

Exhibit No.:
Issues: Stipulation and Agreement
Witness: James E. Salser
Exhibit Type: Direct In Support of Agreement
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2000-281
SR-2000-282

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2000-281

CASE NO. SR-2000-282

FILED³

MAR 01 2000

**Missouri Public
Service Commission**

**DIRECT TESTIMONY
IN SUPPORT OF STIPULATION AND AGREEMENT
OF
JAMES E. SALSER
ON BEHALF OF
MISSOURI-AMERICAN WATER COMPANY**

JEFFERSON CITY, MISSOURI

MARCH 1, 2000

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JAMES E. SALSER
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2000-281
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WITNESS INTRODUCTION

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

2 A. James E. Salser, 38 Summit Ct., Marlton, New Jersey 08053.

3 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

4 A. I am self employed providing consulting services to public utility companies in the areas
5 of rate, acquisition and economical analyses.

6 **Q. PLEASE OUTLINE YOUR EDUCATION AND BUSINESS EXPERIENCE.**

7 A. I have a Bachelors Degree in Business Administration from West Virginia State College.
8 I also attended the NARUC Water Utility Rate Seminar in 1973.

9 On January 1, 1966, I was employed by the American Water Works Service Company
10 (herein after the "Service Company") as a staff accountant assigned to the property
11 section of the Midwest Division, located in Richmond, Indiana. Approximately a year
12 later, I was promoted to the Accounting Department.

13 On August 1, 1968, I was transferred to Charleston, West Virginia, and the Southern
14 Region of the Service Company. In Charleston, I was assigned to the Rate Department.
15 My principal duties in Charleston were to prepare and testify on accounting exhibits for

1 the operating companies' rate filings. While in Charleston, I testified before the West
2 Virginia Public Service Commission and the Virginia State Corporation Commission on
3 many occasions as an accounting witness.

4 In March 1, 1980, I transferred to Massachusetts to establish a Rate Department for the
5 New England Division of the Service Company.

6 On November 1, 1983, I was elected Treasurer and Vice President of the nine (9)
7 operating companies comprising the New England Division. On January 1, 1984, I was
8 promoted to Manager of Finance for the New England Division. During my assignment
9 in the New England Division, I testified as the accounting and financial witness before
10 the regulatory commissions in the states of Connecticut, New York, Rhode Island, New
11 Hampshire, and the Commonwealth of Massachusetts. I have also testified on the sale of
12 preferred stock in the State of Rhode Island, and on the sale of bonds and common stock
13 in the State of Connecticut.

14 In the spring of 1986, I was given an additional assignment to set up a complete on- line,
15 real-time billing and accounting system on personal computers for the Massachusetts and
16 New Hampshire companies. All of the companies were on the system by July 1, 1987.

17 On September 1, 1987, I transferred to the Corporate Office in New Jersey as Director of
18 System Accounting-Accounting Systems. In this position, I was a member of a team
19 investigating the possibilities of setting up an on-line, real-time accounting and financial
20 system for the total American Water System at one location. I was also in charge of the
21 budgeting process system-wide. During the summer of 1988, I was involved in the

1 development of on-line accounting and financial system for the Western Region of the
2 Service Company.

3 On January 1, 1989, I transferred to Richmond, Indiana, as Director of the Rates and
4 Revenue Department of the Mid-America Regional Office. During the assignment at the
5 Mid-American Region, I submitted financial testimony in rate cases for Iowa-American
6 Water Company, Illinois-American Water Company, Indiana-American Water Company,
7 Ohio-American Water Company and Missouri-American Water Company (herein after
8 "MAWC" or the "Company").

9 On January 1, 1994, I accepted a transfer to Mount Laurel, New Jersey, as Director of the
10 Rates and Revenue Department of the new Region Office. Since January 1, 1994, I have
11 submitted testimony, among other things, related to rate increase applications for
12 Kentucky-American Water Company, Virginia-American Water Company,
13 Ohio-American Water Company, Maryland-American Water Company, Iowa-American
14 Water Company, Michigan-American Water Company, Tennessee-American Water
15 Company and the last four rate cases for Missouri-American Water Company.

16 On September 1, 1999, I retired from American Water Works Service Company to
17 establish my own consulting practice. Shortly thereafter I was retained by the Service
18 Company - Region Office as a Rate Consultant for five of the operating companies.

19 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

20 **A.** Yes. I previously filed Direct Testimony on behalf of MAWC on November 19, 1999.

1 **PURPOSE**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. I will provide testimony supporting the deferral amount specified by the nonunanimous
4 Stipulation and Agreement ("Agreement") (**Schedule JMJ-2** to the Direct Testimony of
5 James M. Jenkins) which was filed with the Commission on or about February 23, 2000.

6 **DEFERRAL AMOUNT**

7 **Q. DOES THE AGREEMENT CALL FOR A DEFERRAL OF REVENUES?**

8 A. Yes.

9 **Q. PLEASE DESCRIBE THAT DEFERRAL.**

10 A. MAWC will be authorized to defer revenues at a rate of not more than \$12,772,000 per
11 year, beginning August 1, 2000. This annual revenue deferral will end on the effective
12 date of the tariff sheets approved in connection with new rate cases to be filed in May
13 2000 by MAWC and St. Louis County Water Company.

14 **Q. HOW WAS THE AMOUNT OF \$12,772,000 DERIVED?**

15 A. MAWC's original filing in this case sought a rate increase of over \$16 million. The
16 summary of this request can be found at **Schedule LJG-1** of Direct Testimony of Linda J.
17 Gutowski, which was filed with the Commission on November 19, 1999. The
18 approximate amount of \$12,772,000 was derived by reducing the requested rate increase
19 to reflect a 10% rate of return on equity, the elimination of post in service Allowance for
20 Funds Used During Construction ("AFUDC") and deferred depreciation associated with
21 the St. Joseph 2000 Project, a reduction in the budgeted cost for the St. Joseph 2000
22 Project, the elimination of the cost associated with the conversion to monthly billing in
23 the St. Joseph district, additional employee reductions and other expected reductions in
24 operating expenses.

25 **Q. DO YOU HAVE A SCHEDULE WHICH IDENTIFIES THESE REDUCTIONS IN**

1 **GREATER DETAIL?**

2 A. Yes. Schedule JES-1 is a calculation of the possible deferral which I created for the
3 purposes of this testimony.

4 **Q. WILL THERE NECESSARILY BE A DEFERRAL OF \$12,772,000 RECORDED**
5 **ON THE BOOKS OF MAWC?**

6 A. No.

7 **Q. WHY NOT?**

8 A. The \$12,772,000 is an *annual* number. The Agreement specifies that the deferral will
9 begin on August 1, 2000, and continue only until the effective date of tariffs sheets
10 approved in MAWC's next rate case. If MAWC and St. Louis County Water Company
11 file new tariffs by May 31, 2000, as required by the Agreement, the operation of law date
12 for the resulting case will be approximately April 30, 2001. Thus, the deferral would run
13 for only nine (9) months (August 1, 2000 to April 30, 2001) and the maximum deferral
14 would be 9/12s of \$12,772,000, or \$9,579,000.

15 **Q. DOES THE COMMISSION HAVE ANOTHER OPPORTUNITY TO ASSESS**
16 **THE AMOUNT OF THE DEFERRAL?**

17 A. Yes. The Agreement provides that within the context of MAWC's rate case to be filed by
18 May 31, 2000, the Staff will calculate the actual amount of MAWC's annual revenue
19 deficiency, and therefore the annual revenue deferral, based on a test year ending
20 September 30, 1999, updated for known and measurable changes as of December 31,
21 1999 and trued-up to April 30, 2000. Such annual revenue deficiency derived from the
22 audit of the Company's books and records for the test year ending September 30, 1999
23 updated through December 31, 1999 and subsequently trued-up through April 30, 2000
24 will be adjusted to reflect any Commission decisions that are issued in MAWC's next rate
25 case as they relate to the above audit periods, calculated as of April 30, 2000, and shall

1 subsequently be adjusted to reflect any Commission decisions regarding cost of service
2 issues that are issued in MAWC's next rate case.

3 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

4 A. Yes, it does.

MISSOURI-AMERICA WATER COMPANY
CALCULATION OF REVENUE DEFERRAL

Schedule JES-1

ORIGINAL REQUEST	\$ 16,471,910
ADJUSTMENTS	
EMPLOYEE REDUCTION	(202,725)
ST JOSEPH MONTHLY METER READING	(160,000)
TANK PAINTING	(300,000)
OTHER EXPENSES	(200,000)
DEPRECIATION (ST JOSEPH PLANT COST REDUCTION)	(33,000)
AMORTIZATION OF POST AFUDC	(63,641)
AMORTIZATION OF DEFERRED DEPRICATION EXPENSE	(15,768)
PROPERTY TAXES	(350,000)
ST JOSEPH PLANT LOWER COSTS	(134,674)
RATE OF RETURN ON EQUITY FROM 11.654% TO 10.0%	(1,968,396)
POST AFUDC FROM RATE BASE	(271,706)
ADJUSTED REVENUE REQUIREMENT	<u>12,772,000</u>