

Exhibit No.:
Issues: Rate Base
Witness: James M. Russo
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal
Case No.: WA-97-510

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

JAMES M. RUSSO

FILED

NOV 30 1998

Missouri Public
Service Commission

CASE NO. WA-97-510

Jefferson City, Missouri
November 1998

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JAMES M. RUSSO**

4
5 **GEORGE HOESCH**

6 **CASE NO. WA-97-510**

7
8 Q. Please state your name and business address.

9 A. James M. Russo, P. O. Box 360, Jefferson City, Missouri 65102.

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

11 A. I am a Regulatory Auditor with the Missouri Public Service Commission
12 (Commission).

13 Q. Please describe your educational background and other qualifications.

14 A. I graduated from California State University-Fresno, Fresno, California
15 and received a Bachelor of Science degree in Accounting. Prior to my employment with
16 the Commission I was employed in various capacities by local elected officials in county
17 government. I was the assistant treasurer-tax collector in San Joaquin and El Dorado
18 Counties. My responsibilities included all financial dealings of the counties and all
19 accounting activities of the agency. In addition, I was the supervising accountant auditor
20 in El Dorado County for two years. My division was responsible for internal audits of all
21 county agencies, special districts, and franchise/lease agreements.

22 Q. Have you previously testified before this Commission?

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1 A. Yes, I testified in Case No. GR-97-393, Union Electric Company and in
2 Case No. EC-98-573, St. Joseph Light and Power Company.

3 Q. With reference to Case No. WA-97-510, what is the purpose of your
4 rebuttal testimony?

5 A. The purpose of my rebuttal testimony is to reply to the direct testimony of
6 Company witness Ernest Harwig, as it relates to rate base. Staff witness James Merciel
7 of the Water and Sewer Department will address estimated operating expenses and rate
8 design issues.

9 Q. Have you reviewed Mr. Harwig's testimony and work papers?

10 A. I have reviewed Mr. Harwig's direct testimony and his Schedules 1 thru 3,
11 attached to that direct testimony.

12 Q. Are you in agreement with Mr. Harwig's calculation of the Company's rate
13 base?

14 A. No, I am not.

15 Q. With what parts of the rate base calculation do you disagree?

16 A. The Original Cost of Plant in Service, Cash Working Capital and Reserve
17 for Completion.

18 Q. Why do you disagree with the Original Cost of Plant in Service?

19 A. There are several items that the Staff believes should not be included in
20 Plant in Service. First, on Schedule 1, page 2, lines 5 thru 16 are identified as various
21 additions to Source of Supply. Company has not supplied any supporting documentation
22 to identify what type of work was performed. Therefore, the Staff cannot recommend
23 including these amounts in Plant in Service. In addition, Schedule 1, page 2, line 12

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1 identifies an item as new pump, line 13 identifies a pump motor, and line 14 identifies a
2 pump. Yet, there is no indication if these were additional installations or if they were
3 replacements for items that should have been retired.

4 Finally, Schedule 1, page 2, line 27 is identified as shut-off valves. It is the Staff's
5 understanding that these shut-off valves have not yet been installed. It is also our
6 understanding that the purpose of these valves is to "cut off" lots currently receiving
7 service that have refused to pay for such service. For obvious reasons the Staff would not
8 include the cost of construction (new plant) that has not been completed in Plant in
9 Service.

10 Q. Why do you disagree with the Cash Working Capital calculation?

11 A. There is no supporting documentation on how the Cash Working Capital
12 was calculated and what components are included. It appears that Mr. Harwig may have
13 used the "45 day" method that was sometimes proposed during the 1970's.

14 Currently, the components that the Staff would include in a typical calculation of
15 cash working capital includes a calculation of appropriate revenue and expense lags on
16 all test year expense.

17 Q. Is it appropriate for the Company to have cash working capital included in
18 rate base for this case?

19 A. No. Due to the small number of proposed customers, and the absence of
20 day to day operating expenses, the Staff does not believe it appropriate to calculate a cash
21 working capital allowance.

22 Q. Why do you disagree with the Reserve for Completion calculation?

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1 A. The Reserve for Completion calculation appears to be an attempt to
2 allocate to ratepayers a portion of the original construction costs identified as a
3 development cost over the number of lots developed since not all of the lots have been
4 sold. It is the Staff's opinion that no property development costs should be included in
5 rates, whether or not the identified property (lot) has been sold.

6 Q. Have you reviewed any other documents?

7 A. Yes I have. I have reviewed all of the records of the Company that were
8 provided to Staff. These records included documents relating to the cost of the land,
9 expenditures for the time period September 1, 1982 to December 31, 1996, and the 1979
10 and 1980 federal income tax returns.

11 Q. What did you discover in your review?

12 A. Based on the information provided by the Company it appears that all of
13 the identified Plant in Service costs were expensed in the year occurred as a development
14 cost.

15 Q. How does this affect the proposed rate base of the Company?

16 A. Items that have been previously expensed should not be included in rate
17 base for ratemaking purposes. If companies were allowed to include previously expensed
18 items in future rates they would in effect be receiving the benefit of that item twice.
19 Based on our review of the Company's records, the Staff is recommending \$0 for rate
20 base.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

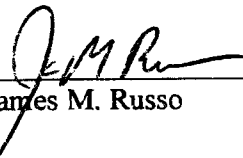
IN THE MATTER OF THE APPLICATION OF)
GEORGE HOESCH, FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY AUTHORIZING)
HIM TO OWN, OPERATE, AND MAINTAIN A)
WATER SYSTEM FOR THE PUBLIC, LOCATED)
IN AN UNINCORPORATED AREA OF THE)
COUNTY OF GASCONADE, MISSOURI)

Case No. WA-97-510

AFFIDAVIT OF JAMES M. RUSSO


STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

James M. Russo, is, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.



James M. Russo

Subscribed and sworn to before me this 24th day of November, 1998.



Notary Public

TONI WILLMENO
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF CALLAWAY
MY COMMISSION EXPIRES JUNE 24 2000



My Commission Expires: _____