

Exhibit No.:
Issues: Change of Electric Supplier
Fair and Reasonable
Compensation
Witness: James L. Ketter
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal
Case No.: EA-2000-308

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY
OF
JAMES L. KETTER

CASE NO. EA-2000-308

Jefferson City, Missouri
July 2000

Exhibit No. 13
Date 12-11-00 Case No. EA-2000-308
Reporter KE

Rebuttal Testimony of
James L. Ketter

1 of Missouri; my registration number is E-20056. I am a member of the National Society
2 of Professional Engineers and I am a member of the Jefferson City Chapter of the
3 Missouri Society of Professional Engineers.

4 Q. Have you reviewed the Application and the testimony filed in Case
5 No. EA-2000-308?

6 A. Yes, I have.

7 Q. What is the purpose of your testimony in this case?

8 A. I will make recommendations concerning the issue of fair and
9 reasonable compensation as well as other issues involving the proposed change of electric
10 supplier.

11 Q. Please provide some background for this case.

12 A. The City of Rolla (City or Rolla) has filed an Application pursuant to
13 section 386.800 RSMo 1994, seeking a) to become the exclusive electric service provider
14 within an area recently annexed by the City, and b) a determination of the fair and
15 reasonable compensation for the present electric supplier, Intercounty Electric Cooperative
16 Association (Intercounty). Intercounty has electric facilities in the annexed area, and Rolla
17 seeks to purchase the facilities and become the electric supplier for those customers that
18 reside in the newly annexed area.

19 This is the first application of this nature filed pursuant to the governing
20 statute. The parties involved in this case are non-regulated utilities. Neither Intercounty
21 nor Rolla Municipal Utilities is subject to rate or service regulation by this Commission.
22 Likewise, the business and accounting practices of the utilities involved are not subject to
23 Commission rules.

1 The aforementioned statute sets out requirements and procedures that allow
2 a municipal utility to purchase electric facilities and become the electric supplier for
3 customers annexed by the City. The statute outlines the steps for a municipal utility to
4 become the electric supplier in an annexed area and the Commission's responsibilities.
5 After proper notice, the municipal utility and the affected electric supplier shall meet and
6 negotiate terms of a territorial agreement to effect the change of electric supplier on terms
7 that the parties may agree upon. Any territorial agreement between the parties must be
8 filed with the Commission for approval. The subject Application was filed pursuant to the
9 last phase of the process, which is triggered when the parties are unable to reach a mutual
10 agreement on resolving the matter.

11 Intercounty has provided electric service in this area around Rolla for many
12 years. The City has grown and its limits have expanded; however, by statute Intercounty is
13 not allowed to set meters in incorporated areas with a population of over 1500, although it
14 can retain existing customers. Consequently, Intercounty has over one hundred customers
15 within the city limits of Rolla that are not part of this application and not within the
16 annexed area subject to these proceedings. Rolla has chosen to exercise the authority
17 conferred by the statute for the areas annexed on June 8, 1998, to petition the Commission
18 for authority to purchase the facilities for a compensation prescribed in the statute, and to
19 become the electric supplier.

20 Q. Have you made field inspections of the area and inspected the
21 facilities subject to transfer?

22 A. Yes, I have. I have reviewed the electric system drawings of each
23 utility and I have inspected many of the subdivisions and the existing facilities serving the

1 area referred to as the Southside Annexation. Much of the annexed area is undeveloped
2 and few roads cross the area, which comprises approximately 1300 acres.

3 Intercounty has electric facilities serving existing customers scattered
4 throughout the annexed area. The highest concentration of existing Intercounty customers
5 is on the west side of the annexed area along State Highway 63 and on the east side of the
6 area along State Highway 72. Intercounty has served these customers on the south and
7 west side of the City from a substation located south of the annexed area called South
8 Rolla Substation located on State Highway 63. Electric customers of Intercounty on the
9 eastern portion of the annexed area are served from the East Rolla Substation. These two
10 substations provide electric service to other customers that are outside the annexed area,
11 and Intercounty will continue to use these facilities to serve customers that are not part of
12 the annexation. The East Rolla Substation is located within the city limits of Rolla and has
13 provided electric service to cooperative members for many years. Intercounty has another
14 distribution substation, Dry Fork Substation, located east of Rolla that has tie lines to
15 circuits from the East Rolla Substation.

16 Q. Pursuant to Sections 394.080.1(4) and 394.020(3) RSMo 1994,
17 cooperatives are authorized to serve customers in rural areas; i.e., areas outside of
18 incorporated areas of more than 1500 population. What restrictions apply if a cooperative
19 is serving customers that are subsequently annexed into a city with a population of over
20 1500?

21 A. A cooperative cannot set new meters in areas where the population is
22 over 1500, but it can retain existing customers. This can present a problem as the
23 cooperative is often unable to fully utilize the existing facilities built to serve electric

1 customers. For example, in areas where empty lots are not developed and the cooperative
2 has electric facilities crossing in front or along the back, the cooperative is not able to set
3 meters and serve any new customers located in incorporated areas of over 1500 population.
4 This situation exists today in the recently annexed area. Intercounty is prohibited from
5 setting new meters in this incorporated area with a population of over 1500, and as a
6 consequence, is unable to fully utilize its facilities. The City is the only utility authorized
7 to connect new customers within the city limits.

8 Q. Is there a means by which Intercounty can legally serve new
9 customers within the limits of a municipality with a population in excess of 1500?

10 A. Yes. Section 394.312 RSMo. 1994 allows electric utilities to establish
11 territorial boundaries for service area to serve electric customers, subject to approval of the
12 Commission. Under this provision, a cooperative may set new meters within the limits of
13 an incorporated area with a population of over 1500, if the area is subject to a territorial
14 agreement approved by the Commission.

15 Q. How could a territorial agreement change the environment in and
16 around Rolla with respect to Intercounty and Rolla Municipal Utility?

17 A. A territorial agreement allows each utility to have a better base from
18 which to plan for future growth. Each utility would have a designated area within which it
19 would provide service to all new customers. Moreover, this territorial boundary may cross
20 the city limits, thus allowing the cooperative to connect new meters inside the city to get
21 better utilization of facilities already in place. Likewise the city utility may have the
22 opportunity to serve outside the city limits pursuant to the provisions of a Commission-
23 approved territorial agreement. A territorial agreement allows each utility to have a better

1 base from which to plan future growth. Moreover, such an agreement may allow extension
2 of electric facilities such that duplication of electric facilities can be avoided or reduced.

3 Q. Was a territorial agreement considered by the parties?

4 A. Yes. In the Prepared Direct Testimony of Dan A. Watkins on behalf
5 of City of Rolla/Rolla Municipal Utilities, starting on page 11, Mr. Watkins refers to
6 attempts by the City and Intercounty to define service territories for each utility.
7 According to Mr. Watkins, considerable time was taken to try to define boundaries that
8 would be acceptable to each party. Uncertainty about future load growth, the length of the
9 agreement and many other concerns can influence these decisions. Unfortunately, the
10 parties could not reach an agreement; consequently, the City filed its application seeking
11 Commission authorization to complete the transfer of the electric customers and the
12 facilities.

13 Q. What does the statute require in order to enable the Commission to
14 authorize the transaction sought by Rolla in this case?

15 A. Section 386.800 RSMo 1994 prescribes the conditions under which
16 the Commission may authorize the transfer of facilities and customers from Intercounty to
17 the City in this case. In particular, the Commission must find that the transaction is in the
18 public interest, including consideration of rate disparities between the City and
19 Intercounty. Also pursuant to the statute, Intercounty is entitled to "fair and reasonable
20 compensation" for any customers and facilities it would be required to relinquish under a
21 Commission order approving Rolla's Application. Finally, the Commission's decision
22 must take into account the overall effect on system operation.

1 A. Through this Application, the City seeks to acquire the existing
2 Intercounty customers and the lines that deliver power. The need to maintain electric
3 feeders or tie lines to serve cooperative customers outside of the city limits will require
4 Rolla either to build new lines for itself or to compensate Intercounty for facilities to
5 reintegrate Intercounty's electric system between the substations and the existing electric
6 customers. This will require an additional set of electric conductors and possibly an
7 additional set of poles. Dual facilities will be necessary if the City is the electric supplier
8 because Intercounty will have existing electric customers that are not included in the
9 Southside Annexation area that will be served from the 'reintegrated' facilities. The lines
10 between the Intercounty substations are needed not only to energize distribution lines to
11 serve customers, but also to provide alternative sources for reliability. Alternative sources
12 are important in reducing electric outages when problems are encountered.

13 Duplication of facilities may be minimized through the use of territorial
14 agreements if concentrations of existing cooperative customers are retained. Cooperation
15 through territorial agreements could allow Intercounty to retain existing subdivisions and
16 the tie lines between substations. This would minimize the duplication of electric because
17 the City would build lines to serve new loads and Intercounty could have the ability to
18 serve undeveloped lots in the subdivision where they have facilities.

19 Q. In pertinent part, the statute requires the Commission to determine
20 fair and reasonable compensation to be paid by Rolla to Intercounty for "(1) The present-
21 day reproduction costs of the properties and facilities serving the annexed areas, less
22 depreciation computed on a straight-line basis; and (2) an amount equal to the reasonable
23 and prudent cost of detaching the facilities in the annexed areas; and (3) four hundred

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1 percent of gross revenue less gross tax receipts received by the electric supplier from the
2 twelve-month period preceding the approval of the municipality's governing body...".
3 Please discuss your recommendations regarding fair and reasonable compensation for each
4 of these components in light of the recommendations of the City.

5 A. Regarding the first component (i.e., the present-day reproduction cost
6 of the facilities serving the annexed area, less depreciation based upon the age of the
7 existing facilities, computed on a straight-line basis): In the prepared direct testimony of
8 Rodney P. Bourne on behalf of City of Rolla/Rolla Municipal Utilities, starting on page 2,
9 he describes the development of the fair and reasonable compensation as proposed by the
10 City. Mr. Bourne refers to the information provided to the City by Intercounty for the
11 facilities located within the annexed area. The reproduction cost provided is \$547,131.01,
12 but the compensation is adjusted for depreciation based upon the age of the existing
13 facilities.

14 The reproduction cost is the cost to build the facilities at today's prices.
15 This methodology, as specified in the statutes, does not contemplate the "book value", or
16 the cost to build at the time of construction, but rather the value of the facilities if all the
17 facilities were constructed at present-day cost. This establishes a present-day value for the
18 facilities providing electric service.

19 Depreciation is used to reduce the present-day valuation of the affected
20 assets in order to reflect their age. As noted earlier, the statute requires that the
21 depreciation be computed on a straight-line basis. This depreciation rate is based in part on
22 the useful life established for the facilities subject to transfer.

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1 The depreciation rate, expressed as a percentage, is converted to years by
2 taking the inverse of the depreciation rate (expressed as a decimal); e.g. a 5% annual
3 depreciation rate would fully depreciate a facility in 20 years ($1/.05 = 20$) or a 3% annual
4 depreciation rate would fully depreciate a facility in 33.33 years ($1/.03$).

5 Mr. Bourne's methodology, which involved the use of an average
6 depreciation rate for all distribution facilities, is a method of approximating the amount to
7 be depreciated over the life of the equipment. Distribution equipment subject to transfer
8 includes such items as poles, conductors, underground facilities, transformers, services and
9 meters. Mr. Bourne applied an average rate of 2.8% per year, or a useful life of 35.71
10 years. This depreciation rate used by Mr. Bourne is a conservative rate, based on review of
11 the rates for distribution plant accounts approved for the regulated electric utilities in
12 Missouri.

13 The next part of the computation is the determination of the in-service date
14 for the equipment, or the length of time the equipment has been in service. This is made
15 more difficult in this case because individual records are not maintained to record the date
16 of installation of the various components of Intercounty's distribution system.

17 Each of the parties will have to estimate the average life of the equipment
18 in-service in order to determine the remaining value. Mr. Bourne chose to base his
19 estimate on available information concerning the dates that subdivisions in the subject area
20 were platted; i.e., recorded. From this information he made further judgments concerning
21 the possible installation date of the electric facilities. The platting of subdivision defines
22 the start of development, but lends no specific information about when electric facilities

1 were extended or when houses were built. For this reason, at this point I took a different
2 approach from that elected by Mr. Bourne.

3 Q. What information did you use to estimate the installation date of the
4 electric equipment?

5 A. Based on review of the information on transformer installation dates
6 provided by Intercounty, the average number of years that the transformers have been in
7 service is 19.74 years, using June 8, 1998 as the reference date. I considered this to be the
8 average of all facilities. Multiplying this average age of the facilities by the yearly
9 depreciation rate of 2.8% ($19.74 \times .028 = .5527$) yields a straight-line depreciation of
10 \$302,399.31. This leaves \$244,731.70 ($\$547,131.01 - \$302,399.31$) as the remaining value
11 of the facilities.

12 Q. Another element of the compensation for the City to acquire and
13 provide electric service to customers in the annexed area is 400% of gross revenues
14 received by Intercounty from the twelve-month period preceding annexation. (There are
15 no tax receipts to consider in this instance). The statute requires that these revenues be
16 normalized to produce a representative usage from customers. Please discuss your
17 methodology in developing your recommendation for this component.

18 A. The idea here is that the seller receives four years of up-front cash but
19 the buyer, in turn, will receive revenue from the existing customers plus growth in the
20 future, from the transfer date forward. The effective date for the annexation was June 8,
21 1998; therefore, I based my calculation of the appropriate compensation upon the
22 customers existing and the facilities used at that time. I would note here that Mr. Watkins
23 identified approximately 286 customers in the Southside Annexation area. Those living in

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1 an apartment move in and out and houses are bought and sold, so I would expect some
2 fluctuation over a period of a year.

3 I used the customer list and associated revenue from Mr. Bourne's Schedule
4 RB-1 as the starting point for my quantification of the annual revenue for the period ending
5 June 1998. Schedule RB-1 is a list of Intercounty customers, which are identified by name
6 and map location. The map location is a geographic reference and sequence number for
7 each meter location. This schedule contains a summary of the monthly information
8 provided by Intercounty of the actual monthly bills for the accounts active during the
9 period of July 1997 to June 1998. Mr. Bourne developed an estimate for the annual
10 revenue of \$370,463.45. I used this actual recorded revenue as the basis for my
11 development of the normalized annual revenue.

12 In reviewing the monthly usage data for map location and the
13 accompanying revenue, I looked for map locations where there was less than twelve
14 months of usage recorded. The existence of more than one account for the same map
15 location, indicated that tenants are moving into and out of a residence. I therefore
16 concluded that some of the map locations may have no usage for some months and no
17 associated revenue, and accordingly, I did not adjust these accounts. Homes or apartments
18 may be unoccupied for some months of the year, and I view this as part of normal
19 operations and representative of a normal revenue stream. If the data indicated that new
20 metering points had been set during the twelve-month period, I would have normalized
21 (i.e., annualized) this revenue. I found no accounts, however, that reflected less than
22 twelve month of usage that resulted from new meters.

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1 Q. What adjustment are you recommending to the twelve-month
2 revenue?

3 A. I have included the revenue deleted by Mr. Bourne for the two
4 accounts that are no longer active, in the amount of \$13,073.04. The statute requires the
5 quantification of the revenue received during the twelve-month period preceding the
6 annexation. Even though these accounts are no longer active, it is my opinion that this part
7 of the compensation, in contrast to the tenant-type situation noted above, would normally
8 be part of the revenue stream enjoyed by Intercounty, and should therefore be included as
9 representative usage.

10 Q. What is your recommendation regarding gross revenue in this case?

11 A. My recommendation for the representative usage for the twelve-
12 month period preceding the annexation is \$383,536.49. This is the sum of the \$370,463.45
13 from Mr. Borne's Schedule RB-1 and my adjustment of \$13,073.04, just discussed.

14 Q. What amount of revenue compensation are you therefore
15 recommending?

16 A. In accordance with the statute, the revenue compensation equals
17 \$1,534,145.96

18 Q. What other component must be considered for compensation?

19 A. As I have indicated earlier in my testimony, Intercounty has facilities
20 that pass through the annexed area that are necessary in providing electric service to other
21 cooperative members. The statute allows costs of detaching the facilities in the annexed
22 area along with the cost to reintegrate the electric system outside the annexation area. Mr.
23 Bourne has identified an estimated cost of \$80,000 to reintegrate the Intercounty electric

1 system. The estimate is based upon the assumption that a joint use agreement between
2 Intercounty and the City could minimize cost and reduce the duplication of poles and
3 conductors through the area.

4 A joint use of poles requires each utility involved to agree to conditions that
5 will benefit their operations and that can be accomplished in a safe and efficient manner.
6 Intercounty does not need to be reintegrated absent this Application by the City. On the
7 other hand, duplication and unnecessary added expense may result without cooperation.
8 The parties have found benefit on an operational level in using common poles when their
9 conductors have crossed. This allows a rigid attachment so those conductors aren't prone
10 to touch in high winds or when the conductors sag under load.

11 Two different, independent power sources in close proximity bring safety
12 concerns for the workers and the public. Normal maintenance and emergency restoration
13 efforts bring workers from one utility into close proximity with another electric source, not
14 under their control. Electrical systems present a number of hazards for utility workers and
15 joint use brings its own extra exposures. However, a carefully crafted joint use agreement
16 could allow an environment ---consolidation of electric facilities on one easement, for
17 example--- would minimize the exposure of the public to electric facilities.

18 Q. What is your recommendation concerning the reintegration costs?

19 A. A. The reintegration of the electric system for Intercounty must meet its
20 operational needs to provide reliable service to its customers. The City is obligated to pay
21 the reasonable reintegration costs. I propose that the City pay the actual costs necessary
22 to meet the operational needs of Intercounty. As Mr. Bourne has stated, a "not-to-exceed"
23 cap may be necessary along with definition of the specific work necessary for

1 reintegration. When the actual route or appropriate joint use is defined, competitive bids
2 may be a reasonable alternative to accomplish the construction of the necessary facilities
3 and to define the cost.

4 Q. On page 16 of his direct testimony, Mr. Bourne discusses two
5 situations where transfer of the customers and facilities to the City will leave two
6 customers of Intercounty stranded. In this context, "stranded" means that if Intercounty is
7 required to transfer its electric facilities to the City, there will be no convenient facilities
8 from which to serve these two customers. Mr. Bourne suggests that the Commission
9 approve these transfers as part of this proceeding. What is your recommendation
10 concerning the change of electric supplier for these two customers?

11 A. This change of electric supplier is allowed by provisions of the
12 statutes, but not within the provisions covering the annexation and determination of fair
13 compensation. I recommend that this issue be addressed by a separate application that
14 would speak to the specific reasons that a change of electric supplier is in the public
15 interest.

16 Q. On page 17 of his direct testimony, Mr. Bourne addresses problems
17 that the City may encounter concerning easements if the facilities and customers are
18 transferred to the City. Mr. Bourne's concerns center around the style of easements,
19 blanket easements, and the possible problems in dealing with property owners where the
20 initial easement has not been recorded. What is your response to the style or adequacy of
21 the Intercounty easements?

22 A. It is my opinion that if the Commission orders transfer and sale of the
23 facilities and the change of electric supplier, the City would receive whatever facilities and

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1 easements that Intercounty has to transfer. If poles need replacing or if underground
2 facilities are in poor condition, the City would receive the whole package. The City has
3 valued this perceived liability at over \$400,000. The acquisition of easements or valuation
4 of easements is not a matter subject to the jurisdiction of this Commission. This is an issue
5 for the City to consider in evaluating the benefit of a territorial agreement that may allow
6 some of the existing platted subdivision to remain with Intercounty.

7 Q. Another issue is the potential problem with rate differentials when
8 there is a change of electric supplier. How do the rates of the City and Intercounty
9 compare for residential and small commercial customers'?

10 A. Listed below is a summary of bills computed for the City and
11 Intercounty. The rate structures are different in that Rolla has a summer/winter differential
12 and Intercounty has the same rate all year. In general, Rolla's rates are lower, but the
13 difference between the two utilities may be reduced if Intercounty pays capital credits to its
14 members. Typically, the payment of capital credits is a decision made by the cooperative
15 board on a year-by-year basis. In my opinion a rate differential due to a change of supplier
16 is not an issue.

17
18

19 <u>RESIDENTIAL</u>	ROLLA(summer)	ROLLA (winter)	INTERCOUNTY
20 Minimum	\$5.00	\$5.00	\$11.50
21 500 KWH	\$30.00	\$30.00	\$43.50
22 1000 KWH	\$60.00	\$60.00	\$75.50
23 2500 KWH	\$132.00	\$120.00	\$156.50

1

2	<u>COMMERCIAL</u>	ROLLA(summer)	ROLLA (winter)	INTERCOUNTY
3	Minimum	\$10.00	\$10.00	\$11.80
4	500 KWH	\$31.50	\$31.50	\$43.80
5	1000 KWH	\$63.00	\$63.00	\$75.80
6	2500 KWH	\$141.00	\$133.50	\$156.80
7	5000 KWH	\$271.00	\$251.00	\$291.80

8

9 Q. Does the City have adequate facilities from which to serve the
10 customers contemplated in this proceeding?

11 A. The City would serve the new customers in the Southside
12 annexation area from existing substations that have sufficient excess capacity. The City
13 has a new substation, Dewing Lane Substation, located east of State Highway 72 on the
14 east edge of the annexed area. Ft. Wyman Substation is located on the west side of Rolla
15 and is capable of servicing electric loads on the southwest portion of the annexed area.

16 The estimated electric load for the area is 2500 – 3500 kW. The City
17 currently has a full requirements contract with AmerenUE to provide electric service and
18 addition of the approximate 286 customers could be handled under the present contract.

19 Q. What is the overall effect of this transaction on system operation?

20 A. Intercounty has over 27,000 members and if the Commission approves
21 the transfer of approximately 286 customers to the City, there would be little impact on the
22 revenue or electric load.

23 Q. Please summarize your testimony.

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1 A. I have presented testimony supporting what I believe to be the
2 appropriate replacement costs and associated depreciation of the subject facilities, the
3 quantification of 400% of the representative annual revenue and a recommendation to use
4 competitive bids to quantify the integration options when the appropriate route is
5 identified. Further, I have testified to the overall lack of impact of this transaction as it
6 pertains to rate differentials and the impact on system operations.

7 Q. In your opinion, is this overall transaction, including your
8 recommendation for fair and reasonable compensation of Intercounty, in the public
9 interest?

10 A. I believe that the transaction, incorporating my recommendations for
11 fair and reasonable compensation, is in the public interest, provided that the parties show a
12 willingness to resolve certain issues such as the reintegration route and cost, and territorial
13 boundaries that would reduce duplication of facilities.

14 Q. Does this conclude your testimony?

15 A. Yes it does.

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

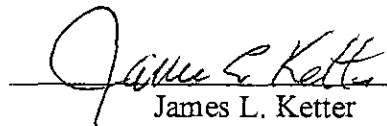
In the Matter of the Application of the)
City of Rolla, Missouri, for an Order)
Assigning Exclusive Service Territories)
and for Determination of Fair and)
Reasonable Compensation Pursuant to)
Section 386.800 RSMo 1994.)

Case No. EA-2000-308

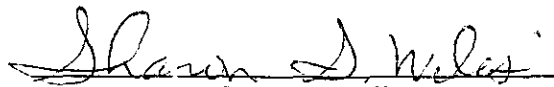
AFFIDAVIT OF JAMES L. KETTER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James L. Ketter, of lawful age, on his oath states: that he has participated in the preparation of the foregoing written testimony in question and answer form, consisting of 17 pages of testimony to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


James L. Ketter

Subscribed and sworn to before me this 18th day of July, 2000.


Notary Public

My commission expires _____

SHARON S WILES
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. AUG. 23, 2002