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Witness: Michael D. Roesch

Exhibit Type: Direct

Sponsoring Party: Missouri-American Water Company

Case No.: WR-2003-

Date: May 19, 2003

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2003-

DIRECT TESTIMONY

OF

MICHAEL D. ROESCH

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

JEFFERSON CITY, MISSOURI

Exhibit No. 2
Case No(s) WR-2003-0500
Date 12/16/03 Rptr SUKM

EXHIBIT

MAWC 2

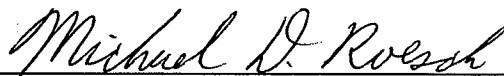
**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**IN THE MATTER OF MISSOURI-AMERICAN)
WATER COMPANY FOR AUTHORITY TO)
FILE TARIFFS REFLECTING INCREASED)
RATES FOR WATER AND SEWER)
SERVICE)**

CASE NO. WR-2003-

AFFIDAVIT OF MICHAEL D. ROESCH

Michael D. Roesch, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Michael D. Roesch"; 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.



Michael D. Roesch

State of Missouri

County of St. Louis

SUBSCRIBED and sworn to

Before me this 13th day of May 2003.



Notary Public

My commission expires:

STACI A. OLSEN Notary Public - Notary Seal STATE OF MISSOURI St. Charles County My Commission Expires: Mar. 20, 2005
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DIRECT TESTIMONY

MICHAEL D. ROESCH

WITNESS INTRODUCTION

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

2 A. Michael D. Roesch, 535 N. New Ballas Road, St. Louis, Missouri 63141.

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

4 A. I am Senior Financial Analyst in the Rates and Operations Analysis
5 Department for Missouri-American Water Company ("Company").

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
7 **BUSINESS EXPERIENCE.**

8 A. My background and qualifications are summarized in Schedule MDR-1 of
9 this testimony.

10

11

PURPOSE AND SCOPE

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. The purpose of my testimony is to introduce and explain the financial
15 information supporting the Company's rate request to the Missouri Public
16 Service Commission (MOPSC). I will cover the following topics: the
17 financial schedules that calculate the revenue deficiency, adjustments
18 supporting the rate base, and the operating income statement.

1 **Q. PLEASE EXPLAIN THE NUMBERING OF ACCOUNTING SCHEDULES**
2 **CAS-1 THROUGH CAS-15.**

3 A. The first three digits are the abbreviation for Company Accounting
4 Schedules (CAS). Schedule CAS-1 is a summary schedule for the Overall
5 Rate Increase Calculation, Rate Base, and Income Statement for the
6 Company. For Schedules CAS-2 through CAS-15, the numeric digits of 2
7 through 15 represent specific components of the revenue requirement
8 calculation. For example, Schedule 2 calculates the overall revenue
9 deficiency; 3 through 7 calculates rate base; 8 through 12 is the income
10 statement, revenues, O&M, O&M detail, and income taxes. Schedule 13
11 and 14 is the bill analysis summary and the detail at present and proposed
12 rates. And finally, Schedule 15 provides detailed income adjustments for
13 all districts. The last three digits of Schedules 2 through 14 are
14 alphabetized and provide specific detail for each district. For example,
15 BRU is for the Brunswick District; JOP is for the Joplin District. Schedule
16 MDR-2 contains a more detailed listing of the schedules and the
17 alphabetical abbreviation for the each district. Some schedules have
18 multiple pages. Included on each page of Schedule CAS-15 is the name
19 of the Company Witness who will provide testimony on that particular
20 schedule.

21 **Q. WHAT TEST YEAR DOES THE COMPANY PROPOSE TO UTILIZE AS**
22 **THE BASIS FOR THIS WATER RATE INCREASE?**

1 A. The rate filing is based upon a historic test year ending December 31,
2 2002, with adjustments through November 30, 2003. The November 30,
3 2003 cut-off was selected to provide the parties ample opportunity to audit
4 capital additions that have been closed to plant-in-service, prior to the
5 operation of law date.

6 **WATER ADJUSTMENTS**

7 **Q. ARE YOU SPONSORING ANY SCHEDULES THAT DEPICT THE**
8 **MAJOR COMPONENTS OF THE RATE REQUEST?**

9 A. Yes. Schedule CAS-2 for each district calculates the overall revenue
10 deficiency in this rate case. The schedules titled, "Overall Revenue
11 Requirement Summary for the Test Year Ended December 31, 2002," are
12 the lead schedules and summarize the financial information needed to
13 calculate the Company's revenue deficiency by district.

14 **Q. PLEASE EXPLAIN THE REVENUE REQUIREMENT CALCULATION**
15 **PRESENTED IN SCHEDULES CAS-2 FOR EACH DISTRICT.**

16 A. The revenue requirement calculation was determined by multiplying the
17 Company's pro forma rate base by the requested rate of return to derive
18 the required operating income. The recommended 8.30% overall rate of
19 return is based upon an 11% common equity return requirement as
20 substantiated by Company Witnesses Grubb and Ahern. Company
21 Witness Grubb discusses the Cost of Capital schedule in detail in his
22 Direct Testimony. The operating income requirement is then compared to

1 pro forma earnings at present rates to determine the Company's operating
2 income deficiency. When multiplied by the gross revenue conversion
3 factor that adjusts for income taxes and uncollectables, the result is a
4 revenue deficiency. When added to the adjusted operating revenue, the
5 result is the total revenue requirement for the district.

6 **RATE BASE**

7 **Q. PLEASE DISCUSS THE CALCULATION OF EACH COMPONENT OF**
8 **RATE BASE.**

9 A. The Company's rate base is shown on CAS-3 for each district that
10 includes the actual December 31, 2002 balance for Utility Plant in Service
11 (UPIS), Accumulated Reserve, Customer Advances, Contributions in Aid
12 of Construction ("CIAC"), and Deferred ITC. Schedule CAS-4 through 7
13 for each district contains detailed schedules for UPIS, Accumulated
14 Reserve, Customer Advances, CIAC, and Working Capital. UPIS is
15 updated for true-up additions and retirements through November 30,
16 2003. Accumulated Reserve is updated for true-up retirements,
17 depreciation, and net cost of removal through November 30, 2003,
18 utilizing depreciation rates approved in Case No. WR-2001-844 for the St.
19 Louis County District, in Case No. WR-99-326 for Jefferson City District,
20 and in Case No. WR-95-205 for the Brunswick, Joplin, Mexico, Parkville,
21 St. Charles, St. Joseph, and Warrensburg Districts. Customer Advances
22 and CIAC were updated for true-up advances and contributions through

1 November 30, 2003. The CIAC and Deferred ITC were updated for the
2 amortization through November 30, 2003. Prepayments and Material and
3 Supplies are based on a 13-month average. The post-employment
4 benefits ("OPEBs") contributed to external funds included permanent
5 investment recognized by the Commission in Case No. WR-95-205 and
6 investment of December 31, 2002, updated with amortizations through
7 November 30, 2003. Deferred taxes were calculated based on all plant in
8 service at November 30, 2003, which is the proposed true-up date, and
9 the deferred taxes associated with the pension liability and security costs.
10 Pension Liability reflects the amount of pensions accrued reduced for any
11 payments.

12 Company Witness Grubb explains in his Direct Testimony the rate base
13 adjustments related to cash working capital, and the regulatory deferrals
14 for security.

15 **INCOME STATEMENT**

16 **Q. PLEASE EXPLAIN THE STATEMENTS PRESENTED IN SCHEDULE**
17 **CAS-8 THROUGH CAS-12 FOR EACH DISTRICT.**

18 A. These schedules were developed by accumulating the 12-month
19 operating period ended December 31, 2002. The first adjustment column
20 reflects the pro forma adjustments made to the test year operating income
21 statement. The next column is the pro forma operating income statement

1 at present rates, which includes the pro forma adjustments. The next
2 column reflects the necessary pro forma revenue increase (i.e. grossed up
3 for income taxes and uncollectable expense) to account for the change in
4 operating income to obtain the required earnings level. The last column
5 presents the pro forma operating income statement, at proposed rates,
6 which includes the Company requested increase for that district and
7 supports an operating income level before taxes.

8 Schedule CAS-9 for each district is a summary of the test year revenues
9 by classification, the adjustments to these amounts, and the pro forma
10 revenue at present rates.

11 Schedule CAS-10 for each district is a summary of the operating and
12 maintenance expense and general taxes for the test year, the adjustments
13 to those amounts, and the pro forma expense levels under present rates.
14

15 Schedule CAS-11 for each district shows the detail of these pro forma
16 adjustments in a chart format. Along the top horizontal edge are the
17 individual schedules that support the adjustments. Down the left vertical
18 edge are the line items as shown on Schedule CAS-10 for each district.
19 The chart is very useful since some of the pro forma adjustments affect
20 more than one line on the summary in Schedule CAS-10 for each district.

1 Company Witness Grubb explains in his Direct Testimony the income tax
2 calculation in Schedules CAS-12 for each district.

3 Schedule CAS-15 contains a detailed explanation of the various pro forma
4 adjustments requested in this case.

5 DEPRECIATION EXPENSE

6 **Q. PLEASE DISCUSS THE CALCULATION OF DEPRECIATION**
7 **EXPENSE.**

8 A. The calculation is based on true-up UPIS through November 30, 2003.
9 The depreciation rates for the Brunswick, Joplin, Mexico, Parkville, St.
10 Charles, St. Joseph, and Warrensburg Districts are substantiated by
11 Witness Spanos, a consultant with Ganett Flemming. Mr. Spanos has
12 prepared a detailed depreciation study, which has been filed with the
13 Missouri Public Service Commission as part of this case. Depreciation
14 rates for the St. Louis and Jefferson City Districts were used from recent
15 rate cases. More details are provided at Schedule CAS-15, page 22.

16 SEWER ADJUSTMENTS

17 **Q. ARE YOU SPONSORING ANY SCHEDULES THAT DEPICT THE**
18 **MAJOR COMPONENTS OF THE RATE REQUEST?**

19 A. Yes. Schedule CAS-2-PKS calculates the overall revenue deficiency in
20 this rate case. This schedule titled, "Overall Revenue Requirement

Summary for the Test Year Ended December 31, 2002," is the lead schedule and summarizes the financial information needed to calculate the Company's revenue deficiency.

Q. PLEASE EXPLAIN THE REVENUE REQUIREMENT CALCULATION PRESENTED IN SCHEDULE CAS-2-PKS.

A. The revenue requirement calculation was determined by multiplying the Company's pro forma rate base by the requested rate of return to derive the required operating income. The recommended 8.30% overall rate of return is based upon an 11% common equity return requirement as substantiated by Company Witnesses Grubb and Ahern. Company Witness Grubb discusses the Cost of Capital schedule in detail in his Direct Testimony. The operating income requirement is then compared to pro forma earnings at present rates to determine the Company's operating income deficiency. When multiplied by the gross revenue conversion factor that adjusts for income taxes and uncollectables, the result is a revenue deficiency. When added to the adjusted operating revenue, the result is the total revenue requirement for the district.

RATE BASE

Q. PLEASE DISCUSS THE CALCULATION OF EACH COMPONENT OF RATE BASE.

1 A. The Company's rate base is shown on CAS-3-PKS that includes the
2 actual December 31, 2002 balance for UPIS, Accumulated Reserve,
3 Customer Advances, Contributions in Aid of Construction ("CIAC"), and
4 Deferred ITC. Schedule CAS-4-PKS through CAS-7-PKS contains
5 detailed schedules for UPIS, Accumulated Reserve, Customer Advances,
6 CIAC, and Working Capital. U PIS is updated for true-up additions and
7 retirements through November 30, 2003. Accumulated Reserve is
8 updated for true-up retirements, depreciation, and net cost of removal
9 through November 30, 2003, utilizing depreciation rates approved in Case
10 No. WR-95-205. Customer Advances and CIAC were updated for true-up
11 advances and contributions through November 30, 2003. The CIAC and
12 Deferred ITC were updated for the amortization through November 30,
13 2003. Prepayments and Material and Supplies are based on a 13-month
14 average. The post-employment benefits ("OPEBs") contributed to external
15 funds included permanent investment recognized by the Commission in
16 Case No. WR-95-205 and investment of December 31, 2002, updated
17 with amortizations through November 30, 2003. Deferred taxes were
18 calculated based on all plant in service at November 30, 2003, which is
19 the proposed true-up date, and the deferred taxes associated with the
20 pension liability and security costs. Pension Liability reflects the amount
21 of pensions accrued reduced for any payments.

1 Company Witness Grubb explains in his Direct Testimony the rate base
2 adjustments related to cash working capital and regulatory deferrals for
3 security.

4 **INCOME STATEMENT**

5 **Q. PLEASE EXPLAIN THE STATEMENTS PRESENTED IN SCHEDULE**
6 **CAS-8-PKS THROUGH CAS-12-PKS.**

7 A. These schedules were developed by accumulating the 12-month
8 operating period ended December 31, 2002. The first adjustment column
9 reflects the pro forma adjustments made to the test year operating income
10 statement. The next column is the pro forma operating income statement
11 at present rates, which includes the pro forma adjustments. The next
12 column reflects the necessary pro forma revenue increase (i.e. grossed up
13 for income taxes and uncollectable expense) to account for the change in
14 operating income to obtain the required earnings level. The last column
15 presents the pro forma operating income statement at proposed rates,
16 which includes the Company requested increase for that district and
17 supports an operating income level before taxes.

18 Schedule CAS-9-PKS is a summary of the test year revenues by
19 classification, the adjustments to these amounts, and the pro forma
20 revenue at present rates.

1 Schedule CAS-10-PKS is a summary of the operating and maintenance
2 expense categories for the test year, the adjustments to those amounts,
3 and the pro forma expense levels under present rates.

4 Schedule CAS-11-PKS shows the detail of these pro forma adjustments in
5 a chart format. Along the top horizontal edge are the individual schedules
6 that support the adjustments. Down the left vertical edge are the line
7 items as shown on Schedule CAS-10-PKS. The chart is very useful since
8 some of the pro forma adjustments affect more than one line on the
9 summary in Schedule CAS-10-PKS.

10 Company Witness Grubb explains in his Direct Testimony the income tax
11 calculation in Schedule CAS-12-PKS.

12 A detailed explanation of the various pro forma adjustments requested in
13 this case contained in Schedule CAS-15.

14 **DEPRECIATION EXPENSE**

15 **Q. PLEASE DISCUSS THE CALCULATION OF DEPRECIATION**
16 **EXPENSE.**

17 **A.** The calculation is based on true-up UPIS through November 30, 2003.
18 More details are provided at Schedule CAS-15, page 22.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes, it does.**