000 for the revenue requirement against
4 which the deferred revenue is compared. Additionally 25% of the net St. Joseph treatment plant as of
5 the end the test year for the case filed on or before May 31, 2000 would be removed from the revenue
6 requirement calculation used to set the tariffed rates. Another example is that the Commission could
7 find that expenses related to a certain activity should not be included in the revenue requirement.
8 The Commission would then require the parties to identify and eliminate the expenses, resulting from
9 that activity (specific to each of the respective test year's data) in order to determine the separate
10 revenue requirements anticipated by the S&A.

11 **Q. ABSENT THE APPROVAL OF A REVENUE DEFERRAL OR A CURRENT CHANGE**
12 **IN TARIFFS RATES, WILL THE COMPANY BE ABLE MAINTAIN ADEQUATE**
13 **INTEREST COVERAGES OR A POSITIVE RETURN ON EQUITY?**

14 **A.** Based on projected information, the Company will not be able to maintain either adequate interest
15 coverages or a positive return on equity from now until the date of new tariffs contemplated by the
16 S&A.

17 **Q. PLEASE EXPLAIN WHY THE COMPANY WILL NOT BE ABLE TO MAINTAIN**
18 **ADEQUATE EARNINGS.**

19 **A.** The Company is investing in excess of \$87,000,000 of plant that has come on-line or is scheduled to
20 be placed in service prior to April 30, 2000. This represents an incremental increase in revenue
21 requirement of approximately \$11,447,000 utilizing the agreed upon return on equity of 10.00%.

1 The Company's projected annual net income as of April 30, 2000 is \$6,492,630 using both actual and
2 projected data. Since the incremental increase in revenue requirement exceeds net income by 76%,
3 obviously significant earnings deterioration will begin to occur on May 1, 2000 when all this plant is
4 expected to be in-service. Once construction projects are placed in-service, the project can no longer
5 can have Allowance for Funds Used During Construction (AFUDC) applied to it (capitalization of
6 the carrying costs). AFUDC (like a revenue deferral) is also reflected on the income statement as
7 revenues as the other "half" of a double entry accounting system (the debits must equal the credits).
8 These "AFUDC revenues" can then be used in the calculation of interest coverages and return on
9 equity. It should be noted, however, that the Company does not receive any cash at the time these
10 "AFUDC revenues" are recorded. Any cash recovery occurs at a later date, if and when the
11 Commission allows the deferral to be included in the determination of rates. In this case, the
12 procedure for making that determination is clearly set out in the S&A and allows all parties to present
13 evidence to the Commission as to how that determination should be made.

14 **Q. IF THE COMMISSION APPROVES THE NON-UNANIMOUS STIPULATION AND**
15 **AGREEMENT, WILL THE COMPANY BE ABLE TO MAINTAIN ADEQUATE**
16 **INTEREST COVERAGES BETWEEN NOW AND APRIL 30, 2001?**

17 **A.** The Company is required to maintain a interest coverage ratio of 1.5. Based on the data available to
18 Public Counsel, I have projected that a deferral of \$12,772,000 beginning August 1, 2000 will allow
19 the Company's interest coverage to drop to 1.51, but not fall below 1.5. In short, the S&A as
20 structured represents a minimum level of deferred revenue to meet coverage needs.

1 Q. DOES THE COMPANY ON A STAND-ALONE BASIS HAVE OTHER
2 ALTERNATIVES AVAILABLE IN THEIR OPERATIONS TO ADDRESS THIS
3 EARNINGS SHORTFALL?

4 A. In my opinion, no. Any potential changes in daily operations of the Company would not have a
5 material impact, relative to the earnings deterioration, on the financial situation of the Company once
6 the plant investment of \$87M. is placed in-service. The magnitude of these expenditures cannot be
7 offset by operational changes I have seen other utilities undertake in order to overcome financial
8 emergencies. Water companies in particular have even less flexibility because of the extremely
9 capital intensive nature of their revenue requirement as compared to other types of utilities. In
10 addition, water utilities do not have large operational expenditures such as tree trimming or large
11 advertising budgets, like electric companies, that can be reduced on a temporary basis.

12 I would point out that my opinion is based on the Company maintaining safe and adequate service
13 levels. Material cost savings might be able to be obtained if service to the customers was
14 compromised. I am also not aware of any outside factors that could materially affect the Company's
15 financial situation without making unreasonable assumptions or projections.

16 Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE ABSENCE OF CARRYING
17 CHARGES ON THE DEFERRED REVENUES.

18 A. This exclusion of carrying costs represents tangible real savings to the ratepayers. If all other terms
19 of the revenue deferral were maintained and carrying charges were included on the deferred
20 revenues, ratepayers would pay an additional \$3,959,000 to the Company over the five years of the
21 amortization period.

1 Q. DOES THIS AGREEMENT HAVE ANY OTHER DIRECT FINANCIAL BENEFITS
2 TO THE RATEPAYER?

3 a. Yes. If the plant projects totaling \$87M. were included in tariff rates as of May 1, 2000 in order to
4 avoid a financial emergency, ratepayers would be required to pay approximately \$11,447,000 as of
5 April 30, 2001, as previously discussed. In contrast, the S&A would cap the ratepayers' obligation to
6 the Company as of April 30, 2001 at \$9,579,000 (\$12,772,000 / 12 months equals a \$1,064,333
7 deferral per month for nine months). This obligation, after Commission review and any necessary
8 adjustment, would then be payable over the next five years without interest. This represents first-
9 year savings of \$1,868,000 to ratepayers without any consideration of the savings related to the
10 exclusion of carrying costs.

11 Q. THE NON-UNANIMOUS STIPULATION & AGREEMENT REQUIRES THAT ST.
12 LOUIS COUNTY WATER COMPANY FILE A RATE CASE NO LATER THAN MAY
13 31, 2000. PLEASE EXPLAIN HOW MISSOURI RATEPAYERS WILL BENEFIT
14 FROM THIS REQUIREMENT.

15 A. The Company and County Water are currently in the on-going process of merging the operations of
16 the two companies. The two companies are not merged legal entities, but are in fact becoming
17 merged operational entities. The companies share a common president and regulatory personnel and
18 multiple other processes are being combined. This process creates what are often termed
19 "synergies". The term "synergies" is used to identify areas or actions where cost savings can be
20 obtained via consolidation, elimination of duplicative activities, or elimination of certain duplicative
21 personnel functions.

1 The S&A is structured so that these synergies can be evaluated simultaneously for each company and
2 the results could then be then reflected in rates. Also, by allowing time to pass, the companies will
3 have additional time to identify and implement synergy strategies. The cost savings associated with
4 these implementations or planned implementations will then be able to be reflected in rates as
5 developed in the subsequent case.

6 **Q. PLEASE EXPLAIN PUBLIC COUNSEL'S CONCERN WITH THE OPERATING**
7 **COSTS OF THE NEW WATER TREATMENT SYSTEM IN ST. JOSEPH,**
8 **MISSOURI.**

9 **A.** The Company is changing the source of supply from direct acquisition of Missouri River water to a
10 well field located adjacent to the river. Based on my experience as supplemented by discussions with
11 Company personnel, it is my understanding that the treatment processes for river water versus well
12 water are quite different. The type and amounts of chemicals used, holding periods, and other
13 treatment processes vary with the quality of the raw water transported to the treatment plant.

14 The Company has, only estimated the cost of treating this new source of raw water, with a brand new
15 treatment facility. The S&A provides for a period of time in which actual data will be developed and
16 can be analyzed by not only the Company, but also all other parties for presentation to the
17 Commission in the subsequent case. In the interim period, the Company will bear the risks
18 associated with erroneous forecasts and/or unforeseen problems. Assumption of this risk by the
19 Company is appropriate, Public Counsel believes, because these are the same types of risks facing
20 any unregulated firm that undertakes a new venture.

21 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

1 A. The regulatory challenges faced by the Commission with respect to the various American
2 Waterworks Company operating in our State is unique. The S&A as structured provides the
3 Commission the opportunity to address the multitude of issues in single procedural schedule. This
4 will improve not only the efficiency of the process, but also provide the Commission with a complete
5 and all encompassing record on which to base it's decision. The S&A as structured provides the
6 ratepayers of Missouri American Water Company with real savings over the next year. The S&A
7 provides a structure in which all parties can adequately address the massive investments undertaken
8 by the Company and also take advantages of the "synergies" being created by the operational merger
9 of the two largest water companies in this state in order to minimize the financial impact on
10 ratepayers. Without addressing the merits of all the issues in Case No. WM-2000-222, Public
11 Counsel would acknowledge that if the Commission approves the merger of the Company and
12 United Water Missouri, Inc. the potential for additional "synergies" might also be identified prior to
13 April 30, 2001.

14 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

15 A. Yes.

Direct Testimony
Russell W. Trippensee
Case No. WR-2000-281
Case No. SR-2000-282

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 Utilities 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)

Direct Testimony
Russell W. Trippensee
Case No. WR-2000-281
Case No. SR-2000-282

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-96-146
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

Direct Testimony
Russell W. Trippensee
Case No. WR-2000-281
Case No. SR-2000-282

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