**REBUTTAL TESTIMONY**

**OF**

**STEPHEN M. RACKERS**

**UNION ELECTRIC COMPANY**

**CASE NOS. EO-95-400, EA-95-416 and EM-96-6**

Q. Please state your name and business address.

A. Stephen M. Rackers, 906 Olive Street, Suite 330, St. Louis, Missouri 63101.

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

A. I am an Assistant Manager of Accounting 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 am currently licensed in the state of Missouri.

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

A. Under the direction of the Manager of Accounting, 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.

Q. What is the purpose of this rebuttal testimony?

Exhibit No. 24
Date 6-3-99 Case No. EO-96-14
Reporter DURBIN

A. The purpose of this rebuttal testimony is to address the direct testimony of Union Electric Company (UE) witness Kenneth L. Schmidt and Black River Electric Cooperative (Black River) witness John C. Farris, regarding the proposed transfer of service territories, customers and facilities (transfer) between UE and Black River. My testimony will address the transfer from an economic viewpoint. I will also briefly discuss the accounting entries which will be used to record this transaction.

Q. What benefits have the witnesses for UE and Black River listed in support of the transfer?

A. On pages 4 through 6 of his direct testimony, Mr. Schmidt discusses the benefits of the transfer:

1. Improvement in operations by obtaining a more consolidated distribution service territory,
2. Improvement in system planning with more certainty regarding load growth and facility utilization,
3. Reduction in the duplication of facilities and new customer confusion,
4. Elimination of budgeted projects at the Piedmont substation, and
5. Consolidation of work offices from three to two.

Q. Has UE provided the Staff with any quantification of these benefits?

A. Yes. UE has quantified the amount associated with the elimination of the budgeted projects at the Piedmont substation. Approximately $270,000 will be eliminated from the construction budget as a result of the transfer.

The Staff requested a quantification of other benefits realized by UE as a result of the transfer. In response, UE stated that it was virtually impossible to quantify these benefits at this time.

Q. What costs have been identified as a result of the transfer?

A. On page 5 and Schedule 2 of his direct testimony, Mr. Schmidt discusses the loss of nearly 6,000,000 KWH of load and more than $400,000 of revenue as a result of the transfer. Partially offsetting this loss in revenue would be a reduction in fuel cost and expected higher growth in the Black River service area being exchanged for the UE service area.

In response to a Staff request, UE also stated that there would be costs involved in implementing the agreement. However, UE stated that these costs are very difficult to quantify.

Q. Have you attempted to calculate the net benefit or cost associated with this transaction?

A. Yes. Attached to my testimony as Schedule 2 is a calculation of the net cost associated with this sale over a twenty-year time frame.

Q. Please explain Schedule 2.

A. Schedule 2 shows the revenue realized from the current UE service area, the revenue realized from the current Black River area, the savings associated with the elimination of budgeted substation construction and the change in fuel cost associated with the difference in KWH sales.

Q. How were the estimated revenues calculated?

A. Based on discussions with UE, the 1994 revenues in the current Black River service area have been escalated by 2% to reflect the estimated growth rate. The revenues in the current UE service area remain unchanged reflecting UE's estimate of little, if any, expected growth in this territory.

Q. How were the amounts associated with the budgeted substation and fuel savings calculated?

A. I have estimated the change in fuel cost based on an average price of $.0175 per KWH. This value per KWH was taken from a recent UE monthly financial report and was applied to the difference in annual KWH.

In addition, I have included the savings associated with the budgeted substation construction cost based on a revenue requirement factor of 16%.

Q. Please explain the net present value calculations.

A. I have calculated the net present value of the change in net revenues assuming various discount rates and time frames. I believe it is appropriate to examine the results on a net present value basis considering the long-term nature of the analysis.

Q. What are the results of your calculations?

A. The results show a negative short-term effect on earnings and an increasing positive earnings effect in the future. On a net present value basis, the calculations show a range of negative and positive net present values depending on the time period examined and the assumed discount rate. Based on the long-term results of the analysis, the Staff believes the transfer is not detrimental to the public interest from an economic viewpoint.

Q. What is the Staff's recommendation regarding the financial results of the transfer?

A. The Staff recommends that this item be examined as part of the Staff's calculation of annual sharing credits in UE's current Experimental Alternative Regulation Plan approved by the Commission on July 21, 1995. Adjustments to book earnings, that are based on more current data can be proposed, if necessary, at that time. The Staff believes this approach is fair and reasonable since UE is participating in a three-year experimental rate program which will include any short-term negative effect on earnings resulting from the transfer. The expected increased positive earnings effect of the transfer will not be realized until after the experimental rate program has expired. An adjustment to ameliorate the short-term negative effect on earnings, if warranted, should be considered as part of the annual experimental program earnings review.

Q. What accounting entries will UE use to record this transaction?

A. The assets received from Black River will be valued at an amount equal to the assets transferred by UE. This accounting treatment appears reasonable since the transferred assets are similar in nature and are expected to be of approximately equal value.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Exhibit No.:
Issues: Transfer of Facilities
Witness: Stephen M. Rackers
Sponsoring Party: MO PSC Staff
Case No.: EO-95-400, EA-95-416 and EM-96-6

# MISSOURI PUBLIC SERVICE COMMISSION

## UTILITY SERVICES DIVISION

## REBUTTAL TESTIMONY

## OF

## STEPHEN M. RACKERS

## UNION ELECTRIC COMPANY

## CASE NO. EO-95-400, EA-95-416 and EM-96-6

Jefferson City, Missouri
August 1995

Exhibit No. 8
Date 8-30-95 Case No. EO-95-400 EA-95-416 EM-96-6
Reporter [illegible]

## RATE PROCEEDING PARTICIPATION

### STEPHEN M. RACKERS

| Company | Case Number |
|---|---|
| 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 |
| St. Louis County Water Company | WR-92-204 |
| St. Louis County Water Company | WR-94-166 |

Schedule 2

# ECONOMIC ANALYSIS OF UNION ELECTRIC COMPANY'S PROPOSED TRANSFER TO BLACK RIVER

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current Black River Area | $2,652,472 | $2,705,522 | $2,759,632 | $2,814,825 | $2,871,121 | $2,928,544 | $2,987,115 | $3,046,857 | $3,107,794 | $3,169,950 |
| Current Union Electric Area | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 |
| Revenue Difference | (382,912) | (329,862) | (275,752) | (220,559) | (164,263) | (106,840) | (48,269) | 11,473 | 72,410 | 134,566 |
| Eliminated Construction Project | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 |
| Fuel Savings | 91,842 | 78,956 | 65,811 | 52,404 | 38,729 | 24,780 | 10,552 | (3,961) | (18,764) | (33,862) |
| Net Revenue Difference | ($247,869) | ($207,706) | ($166,740) | ($124,955) | ($82,334) | ($38,861) | $5,482 | $50,712 | $96,846 | $143,904 |
| Cumulative Revenue Difference | ($247,869) | ($455,576) | ($622,316) | ($747,271) | ($829,606) | ($868,466) | ($862,984) | ($812,272) | ($715,425) | ($571,522) |

| Year | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current Black River Area | $3,233,349 | $3,298,016 | $3,363,976 | $3,431,256 | $3,499,881 | $3,569,878 | $3,641,276 | $3,714,102 | $3,788,384 | $3,864,151 |
| Current Union Electric Area | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 | 3,035,384 |
| Revenue Difference | 197,965 | 262,632 | 328,592 | 395,872 | 464,497 | 534,494 | 605,892 | 678,718 | 753,000 | 828,767 |
| Eliminated Construction Project | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 | 43,200 |
| Fuel Savings | (49,263) | (64,972) | (80,995) | (97,338) | (114,009) | (131,012) | (148,356) | (166,047) | (184,091) | (202,497) |
| Net Revenue Difference | $191,902 | $240,860 | $290,797 | $341,733 | $393,688 | $446,682 | $500,736 | $555,871 | $612,108 | $669,471 |
| Cumulative Revenue Difference | ($379,620) | ($138,760) | $152,037 | $493,770 | $887,459 | $1,334,141 | $1,834,876 | $2,390,747 | $3,002,855 | $3,672,326 |

NPV Revenue Difference 20 years 10% discount 251,167

NPV Revenue Difference 20 years 14% discount (65,393)

NPV Revenue Difference 15 years 10% discount (329,410)

NPV Revenue Difference 15 years 14% discount (387,335)

(314) 554-4030
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UNION ELECTRIC

July 19, 1995

Mr. Stephen M. Rackers
Asst. Manager, Accounting
Missouri Public Service Comm'n.
906 Olive Street - Frisco Bldg.
Suite 330
St. Louis, MO 63101

Dear Mr. Rackers:

The purpose of this letter is to respond to your recent informal data requests 4 and 5.

The request on item 4 was to "provide any quantification of cost benefits realized by UE as a result of this Territorial Agreement." It is very difficult to accurately predict numerical costs and benefits from this agreement. In past agreements, I believe we have been able to identify substations and other facilities that would be foregone in the event the territorial agreement was approved. This agreement is not such a case. The costs and benefits are more general in nature.

There will be obvious benefits from the agreement. The most obvious cost benefit is the service efficiencies resulting from the agreement. The goal of this agreement is to consolidate the Company's service territory. It stands to reason that if the Company consolidates its service responsibilities to a more compact area there will be resulting efficiencies. The many other benefits Mr. Schmidt lists in his testimony have a greater or lesser cost benefit. But it is virtually impossible to quantify these benefits at this time.

There will also be obvious costs involved in implementing this agreement--transactional costs such as actually switching the customers from one supplier to the other. In talking to Ken Schmidt, he advises that these costs are very difficult to quantify since, in the process of the transaction, there are always unexpected circumstances that arise in the course of the transfer.

Item no. 5 requested that the Company "provide any analysis performed by UE to calculate the probability of expected load growth, expected realization timeframes and the quantification of the resulting increase in realized revenue in the territory acquired through this Agreement." The Company has not conducted any such analysis. It is difficult to assess on such a localized basis the expected load growth. I believe the point in Mr. Schmidt's testimony regarding load growth was to indicate the significance of the difference between the loads being given to Black River and the loads being given to UE. An isolated, significant industrial customer locating in the one supplier's service territory could outweigh the difference in load totals.

I've been in contact with Bob Kenney in our Controller's function and he has advised me that he will respond to your data requests 1 through 3.

If you have any additional questions, please contact me at the above number.

Sincerely,

David C. Linton

David C. Linton
Attorney

cc: K. L. Schmidt
R. J. Kenney

bcc: J. C. Thompson
RX27 file