

**FILED**<sup>4</sup>

**JAN 23 2004**

**Missouri Public  
Service Commission**

*Exhibit No.:*

**18**

*Issues:*

*Rate Base and Related Expenses;  
AFUDC; Dues and Donations; Waste  
Disposal Expense; Storage Tank  
Lease Expense; Deferred  
Maintenance Expense; Transportation  
Expense; Insurance Other Than  
Group; Cost of Depreciation Study  
Expense*

*Witness:*

*Lisa K. Hanneken*

*Sponsoring Party:*

*MoPSC Staff*

*Type of Exhibit:*

*Direct Testimony*

*Case Nos.:*

*WR-2003-0500 AND WC-2004-0168*

*Date Testimony Prepared:*

*October 3, 2003*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**LISA K. HANNEKEN**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NOS. WR-2003-0500 AND WC-2004-0168**

*Jefferson City, Missouri*

*October 2003*

**Exhibit No.**

**18**

**Case No(s)**

**WR-2003-0500**

**Date**


**12/16/03**

**Rptr**

**SLM**

In the Matter of the General Rate Increase for Water and Sewer Service Provided by Missouri-American Water Company.	) ) )	Case No. WR-2003-0500
Staff of the Missouri Public Service Commission,	) ) )	
Complainant,	)	
vs.	)	Case No. WC-2004-0168
Missouri-American Water Company,	) ) )	
Respondent.	)	

STATE OF MISSOURI            )  
  )  
COUNTY OF COLE            )            ss.

  
Lisa K. Hanneken

**D SUZIE MANKIN**  
**Notary Public - Notary Seal**  
**STATE OF MISSOURI**  
**COLE COUNTY**  
**MY COMMISSION EXP. JUNE 21, 2004**

Sheryl Hankin

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**DIRECT TESTIMONY OF**

**LISA K. HANNEKEN**

**CASE NOS. WR-2003-0500 AND WC-2004-0168**

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**OF**

LISA K. HANNEKEN

MISSOURI AMERICAN WATER COMPANY

**CASE NOS. WR-2003-0500 AND WC-2004-0168**

Q. Please state your name and business address.

A. Lisa K. Hanneken, 1845 Borman Court, Ste. 101, St. Louis, Missouri 63146-138.

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

A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. In July of 2001, I earned a Bachelors degree in Accounting from Webster University.

Q. Please describe your work background.

A. In August 1989, I began employment with Rinderer's Union Drug as a pharmacy technician and bookkeeper. Beginning in June of 1997, I was employed by Bucklick Creek, Inc. as the head of accounting and office manager. During 2000, I completed an internship at the Internal Revenue Service (IRS) as an auditor of small corporations and businesses. In September 2001, I commenced employment with the Commission's Staff (Staff).

Q. What is the nature of your duties at the Commission?

1           A.     I am responsible for assisting in the audits and examinations of the books and  
2 records of utility companies operating within the state of Missouri.

3           Q.     Have you previously filed testimony before this Commission?

4           A.     Yes, please refer to Schedule 1, attached to this direct testimony, for a  
5 complete listing of testimony I have filed, including the related case numbers and issues  
6 involved.

7           Q.     Did you make an examination and analysis of the books and records of the  
8 Missouri American Water Company (MAWC or Company) in regards to matters raised in this  
9 case?

10          A.     Yes, in conjunction with other members of the Staff. I specifically examined  
11 the Company's workpapers and testimony, the Company's response to Staff data requests,  
12 outside auditors' workpapers, various invoices and bills, portions of the Company's general  
13 ledger and studies performed by consultants. I also examined testimony, workpapers and  
14 Commission Report And Orders from recent rate proceedings involving MAWC.

15          Q.     What matters will you address in your direct testimony?

16          A.     I am addressing the rate base, plant in service and depreciation reserve  
17 schedules; depreciation expense, depreciation on contributions in aid of construction (CIAC),  
18 the calculation of allowance for funds used during construction (AFUDC), dues and  
19 donations, waste disposal expense, hazardous waste disposal expense, storage tank lease  
20 expense, deferred maintenance expense, transportation expense, insurance other than group,  
21 cost of deprecation study expense, state franchise tax and property tax.

22          Q.     What knowledge, skill, experience, training or education do you have in these  
23 matters?

1           A.     Through the accounting classes, training and internships required for my  
2 educational degree, as well as my previous work experience, I have obtained a broad working  
3 knowledge of accounting. In addition to my previous education, I have attended continuing  
4 professional education seminars and classes, including the NARUC Water Rate School in  
5 Florida. From the review of workpapers and other information from previous rate cases, as  
6 well as researching the Commission's orders, I have acquired knowledge of my assigned  
7 issues related to this Company and other water companies. Furthermore, I have received and  
8 continue to receive training and guidance from the experienced senior auditors at the  
9 Commission.

10          Q.     What is the purpose of your testimony?

11          A.     The purposed of my testimony is to explain and sponsor the following  
12 accounting schedules and adjustments:

13                   Accounting Schedule 2 – Rate Base

14                   Accounting Schedule 3 – Total Plant in Service

15                   Accounting Schedule 4 – Adjustments to Plant in Service

16                   Accounting Schedule 5 – Depreciation Reserve

17                   Accounting Schedule 6 – Adjustments to Depreciation Reserve

18                   Accounting Schedule 7 – Depreciation Expense

<u>Staff Adjustment Number</u>	<u>Adjustment Area</u>
S-15.2	CIAC Depreciation Expense
S-9.4, S-11.5, S-12.5 S-13.2 and S-14.13	Dues, Donations, Memberships and Miscellaneous Expense
S-11.4	Waste Disposal Expense
S-11.7	Hazardous Waste Disposal Expense

1	S-12.7	Storage Tank Lease Expense
2	S-14.10	Deferred Maintenance Amortization Expense
3	S-14.11	Transportation Expense
4	S-14.12	Insurance Expense Other Than Group
5	S-14.25	Cost of Depreciation Study Amortization Expense
6	S-17.4	Franchise Tax Expense
7	S-17.5	Property Tax Expense
8	P-55.1	Plant AFUDC

9 Expense adjustments appear on Accounting Schedule 10 – Adjustments to Income Statement  
10 and plant adjustments appear on Accounting Schedule 4 – Adjustments to Plant in Service.

11 Q. Please discuss the overall layout of the schedules you are sponsoring.

12 A. All of the schedules I am sponsoring have sections related to district specific  
13 data, as well as sections detailing the totals for all water districts, and the total company  
14 amount, which includes the sewer district.

15 **RATE BASE**

16 Q. Please describe Accounting Schedule 2, Rate Base.

17 A. Accounting Schedule 2 presents the Staff's calculation of rate base and  
18 summarizes the components that comprise the rate base of the Company. Rate base  
19 represents the assets upon which the Company is allowed to earn a return. First, the  
20 depreciation reserve (Accounting Schedule 5) is subtracted from total plant in service  
21 (Accounting Schedule 3) to compute net plant in service. Added to net plant in service is the  
22 Staff's computation of the cash working capital (CWC) requirement from Accounting  
23 Schedule 8 sponsored by Staff Witness Roberta A. McKiddy. Also added to net plant in

1 service are 13-month averages of actual balances from December 31, 2001 through  
2 December 31, 2002, for materials and supplies, and prepayments. Federal income tax, state  
3 income tax and interest expense offsets are deductions from net plant in service. These  
4 amounts are components of CWC and will be discussed by Staff Witness McKiddy. Also  
5 deducted from net plant in service are the June 30, 2003 adjusted balances for customer  
6 advances for construction (Advances) and CIAC. Pre-71 investment tax credit, deferred  
7 income taxes and the accrued pension liability reflect the balance at June 30, 2003. These  
8 items are sponsored by Staff Witness Doyle L. Gibbs and are discussed in his testimony.

9 Q. Please discuss further the amount of prepayments that are included in rate base.

10 A. Staff only included in rate base the amount representing advanced payments  
11 for expense items that extended for more than one annual period. The prepayments associated  
12 with annual expense items are addressed in Staff's cash working capital analysis.

### 13 **PLANT IN SERVICE**

14 Q. Please discuss Accounting Schedule 3 and Accounting Schedule 4.

15 A. Accounting Schedule 3, Plant in Service, lists in column "C" the Company's  
16 test year plant balances as recorded in the Company's ledgers by the accounts listed in column  
17 "A", updated for all plant additions for the update period through June 30, 2003. The Staff's  
18 plant adjustments (detailed in Accounting Schedule 4, Adjustments to Total Plant) are listed  
19 in column "D". Column "F" represents the distribution to each district of corporate amounts  
20 and Column "G" represents the Staff's adjusted plant in service balances, which is the sum of  
21 Columns "C", "D" and "F".

### 22 **DEPRECIATION RESERVE**

23 Q. Please discuss Accounting Schedule 5 and Accounting Schedule 6.



1           A.     Accounting Schedule 5, Depreciation Reserve, lists in column "C" the  
2 depreciation reserve balances as provided by the Company, which were then updated to  
3 represent the level of depreciation reserve balances as of June 30, 2003. The Staff's  
4 adjustments to the reserve balances (detailed in Accounting Schedule 6, Adjustments to  
5 Depreciation reserve) are listed in column "D". Column "F" represents the distribution to  
6 each district of corporate amounts. Column "G" represents the Staff's adjusted depreciation  
7 reserve balances, which is the sum of Columns "C", "D" and "F". Accounting Schedule 6  
8 presents the Adjustments to Depreciation Reserve. Each adjustment made by Staff relating to  
9 the depreciation reserve will be reflected on this schedule. Details associated with each  
10 adjustment are discussed in the corresponding Staff witness' testimony.

11     **DEPRECIATION EXPENSE**

12           Q.     Please explain Accounting Schedule 7 and Income Statement adjustment  
13 S-19.1.

14           A.     Accounting Schedule 7, Depreciation Expense, lists in column "C" the  
15 adjusted plant in service balances, prior to the allocation of corporate amounts, from  
16 Accounting Schedule 3, the sum of columns "C" and "D". Column "D" details the Staff's  
17 proposed depreciation rates as provided by Staff witness Gregory E. Macias of the  
18 Commission's Engineering and Management Services Department. The rates in column "D"  
19 are then applied to the plant balances in column "C" to calculate the annualized level of  
20 depreciation expense that appears in column "E". Column "F" represents the distribution to  
21 each district of corporate amounts. Column "G" represents the Staff's adjusted depreciation  
22 expense, which is the sum of Columns "E" and "F". The difference between the total

1 annualized level of depreciation expense and the per book amount is reflected in adjustment  
2 S-19.1 on Accounting Schedule 10 – Adjustments to Income Statement.

3 **CONTRIBUTIONS IN AID OF CONSTRUCTION DEPRECIATION**

4 Q. How did the Staff calculate the depreciation associated with CIAC shown in  
5 Staff's adjustment S-15.2?

6 A. The Staff utilized the amounts of CIAC, as of June 30, 2003, and the  
7 depreciation rates proposed by Staff witness Macias. The depreciation on CIAC is an offset  
8 to the depreciation on plant in service.

9 **ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)**

10 Q. Please define this issue.

11 A. AFUDC is the carrying cost that utilities are allowed to capitalize as an  
12 additional cost of a construction project. The Staff recommends that the Commission reduce  
13 the amount of AFUDC capitalized and order the Company to adjust its method of calculation  
14 of AFUDC. The method the Staff is proposing should also be used by the Company to  
15 determine the AFUDC rate in the future.

16 Q. What AFUDC rate is the Company using?

17 A. The Company is using the weighted cost of capital on a monthly basis to  
18 calculate the AFUDC carrying cost capitalized on construction projects.

19 Q. Why is this rate inappropriate?

20 A. This rate is inappropriate because the Company weights its cost of capital  
21 based on current monthly amounts of all capital components, which only reflects a small  
22 portion of short-term debt.

23 Q. What is the Staff's recommendation?

1           A.     The Staff recommends that the AFUDC rate utilized by MAWC be calculated  
2 in the following ways:

3                   1)     The rate should first reflect the entire outstanding amount of short-term  
4 debt available to the Company as the primary source of financing for  
5 construction.

6                   2)     The rate associated with any construction balance in excess of the  
7 outstanding amount of short-term debt should then be computed based on the  
8 composite rate of the outstanding amounts of other sources of financing  
9 available to the Company (long-term debt, equity and preferred stock) during  
10 the construction period.

11          Q.     Why is the Staff's recommendation appropriate?

12          A.     Short-term debt is traditionally recognized as the primary source of  
13 construction financing. For this reason, short-term debt related to construction has been  
14 eliminated from the Staff's capital structure.

15          Q.     Please explain Staff adjustment P-55.1.

16          A.     Staff adjustment P-55.1 reduces plant in service by \$481,698 to reflect its  
17 calculation for AFUDC, in its cost of service calculation.

18          Q.     Has the Commission accepted this adjustment in the past?

19          A.     Yes. Staff made this adjustment in the last MAWC rate case, Case No.  
20 WR-2000-281, which was accepted by the Commission.

21       **DUES AND DONATIONS**

22          Q.     Please explain Staff adjustments S-9.4, S-11.5, S-12.5, S-13.2 and S-14.13.

1           A.     Staff adjustments S-9.4, S-11.5, S-12.5, S-13.2 and S-14.13 disallow various  
2 dues, donations and miscellaneous items expensed by the Company during the test year. In  
3 the past it has been the Commission's position to disallow dues and donations that:  
4 (1) provided no direct, quantifiable benefit to the ratepayer, (2) were not necessary in  
5 providing safe and adequate service to the ratepayer, and (3) represented an involuntary  
6 contribution on the part of the ratepayer to an organization. The Staff contends that although  
7 the Company's management may choose to make these types of expenditures, the cost should  
8 be borne by the shareholder, not the ratepayer.

9           The total amount of all the items examined in the Staff's analysis for dues and  
10 donations was \$506,070. The Staff is proposing a disallowance of \$212,581 for dues and  
11 donations. The Staff categorized these disallowances into the following topics:

<u>Topic</u>	<u>Description</u>	<u>Disallowance Amount</u>
1	Donations and Contributions	\$44,396
2	Political Contributions	\$20,575
3	Civic and Social Clubs	\$12,263
4	Chambers of Commerce Activities	\$11,054
5	Professional Organizations Fees	\$3,627
6	Memberships in Water Organizations	\$422
7	Costs Assoc. with Misc. Other Items	\$120,244

20           Q.     In regards to Topic 1, donations and contributions, please explain the items  
21 that were disallowed.

22           A.     This category was composed of items such as donations to various charities,  
23 sponsorships of various sporting and community events, and other miscellaneous  
24 contributions. The Staff is proposing to disallow \$44,396 from this category.

1 Q. Please explain the items that were disallowed associated with Topic 2, political  
2 contributions.

3 A. The Staff identified 52 items in its analysis related to contributions to a  
4 political candidate or party. The amount the Staff is proposing to eliminate is \$20,575.

5 Q. In regards to Topic 3, dues for memberships and fees related to activities in  
6 various civic and social organizations, please explain the items that were disallowed in this  
7 category.

8 A. The Staff is proposing to disallow \$12,263 related to this category to eliminate  
9 memberships and activities related to organizations such as the Jaycees, Kiwanis, Rotary and  
10 other civic and social clubs that historically have not been allowed by the Commission. In  
11 addition, this disallowance reflects amounts paid for memberships to country clubs, YMCAs,  
12 fitness clubs and for participation in events such as golf tournaments.

13 Q. Please explain the disallowed items related to Topic 4, dues for memberships  
14 and fees related to the Company's activities in various chambers of commerce.

15 A. The Staff has traditionally allowed dues to chambers of commerce on the local  
16 level. However, expenses related to similar organizations at the state or national level have  
17 been disallowed on the basis that such costs are duplicative. Also included in this category  
18 are expenses associated with other chamber activities such as an appreciation banquet, golf  
19 tournament, board retreats and chamber dinners. The total amount the Staff is proposing to  
20 disallow in this category is \$11,054.

21 Q. In regards to Topic 5, dues for memberships and fees related to activities in  
22 various professional organizations, please describe the items that were disallowed.

1           A.     The Staff proposes to disallow \$3,627 of expenses from this category. The  
2 Staff removed any duplicative items or items related to more than one year. For example, if  
3 an employee paid for dues to a professional organization twice during the test year, one  
4 relating to membership for the test year and one relating to membership for 2003, the Staff  
5 removed the 2002 amount to reflect the most recent annual level of expense.

6           Q.     Please explain the disallowed items included in Topic 6, dues for memberships  
7 and fees related to the Company's activities in various water and wastewater organizations.

8           A.     This category includes amounts for dues, books and programs related to the  
9 American Water and Wastewater Association (AWWA), National Association of Water  
10 Companies (NAWC), and other similar organizations. The Staff is proposing to disallow  
11 items related to voluntary contributions and any duplicated memberships (i.e. someone who  
12 paid for membership through the corporate dues and individual dues). The disallowed  
13 amount related to this category is \$422.

14          Q.     Please explain the disallowed items associated with Topic 7, costs related to  
15 miscellaneous other items.

16          A.     The Staff is proposing to eliminate \$120,244 from this category. These items  
17 range from company day at Six Flags, in the amount of \$27,514, to 540 holiday gift  
18 certificates from Dieberg's, at a cost of \$10,260.

19     **WASTE DISPOSAL EXPENSE**

20          Q.     Please explain Staff adjustment S-11.4.

21          A.     Staff adjustment S-11.4 annualizes the Company's waste disposal expense.  
22 The Staff has calculated an annual level based on averages of each district's expense. The  
23 St. Louis, Parkville Sewer and Mexico districts appear to have a regular schedule of removal;

1 therefore, Staff used a five-year average to determine a reasonable on-going level of expense.  
2 The Brunswick and Joplin districts appear to have an every other year schedule for removal,  
3 therefore, Staff annualized the amount of expense based on this cycle. The St Charles,  
4 Jefferson City, Warrensburg and Parkville Water districts either had no expense or an  
5 immaterial amount of expense during the time frame analyzed, therefore, no expense was  
6 included for these districts.

7 Q. How did the Staff adjust waste disposal expense for the St. Joseph district?

8 A. The St. Joseph district installed a new treatment plant and lime softening  
9 process, which increased the volume of waste being sent to the City of St. Joseph (City)  
10 wastewater treatment plant. At existing sewer service rates the annual costs were anticipated  
11 to increase from approximately \$200,000 to \$1,000,000. The Company initiated negotiations  
12 with the City to obtain a lower rate while the Company explored other removal options. The  
13 Company ultimately opted to install two residual collection lagoons. According to a study  
14 performed by Gannett Fleming, the Company's DNR permit will allow for collection of  
15 residue without removal for a period of at least five years. Depending on actual residue  
16 production, the Company could be able to delay cleaning these lagoons anywhere from seven  
17 to 14 years. In addition, the Gannett Fleming study contained alternatives for removal that  
18 allow for disposal by agricultural utilization, which would produce revenues to offset the  
19 waste removal costs. Based on this information, the Staff has set the waste disposal expense  
20 for the St. Joseph district at zero. Given the frequency with which Missouri American files  
21 rate cases before this Commission, and the time frames that were outlined in the Gannett  
22 Fleming study, the Company will most likely have filed their next rate case prior to incurring  
23 any waste disposal expense for the St. Joseph treatment plant.

1     **HAZARDOUS WASTE DISPOSAL EXPENSE**

2             Q.     Please discuss the reduction in costs related to hazardous waste disposal.

3             A.     In response to Staff's Data Request No. 111, the Company has stated that it  
4 will see a \$2,100 annual reduction of costs related to hazardous waste disposal in the  
5 St. Joseph district, resulting from the reduction in wastes in the laboratory at the St. Joseph  
6 Groundwater Treatment Plant facility through the implementation of the Environmental  
7 Management System (EMS). This Missouri Department of Natural Resources' voluntary  
8 program encourages participation, with the ultimate goal of improving environmental  
9 performance within the State.

10            Q.     Please explain Staff adjustment S-11.7, regarding the hazardous waste disposal  
11 expense related to the St. Joseph district.

12            A.     The Staff has removed this amount from the Company's expenses to reflect the  
13 change in the Company's ongoing hazardous waste disposal costs.

14     **STORAGE TANK LEASE EXPENSE**

15            Q.     Please explain Staff adjustment S-12.7, related the Jefferson City district  
16 storage tank.

17            A.     During the test year the Company put in place a new water storage tank for its  
18 Jefferson City district. As a result the Company ended its lease agreement with Cole County  
19 Public Water and Sewer District No. 2 on June 30, 2002. Staff adjustment S-12.7 eliminates  
20 \$12,000 of rent expense related to this agreement that was expensed during the test year. The  
21 Staff has removed this amount from the Company's expenses to reflect this change in the  
22 Company's ongoing storage costs.



1 **DEFERRED MAINTENANCE AMORTIZATION**

2 Q. Please describe the Company's amortization of deferred maintenance.

3 A. In prior years, the Company has amortized the cost of tank painting as deferred  
4 maintenance. However, the Company's response to Staff's Data Request No. 79 states that,  
5 as of December 31, 2002, these costs are no longer deferred and the Company no longer  
6 amortizes this expense.

7 Q. Please explain Staff adjustment S-14.10.

8 A. Staff adjustment S-14.10 eliminates all non-recurring items pertaining to  
9 deferred maintenance that were expensed during the test year.

10 **TRANSPORTATION EXPENSE**

11 Q. Please explain Staff adjustment S-14.11.

12 A. During the test year the Company eliminated its Heavy Duty Maintenance  
13 Reserve. The Staff contends that the accruals that generated this reserve were reflected in the  
14 historical cost of service. Therefore, any write-off of this reserve should also be reflected in  
15 rates. Staff adjustment S-14.11 recognizes the write-off of the reserve over a three-year  
16 period, which corresponds to the approximate frequency that the Company files rate cases.  
17 Therefore, the Staff has reflected one-third of the reserve write-off in its cost of service  
18 calculation.

19 **INSURANCE OTHER THAN GROUP**

20 Q. Please explain Staff adjustment S-14.12.

21 A. Staff adjustment S-14.12 annualizes the Company's insurance other than  
22 group. Staff utilized the amounts of current premiums that were in effect through the update  
23 period, and then applied an operation and maintenance (O&M) factor that related to the types

1 of coverage. For example, Staff applied the payroll O&M factor to the premiums related to  
2 workers compensation in order to determine the amount related to O&M expense. The Staff  
3 completed adjustment S-14.12 by computing the difference between the annualized expense  
4 and the amount that was recorded during the test year by the Company.

5 **COST OF DEPRECIATION STUDY AMORTIZATION**

6 Q. Please describe the Company's amortization of the cost of a depreciation  
7 study.

8 A. In prior years, the Company has amortized the cost related to a depreciation  
9 study. However, the Company's response to Staff's Data Request No. 349 states that, in  
10 2002, this amortization ended.

11 Q. Please explain Staff adjustment S-14.25.

12 A. Staff adjustment S-14.25 eliminates this non-recurring item pertaining to the  
13 cost of a depreciation study that was amortized during the test year.

14 **STATE FRANCHISE TAX**

15 Q. Please explain Staff adjustment S-17.4.

16 A. Staff adjustment S-17.4 annualizes corporate franchise tax. The Staff included  
17 the actual amount of Corporate Franchise Tax paid in 2003, for the 2002 tax year. No  
18 additional payments will be made until 2004 for the 2003 tax year.

19 **PROPERTY TAX**

20 Q. Please describe how property tax is calculated.

21 A. Property tax is paid in December of the tax year, and is calculated on the  
22 amount of investment at January 1 of the tax year.

1 Q. How was adjustment S-17.5 to property taxes calculated?

2 A. Staff first calculated a property tax factor based on Utility Plant In  
3 Service (UPIS) at January 1, 2002, including property held for future use, and the actual  
4 property taxes paid on these amounts in 2002. The Staff then applied this factor to the UPIS  
5 at January 1, 2003, less property held for future use, in order to calculate the estimated 2003  
6 property taxes excluding the portion attributable to property that is not in service. Staff used  
7 this simplified calculation to determine a reasonable estimate of the property taxes that will be  
8 paid in 2003. The actual tax bills received by the Company for 2003 will be included in the  
9 cost of service as part of the true-up process.

10 Q. How did the Staff treat the property tax surcharge currently shown in the  
11 Company's tariffs for the St. Joseph district?

12 A. As a result of the last rate case, Case No. WR-2000-281, the Company's tariffs  
13 include a surcharge for property taxes in the St. Joseph district. The Commission's order in  
14 that case stated that the surcharge should be discontinued upon the implementation of new  
15 tariffs. In addition, the surcharge was ordered to be reviewed as part of the next rate case and  
16 any overcollection was to be refunded to the ratepayers. Based on Staff's current analysis, it  
17 appears the surcharge is collecting an appropriate amount for the increase in property taxes  
18 related to the new St Joseph plant. Following the effective date of the tariffs related to the  
19 current rate case, the actual amount collected related to the surcharge will have to be  
20 compared to the related actual property taxes paid to determine any final difference and  
21 possible refund.

1 **INAPPROPRIATE BOOKINGS**

2 Q. During your analysis, have you discovered items that were inappropriately  
3 booked to the wrong account?

4 A. Yes, the Staff has found several occurrences of inappropriate bookings in its  
5 analysis of the Company's records. For example, in one instance, dues to the AWWA were  
6 booked to the office and administrative supplies account. Another example would be that the  
7 account entitled bill inserts, did not contain any costs related to bill inserts, but instead was  
8 filled with numerous entries for maps. The Company indicated in response to Staff's Data  
9 Request No. 342, that the errors related to this particular account had been corrected,  
10 however, the correction took place outside the Company's test year. Other instances of  
11 misbooking occurred when 52 political contributions, in the total amount of \$20,575, were  
12 charged to the miscellaneous general office account. In addition to the above items, there  
13 were numerous other incidents of misbookings, such as a telephone bill booked in the dues  
14 and memberships account, at least two instances of party items being booked to electricity  
15 expense, and computer monitors placed in the community relations account. The Staff  
16 inquired about several items and were told they had not been corrected because they were, in  
17 the Company's opinion, immaterial in and of themselves. In addition, there was an item  
18 booked to an invalid account. The Company did not supply the Staff with a response as to  
19 how an amount could be booked to that account, or if it had been corrected and what account  
20 it ended up in. The Staff is unaware if any corrections were made to the other items that it has  
21 discovered. However, Staff did not attempt to bring all the items to the Company's attention  
22 based on the amount of time that would have been required to do so. Staff had already spent  
23 numerous hours searching through the Company's accounts for items required for its analysis

1 that the Company itself could not seem to find in its accounts. This caused the Staff to submit  
2 numerous data requests for the same information. For example, in the Company's response to  
3 Staff's Data Request No. 69, which asked for all dues, donations, memberships and  
4 contributions, the Company indicated the amount of \$259,698, however, after looking at the  
5 Company's account detail the Staff found several more entries related to these items. The  
6 Staff then submitted a new data request for the same information. In its response the  
7 Company increased the original amount to \$400,994. The Staff subsequently continued to  
8 discover more items that were still not identified by the Company in its responses to the  
9 Staff's data requests. The Staff feels that in the future the Company needs to address the issue  
10 of misbookings and the resulting inability to trace transactions by reevaluating and updating  
11 its internal control processes and procedures.

12 Q. Does this conclude your testimony in this case?

13 A. Yes, it does.

**CASE PROCEEDING PARTICIPATION**

**LISA K. HANNEKEN**

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GR-2002-356	Direct - Cash Working Capital, Rate Case Exp./PSC Assessment, Advertising, Misc. Expense