

Exhibit No.:
Issues: Territorial Agreements
Witness: Stephen M. Rackers
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: EM-96-149

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY
OF
STEPHEN M. RACKERS

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Missouri Public
Service Commission

UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Jefferson City, Missouri
May 2000

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DIRECT TESTIMONY
OF
STEPHEN M. RACKERS
UNION ELECTRIC COMPANY
CASE NO. EM-96-149

Q. Please state your name and business address.

A. Stephen M. Rackers, 815 Charter Commons Drive, Suite 100 B, Chesterfield, Missouri 63017.

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

A. I am a Regulatory Auditor V in the Accounting Department, in the St. Louis Office, for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Columbia, Missouri in 1978, from which I received a Bachelor of Science degree in Business Administration, majoring in Accounting. I have passed the Uniform Certified Public Accountant examination and I am currently licensed in the State of Missouri.

Q. What has been the nature of your duties while in the employ of this Commission?

A. I have supervised and assisted in audits and examinations of the books and records of public utility companies operating within the State of Missouri. I have listed cases in which I have previously filed testimony on Schedule 1.

1 Q. With reference to Case No. EM-96-149, have you made an examination of
2 the data supporting the calculation of sharing credits for the first sharing period of the
3 second Experimental Alternative Regulation Plan (EARP) and other books and records of
4 Union Electric Company (UE or Company)?

5 A. Yes, with the assistance of other members of the Commission
6 Staff (Staff).

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

8 A. My direct testimony will discuss the Staff's Adjustments regarding
9 territorial agreements and income tax. These adjustments appear in the Accounting
10 Schedules, as P-4.1 on Accounting Schedule 4 – Adjustments to Plant In Service; R-2.1
11 on Accounting Schedule 6 – Adjustments To Depreciation Reserve; and S-1.1, S-4.2,
12 S-6.1, S-11.1 and S-18.1 on Schedule 9 – Adjustments To Income Statement. The Staff's
13 adjustment to income tax also affects the deferred income tax balance that appears in
14 Accounting Schedule 2 – Rate Base.

15 **TERRITORIAL AGREEMENTS**

16 Q. Please explain the Staff's Adjustments for territorial adjustments.

17 A. The Staff's Adjustments reverse the effect on earnings related to two
18 territorial agreements entered into between UE and Black River Electric Cooperative,
19 Case No. EO-95-400, et al., and Macon Electric Cooperative, Case No. EO-97-6, et al.
20 In both of these cases, the Staff recommended approval of the territorial agreements with
21 the condition that it have the right to examine the effect that these agreements would have
22 on earnings and future sharing credit calculations.

23 Q. Why was this condition necessary?

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1 A. It is my understanding that the criteria which must be met for approval of
2 a territorial agreement, according to Missouri statute, is that the agreement in total is not
3 detrimental to the public. The Commission rule requires that the applicant explain why
4 the territorial agreement is in the public interest. In both Case No. EO-95-400, et al. and
5 EO-97-6, et al., the earnings realized by UE declined as a result of the territorial
6 agreement. The decline in earnings resulted from UE realizing a net loss of customers
7 and associated revenues from the exchange of a portion of its service area with that of the
8 cooperatives. This decline in earnings could result in reducing the amount of annual
9 sharing credits. In the Staff's opinion, this situation would constitute detriment to the
10 public interest, in particular a detriment to UE's ratepayers.

11 Q. How do the Staff's Adjustments prevent detriment to the public interest?

12 A. The adjustments reverse the net reduction in earnings realized during the
13 first sharing period of the second EARP. This reversal eliminates the effect of the
14 territorial agreements on earnings and sharing credits. This reversal was accomplished
15 by restoring the net loss in revenue and the associated fuel cost, maintenance expense,
16 depreciation expense, and plant and depreciation reserve additions. By restoring, the net
17 reduction in earnings the Staff has eliminated any detrimental impacts of the territorial
18 agreements from being flowed to UE's customers, through reductions in sharing credits.

19 Q. What is the Staff's justification for making these adjustments in the
20 context of the calculation of the sharing credits?

21 A. The Staff proposed these adjustments to the calculation of the sharing
22 credits in the third sharing period of the first EARP pursuant to Sections 3.f.vii. and
23 3.f.viii. of the Stipulation and Agreement in Case No. ER-95-411. It stated as follows:

1 Section 3.f.viii. states that signatories have the right to
2 present to the Commission concerns over any category of cost that
3 has been included in UE's monitoring results and has not been
4 included previously in any ratemaking proceeding. The Staff is
5 not aware of a situation where earnings results were adjusted to
6 prevent detriment to ratepayers as a result of the affect of a
7 territorial agreement in a revenue requirement determination
8 proceeding. Section 3.f.vii. states that the Staff reserves the right
9 to bring issues which are related to the operation or
10 implementation of the EARP to the Commission for resolution.
11

12 In its December 23, 1999 Report And Order resulting from an evidentiary hearing
13 for that sharing period, the Commission found that the Staff's adjustments were
14 appropriate for several reasons. First, the Commission found that Sections 3.f.vii. and
15 3.f.viii. of the Case No. ER-95-411 Stipulation And Agreement permitted the
16 Commission to consider the Staff's proposed territorial agreements adjustments. Second,
17 the Commission found that it had made no rate determination with regard to the net
18 revenues associated with the territorial agreements in the separate cases approving the
19 two territorial agreements. Third, based upon Section 3.f.viii. of the Stipulation and
20 Agreement in Case No. ER-95-411, the Commission found that it could make the
21 adjustment recommended by the Staff associated with both territorial agreements.
22 Finally, the Commission found that the adjustments proposed by the Staff should be
23 made to avoid a detriment to the ratepayers associated with sharing credits, as a result of
24 its approval of the territorial agreements.

25 Also, in both dockets EO-95-400, et al. and EO-97-6, et al. the Staff
26 recommendation stated that the Staff reserved the right to examine the revenue
27 requirement effect of the territorial agreements in the context of a future rate case or
28 sharing calculation. UE did not indicate an objection to this approach. A similar concern
29 of the Staff is seen in Section 4 "Rate Design" of the Stipulation and Agreement in Case

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1 No. ER-96-411 and Section 7.h of the Case No. EM-96-149 Stipulation and Agreement.
2 These sections provide for determining on a case-by-case basis, by agreement or by
3 decision of the Commission, how revenues foregone as a result of a change in rate design
4 and/or other tariff language will be treated for purposes of the Plan Reconciliation
5 Procedure (Attachment C). These sections show concern that changes in rate design
6 and/or other tariff provisions not automatically be precluded because of the change
7 causing a reduction in credits that would otherwise be available for distribution under the
8 EARP.

9 Q. Does the Stipulation and Agreement in Case No. EM-96-149 include a
10 provision like Section 3.f.viii. from the Stipulation and Agreement in Case
11 No. EM-95-411?

12 A. Yes. The Stipulation and Agreement in Case No. EM-96-149 includes
13 Section 7.f.viii which contains the same language as Section 3.f.viii. from the Stipulation
14 and Agreement in Case No. EM-95-411. Section 7.f.viii states:

15 UE, Staff, OPC and other signatories have the right to present to
16 the Commission concerns over any category of cost that has been
17 included in UE's monitoring results and has not been included
18 previously in any ratemaking proceeding.
19

20 Q. Have there been any material changes in the circumstances regarding these
21 territorial agreements, such as customer growth in the service areas received by UE from
22 the cooperatives?

23 A. The Staff has lately received information from the Company that requires
24 further evaluation and additional discussions with UE personnel. Based on this
25 additional review of the information, the Staff may need to update its adjustments for
26 territorial agreements.

1 Q. Has the Staff examined the effect on earnings and sharing credits of any
2 new territorial agreements that have been entered into by UE?

3 A. Yes. UE has entered into several new territorial agreements. However,
4 the agreements that were effective prior to the end of the first sharing period of the
5 second EARP did not materially effect earnings or sharing credits during that period.
6 Any material effect on earnings or sharing credits of these and subsequent territorial
7 agreements will be reflected in the Staff's calculations in future sharing periods.

8 **INCOME TAX**

9 Q. Please explain the Staff's Adjustment to income tax.

10 A. During the Staff's audit of the first sharing period of the second EARP, the
11 Staff raised concerns regarding the calculation of income tax. Through discussions with
12 representatives from the Company's tax department, the Staff believes this area of
13 concern has been resolved. The Staff has submitted to the Company language to
14 memorialize this agreement. If agreement has not been reached, I will need to submit
15 supplemental direct testimony on income tax.

16 Q. Does this conclude your direct testimony?

17 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

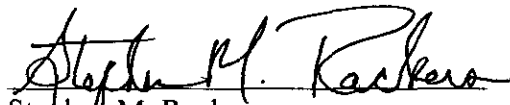
In the Matter of the Application of Union Electric)
Company for an Order Authorizing (1) Certain)
Merger Transactions Involving Union Electric)
company; (2) the Transfer of Certain Assets, Real)
Estate, Leased Property, Easements and)
Contractual Agreements to Central Illinois Public)
Service Company; and (3) in Connection)
Therewith, Certain Other Related Transactions)

Case No. EM-96-149

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Stephen M. Rackers, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Stephen M. Rackers

Subscribed and sworn to before me this 30th day of May, 2000



J KAY NIEMEIER
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
Notary Public MY COMMISSION EXP. MAR. 26,2004
My Commission Expires _____

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
Missouri-American Water Company	WR-2000-281