

*Exhibit No.:*  
*Issues:* *Report on Cost of Service*  
*Overview of Staff's Filing*  
*Witness:* *Amanda C. McMellen*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *GR-2014-0086*  
*Date Testimony Prepared:* *May 30, 2014*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING**

**DIRECT TESTIMONY  
OF  
AMANDA C. McMELLEN**

**SUMMIT NATURAL GAS OF MISSOURI, INC.**

**CASE NO. GR-2014-0086**

*Jefferson City, Missouri*  
*May 30, 2014*

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**DIRECT TESTIMONY**  
**OF**  
**AMANDA C. MCMELLEN**  
**SUMMIT NATURAL GAS OF MISSOURI, INC.**  
**CASE NO. GR-2014-0086**

Q. Please state your name and business address.

A. Amanda C. McMellen, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (“Commission”).

Q. Please describe your educational background and work experience.

A. I graduated from the DeVry Institute of Technology in June 1998 with a Bachelor of Science degree in Accounting. I commenced employment with the Commission Staff in June 1999.

Q. What job duties have you had with the Commission?

A. I have assisted, conducted, and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and telecommunication companies. I have been involved in cases concerning proposed rate increases, earnings investigations, and complaint cases as well as cases relating to mergers and acquisitions and certification cases.

1 Q. Have you previously testified before this Commission?

2 A. Yes. Schedule 1 attached to this testimony contains a list of rate cases in  
3 which I have assisted and submitted testimony.

4 Q. What knowledge, skill, experience, training and education do you have in the  
5 areas of which you are testifying as an expert witness?

6 A. I have acquired knowledge of the ratemaking and regulatory process through  
7 my employment with the Commission. I have received continuous training at in-house and  
8 outside seminars on technical ratemaking manners. I have also acquired knowledge of these  
9 topics through review of Staff work papers from prior rate cases filed before this Commission  
10 relating to Summit Natural Gas of Missouri, Inc. (“SNG” or “Company”) and its natural gas  
11 operations. I have been employed by this Commission as a Regulatory Auditor for almost  
12 15 years, and have submitted testimony on ratemaking matters numerous times before the  
13 Commission. I have also been responsible for the supervision of other Commission  
14 employees in rate cases and other regulatory proceedings.

15 For this rate case, I reviewed selected testimony, work papers and responses to data  
16 requests from past Missouri Gas Utility (MGU) and Southern Missouri Natural Gas Company  
17 (SMNG) rate cases. I also conducted and participated in interviews of Company personnel  
18 relating to this rate case.

19 Q. With reference to Case No. GR-2014-0086, have you examined and studied the  
20 books and records of regarding its natural gas operations?

21 A. Yes, with the assistance of other members of the Commission Staff. I was  
22 designated as the Staff Case Coordinator for the Utility Services Department in  
23 this proceeding.

1 **EXECUTIVE SUMMARY**

2 Q. Please summarize your testimony in this proceeding.

3 A. Staff witness Thomas M. Imhoff and I co-sponsor Staff's Cost of Service  
4 Report and Accounting Schedules in this rate proceeding that are being filed concurrently  
5 with this and Mr. Imhoff's direct testimony. Staff's Cost of Service Report supports Staff's  
6 recommendation of the amount of the rate revenue increase for SNG based on information  
7 through the period ending December 31, 2013, the end of the test year update period in this  
8 case, using actual historical information. The rate revenue increase recommendation being  
9 filed for this period is found in Staff's separately filed Accounting Schedules. The parties  
10 agreed to and the Commission authorized a true-up audit through June 30, 2013. Staff will  
11 perform the true-up audit and make a recommendation regarding the revenue requirement  
12 based on actual results in a True-up Direct filing on August 27, 2014.

13 I present in this testimony an overview of the results of Staff's review of SNG's  
14 revenue requirement started in response to SNG's general rate increase request filed on  
15 January 2, 2013. Mr. Imhoff provides an overview of the work performed by members of the  
16 Commission's Tariff, Safety, Economic & Engineering Analysis (TSEEA) department who  
17 contributed to Staff's calculation of SNG's revenue requirement. Several members of the  
18 Commission's Staff participated in Staff's examination of SNG's books and records for all the  
19 relevant and material components that make up the revenue requirement calculation. These  
20 components can be broadly defined as (1) capital structure and return on investment, (2) rate  
21 base investment and (3) income statement results, including revenues, operating and  
22 maintenance expenses, depreciation expense, and the taxes related to SNG's financial results,

1 including income taxes. I provide an overview of the Staff's work on each of these broadly  
2 defined components.

3 Staff refers to the revenue requirement model it uses as "Exhibit Model System" or  
4 "EMS," and refers to its EMS modeling results based on various inputs as "EMS runs." Staff  
5 estimates a utility's revenue requirement based on the work product of members of the  
6 Regulatory Review Division of the Commission. Staff's EMS run results that support its  
7 revenue requirement for SNG make up the Accounting Schedules that are separately filed as  
8 an exhibit in the case. The Accounting Schedules, along with Mr. Imhoff's direct testimony  
9 and my direct testimony, as well as the Staff's Cost of Service Report and supporting  
10 schedules, present and support Staff's revenue requirement for SNG.

11 Q. Based on its review of the test year ending September 30, 2013 updated  
12 through December 31, 2013, what is Staff's recommendation concerning SNG's revenue  
13 requirement?

14 A. Staff recommends a return on equity ("ROE") range of 9.80 percent to  
15 10.80 percent, with a mid-point of 10.30 percent, which yields the rate of return range of  
16 6.92 percent to 7.32 percent. Using this range of overall rate of return, Staff's SNG revenue  
17 requirement calculation, which is based on SNG actual costs through December 31, indicates  
18 an incremental revenue increase in a range between \$6.8 million to \$7.8 million based on  
19 current SNG rates.

20 **REPORT ON COST OF SERVICE**

21 Q. How is Staff's Cost of Service Report organized?

22 A. It is organized by each major revenue requirement category as follows:

23 I. Executive Summary

24 II. Background of Rate Case

- 1 III. Background of SNG
- 2 IV. True-Up Recommendation
- 3 V. Rate of Return
- 4 VI. Rate Base
- 5 VII. Alocations
- 6 VIII Income Statement – Revenues & Expenses
- 7 IX Ratepayer Funded Energy Efficiency and Low-Income Weatherization
- 8 Programs; and an Energy Efficiency Advisory Group
- 9 X. Appendices

10 These categories have several subsections which identify in detail the specific elements of  
11 Staff's revenue requirement recommendation for SNG. The members of Staff who  
12 contributed to the Staff's Cost of Service Report are identified in the report in the sections for  
13 which they are responsible, and their credentials are included in an appendix to the report.  
14 Results for the different revenue requirement calculation components are contained in Staff's  
15 Accounting Schedules. To develop a comprehensive revenue requirement, Staff applied  
16 annualization and normalization ratemaking techniques to make adjustments to reflect the  
17 costs of its ongoing operations in the future.

#### 18 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

19 Q. In its audit of SNG for this proceeding, Case No. GR-2014-0086, has the Staff  
20 examined all major cost of service components comprising the revenue requirement for  
21 SNG's Branson, Gallatin, Rogersville and Warsaw gas operations?

22 A. Yes.

23 Q. How did Staff determine SNG's revenue requirement?

24 A. Staff reviewed all the material and relevant components making up the revenue  
25 requirement of SNG, which include rate of return and capital structure, rate base investment,  
26 and revenues and expenses, and sought to maintain the relationship in time between each of

1 these components through the update period through December 31, 2013. It will continue to  
2 do so through the true-up period ending June 30, 2014.

3 Q. What are the cost of service components that comprise the revenue  
4 requirement for a regulated utility?

5 A. The revenue requirement for a regulated utility can be defined by the  
6 following formula:

$$7 \quad \text{Revenue Requirement} = \text{Cost of Providing Utility Service}$$

8 or

$$9 \quad \text{RR} = \text{O} + (\text{V} - \text{D})\text{R} \quad \text{where,}$$

10 RR = Revenue Requirement

11 O = Operating Costs (Payroll, Maintenance, etc.), Depreciation and Taxes

12 V = Gross Valuation of Property Required for Providing Service

13 D = Accumulated Depreciation Representing Recovery of  
14 Gross Property Investment

15 V - D = Rate Base (Gross Property Investment less  
16 Accumulated Depreciation = Net Property Investment)

17 (V - D)R = Return Allowed on Net Property Investment

18 This is the formula for the utility's total revenue requirement. In the context of Commission  
19 rate cases, the term "revenue requirement" is generally used to refer to the increase or  
20 decrease in revenue a utility needs to be able to provide safe and reliable service as measured  
21 using the utility's existing rates and cost of service.

22 Q. What objectives must be met during the course of an audit of a regulated utility  
23 in determining the revenue requirement components you've identified in your last answer?

24 A. The objectives required for determining the revenue requirement for a  
25 regulated utility can be summarized as follows:



1           1)       Selection of a test year. The test year income statement represents the starting  
2 point for determining a utility's existing annual revenues, operating costs and net operating  
3 income. Net operating income represents the return on investment based upon existing rates.  
4 The test year ordered for this case, Case No. GR-2014-0086, is the twelve months ending  
5 September 30, 2013. "Annualization" and "normalization" adjustments are made to the test  
6 year results when the unadjusted results (test year amounts) do not fairly represent the  
7 utility's most current annual level of revenues and operating costs. Examples of annualization  
8 and normalization adjustments are explained more fully later in this direct testimony.

9           2)       Selection of an "update period." A proper determination of revenue  
10 requirement is dependent upon matching the components, rate base, return on investment,  
11 revenues and operating costs at the same point in time. This ratemaking principle is  
12 commonly referred to as the "matching" principle. It is a common practice in ratemaking in  
13 Missouri to utilize a period beyond the established test year for a case in which to match the  
14 major components of a utility's revenue requirement. Sometimes it is necessary to update test  
15 year financial results to reflect information beyond the established test year in order to set  
16 rates based upon the most current information that can be subjected to audit within the period  
17 allowed to the Commission to deliberate on a utility's request to change its rate levels. The  
18 update period ordered used in this case is the three months ending December 31, 2013.

19           3)       Selection of a "true-up date" or "true-up period." A true-up date generally is  
20 established when a significant change in a utility's cost of service occurs after the end of the  
21 test year period, but prior to the operation-of-law date, and one or more of the parties has  
22 decided this significant change in cost of service should be considered for cost of service  
23 recognition in the current case. True-up audits involve the filing of additional testimony and,

1 if necessary, additional hearings beyond the initial testimony filings and hearings for a case.

2 The true-up period agreed to in this case is the six months ending June 30, 2014.

3 4) Determination of Rate of Return. A cost of capital analysis must be performed  
4 to determine a fair rate of return on investment to be allowed on SNG's net investment  
5 (rate base) used in the provision of utility service. Staff witness David Murray of the  
6 Financial Analysis Unit has performed a cost of capital analysis for this case.

7 5) Determination of Rate Base. Rate base represents the utility's net investment  
8 used in providing utility service. For its direct filing, the Staff has determined SNG's rate  
9 base as of December 31, 2013, consistent with the end of the update period established for  
10 this case.

11 6) Determination of Net Income Required. The net income required for SNG is  
12 calculated by multiplying the Staff's recommended rate of return by the rate base established  
13 as of December 31, 2013. The result represents net income required. Net income required is  
14 then compared to net income available from existing rates to determine the incremental  
15 change in the Company's rate revenues required to cover its operating costs and provide a fair  
16 return on investment used in providing utility service.

17 7) Net Income from Existing Rates. Determining net income from existing rates  
18 is the most time consuming process involved in determining the revenue requirement for a  
19 regulated utility. The starting point for determining net income from existing rates is the  
20 unadjusted operating revenues, expenses, depreciation and taxes for the test year which is the  
21 twelve month period ending September 30, 2013, for this case. All of the utility's specific  
22 revenue and expense categories are examined to determine whether the unadjusted test year  
23 results require annualization or normalization adjustments in order to fairly represent the

1 utility's most current level of operating revenues and expenses. Numerous changes occur over  
2 time that will impact a utility's annual level of operating revenues and expenses.

3 8) The final step in determining whether a utility's rates are insufficient to cover  
4 its operating costs and a fair return on investment is the comparison of net operating income  
5 required (Rate Base x Recommended Rate of Return) to net income available from existing  
6 rates (Operating Revenue less Operating Costs, Depreciation and Income Taxes). The result  
7 of this comparison represents the recommended increase and/or decrease in the utility's net  
8 income. This change in net income is then grossed up for income tax to determine the  
9 recommended increase and/or decrease in the utility's operating revenues through a  
10 rate change.

11 Q. Please identify the four types of adjustments which are made to unadjusted test  
12 year results in order to reflect a utility's current annual level of operating revenues  
13 and expenses.

14 A. The four types of adjustments made to reflect a utility's current annual  
15 operating revenues and expenses are:

16 1) Normalization adjustments. Utility rates are intended to reflect normal  
17 ongoing operations. A normalization adjustment is required when the test year reflects the  
18 impact of an abnormal event. An example of an abnormal event is the impact that unusually  
19 hot or cool weather has on revenues for those customers whose gas usage is weather sensitive.  
20 Since utility rates are set using normalized processes, adjustments to test-year levels must be  
21 made when it is determined that unusual or abnormal events cause usually high or low results.

22 2) Annualization adjustments. Annualization adjustments are the most common  
23 adjustment made to test year results to reflect the utility's most current annual level of

1 revenue and expenses. Annualization adjustments are required when changes have occurred  
2 during the test year and/or update period which are not fully reflected in the unadjusted test  
3 year results. For example, if employees received a wage increase on January 1, 2013, the  
4 September 30, 2013 test year will only reflect nine months of the impact of the wage increase.  
5 An annualization adjustment is required to capture the financial impact of the wage increase  
6 for the other three months of the year. If the wage increase were effective November 1, 2013,  
7 then the test year ending September 30, 2013, would not reflect any of the annual cost of the  
8 wage increase.

9           3)       Disallowance adjustments. Disallowance adjustments are made to eliminate  
10 costs in the test year results that are not considered appropriate for recovery from ratepayers.  
11 One example of a disallowance is the removal from test year of charitable contributions.  
12 Charitable contributions are eliminated because they are not necessary to the provision of the  
13 utility service. Therefore, these costs should not be included in cost of service for recovery  
14 from ratepayers, and the Staff has proposed to disallow them from recovery in rates.

15           4)       Proforma adjustments. Proforma adjustments are made because of the need to  
16 reflect the impact of certain items and events that may occur subsequent to the test year.  
17 Often, pro forma adjustments concern the financial impact of governmental mandates or other  
18 events that are totally outside of the utility's control. This type of item or event may  
19 significantly impact revenue, expense and the rate base relationship and should be  
20 recognized to address the forward-looking objective of the test year. One example of a  
21 proforma adjustment is a postal increase that occurred after the test year and update period.  
22 This would be a known and measurable increase that would impact the company's billing  
23 expense every month.

1 Q. What is Staff's direct recommended revenue requirement for SNG in this  
2 proceeding?

3 A. Staff's recommended revenue requirement for SNG's water and sewer  
4 operations as follows:

5

Staff's recommended revenue requirement for SNG's gas operations as follows: Summit Natural Gas of Missouri, Inc.	Annual Revenue Requirement Staff ROE of 10.30 percent	Rate Base at December 31, 2013
Branson	\$4,033,851	\$47,256,104
Gallatin	\$99,443	\$7,897,987
Rogersville	\$1,840,290	\$75,926,055
Warsaw	\$1,305,676	\$16,323,511

6  
7 The true-up will include updates for plant and depreciation reserve, any inventory  
8 changes, deferred taxes, payroll and payroll related benefits, property taxes and any related  
9 income tax effects.

10 Q. What are the major drivers for Staff's estimate of SNG's revenue requirement  
11 in this case?

12 A. The following is a non-exhaustive list of areas that make up Staff's filing:

- 13
- 14 • Rate of Return
  - 15 • Plant and Accumulated Depreciation Reserve balances
  - 16 • Operational Costs such as property insurance, maintenance costs, payroll  
17 and payroll related costs
  - 18 • Property Taxes
  - Uncollectibles (Bad Debts Expense)

1 Q. What amount of rate increase did the Company request from the Commission  
2 in this case?

3 A. On January 2, 2014, SNG filed tariffs designed to implement an increase in its  
4 gas rates, corresponding to an overall revenue increase of \$7,472,133. This represents an  
5 overall 26.5 percent increase to existing SNG gas rates. The Company proposes a rate of  
6 return on equity of 8.22 percent applied to a 57 percent equity capital structure to be used for  
7 all five districts.

8 Q. What return on equity range is the Staff recommending for SNG in this case?

9 A. Staff is recommending a return on equity of 10.30 percent as calculated by  
10 Staff witness Murray. Staff's recommended capital structure for SNG is based upon a  
11 imputed capital structure of 40 percent common equity ratio and 5 percent embedded cost of  
12 debt applied to a 60 percent long-term debt ratio. The resulting cost of capital to apply to rate  
13 base is 7.12 percent. The Staff's recommended weighted cost of capital is explained in more  
14 detail in Section V of Staff's Report.

15 Q. What items are included in Staff's recommended rate base in this case?

16 A. All rate base items were determined as of the update period ending date of  
17 December 31, 2013, either through a balance on SNG's books as of that date or a 13-month  
18 average balance ending on December 31, 2013. The only exception is the Prepay-Rent  
19 account which is normalized based on last known rent expense as of December 31, 2013.

20 Q. What are the significant income statement adjustments the Staff made in  
21 determining SNG's revenue requirement for this case?

22 A. A summary of the Staff's significant income statement adjustments follows:

1        **Operating Revenues**

- 2            • Staff annualized and normalized revenues through December 31, 2013 to  
3            reflect an annual level of weather normalized revenues on a Missouri  
4            jurisdictional basis. Revenues will be later trued-up through June 30, 2014.

5        **Depreciation and Amortization Expense**

- 6            • Depreciation expense is annualized based upon existing rates and the plant in  
7            service balances reflected in the Staff's rate base.

8        **Payroll and Employee Benefit Costs**

- 9            • Payroll expense is annualized based upon employee levels and wages as of  
10            December 31, 2013.  
11            • Payroll taxes and payroll benefits are annualized as of December 31, 2013.

12        **Other Non-Labor Expenses**

- 13            • SNG's incurred rate case expense through the most current date is included in  
14            Staff's cost of service.

15            Q.     What reliance did you place on the work or conclusions of other  
16            Staff members?

17            A.     An expert determining the revenue requirement for a regulated utility must rely  
18            on the work from others responsible for developing specific inputs into the cost of service  
19            calculation. I and the other assigned Staff auditors relied on the work from numerous other  
20            Staff members in calculating a revenue requirement for SNG in this case. Recommended  
21            depreciation rates and recommended rate of return are some examples of data supplied to the  
22            Auditing Unit as inputs into the Staff's cost of service calculation.

23            All of the work performed by Staff participants was done through the coordination  
24            and oversight of myself (Staff Utility Services Department Case Coordinator) and/or  
25            Mr. Imhoff (Staff Utility Operations Department Case Coordinator). If the Commission has  
26            questions of a general or policy nature regarding the work performed by, or the positions

1 taken by, Staff in this proceeding, both Mr. Imhoff and I will be available at hearing to answer  
2 questions of this nature.

3 Q. Which members of Staff were assigned to this case?

4 A. Several Staff experts from the Regulatory Review Division were assigned to  
5 this case. Their names follow with a brief description of their contribution to the Staff's Cost  
6 of Service Report:

7 **Utility Services Department**

8 **Financial Analysis Unit--**

- 9
  - David Murray – Rate of Return and Capital Structure.

10 **Engineering and Management Services Unit--**

11 John A. Robinett – Depreciation Rates.

12 **Auditing Unit--**

- 13
  - Amanda C. McMellen – Overall Revenue Requirement Results, Purchase Price  
14 Valuation (MGU), SMNG Asset Valuation, Capitalization/Expense Ratio and  
15 Energy Efficiency Program.
  - Keith Foster – Fuel Expense, Property Taxes, Current and Deferred Income Taxes  
16 and Other Miscellaneous Expenses.
  - Jermaine Green – Revenues, Allocations, Corporate Costs, Utilities Expense,  
17 Outside Services, Lobbying, Bad Debts, Insurance and Injuries and Damages.
  - Ashley Sarver – Plant in Service, Accumulated Depreciation Reserve,  
20 Depreciation Expense; Other Rate Base Items, Advertising, Rate Case Expense,  
21 PSC Assessment, Dues and Donations, Rent Expense, Payroll and Payroll Related  
22 Costs, Payroll Taxes and Incentive Compensation, Pensions and Other  
23 Post-Retirement Employment Benefits, Customer Deposit Interest Expense and  
24 Maintenance Expense.  
25

26 **Tariff, Safety, Economic & Engineering Analysis (TSEEA) department**

27 Thomas M. Imhoff -Overall Revenue Requirement Results

- 28
  - Kim Cox – Transportation Tariff



- 1 • Michelle Bocklage – Weather Normalization
- 2 • Robin Kliethermes - Large Volume Adjustment
- 3 • Bard Fortson – Large Volume Adjustment
- 4 • Seoung Joun Won – Weather
- 5 • Kory Boustead – Energy Efficiency
- 6 • Phil Lock – School Aggregation

7 Each of these Staff experts’ work product was used as a direct input to the various  
8 adjustments contained in Staff’s Accounting Schedules and revenue requirement  
9 recommendation.

10 Q. Would you provide an overview of how the Staff assigned to this case worked  
11 together to arrive at Staff’s revenue requirement recommendation and true-up estimate?

12 A. All of the Staff members assigned to this case are, by education, training and  
13 experience, experts at performing their regulatory responsibilities as members of the  
14 Commission Staff. These regulatory experts rely on the work of each other to develop Staff  
15 revenue requirement recommendations regarding filings public utilities make before the  
16 Commission. The work of each Staff member is an integral part of the content of the Staff’s  
17 Cost of Service Report, as well as Staff’s Accounting Schedules, both of which contain the  
18 results of their collective efforts in Staff’s findings and recommendations. Mr. Imhoff and  
19 I relied on these findings and recommendations to develop Staff’s ultimate recommendations  
20 in this direct filing. Many of the individual sections presented include references indicating  
21 reliance on the work of other contributing experts.

22 Mr. Imhoff and I relied on the work product of every Staff expert assigned to this case.  
23 Each Staff expert provided the results of their review and analysis as inputs to the revenue

1 requirement calculation, and is identified in the sections of the report submitted by that expert.  
2 Each Staff expert assigned to the SNG rate case will provide work papers supporting the  
3 findings and recommendations to both Companies and to other parties as the Commission has  
4 ordered in setting the procedural schedule in this case. Finally, each Staff expert assigned to  
5 this rate case will be available to answer Commissioner questions and to be cross-examined  
6 by any party who wishes to conduct cross-examination regarding information on how Staff's  
7 findings and recommendations were developed and presented in Staff's Cost of Service  
8 Report, including Staff's Accounting Schedules.

9 Q. What is your overall responsibility in this case?

10 A. I am one of two project coordinators assigned to identify the work scope for  
11 the case, make Staff assignments, and supervise and oversee all work product development.  
12 I specifically supervised all areas of the audit work assigned to and the responsibility of the  
13 Auditing Unit. I worked closely with other Staff experts assigned to this rate case. I worked  
14 with the depreciation and rate of return experts as well as the TSEEA experts assigned  
15 to revenues.

16 I have overall responsibility to ensure the revenue requirement calculation using the  
17 Staff's EMS computer model is timely completed. This involves all aspects of the elements  
18 making up the revenue requirement recommendation. To this end, I, along with those under  
19 my direct supervision, either developed directly, or was provided with, the information used  
20 to support the Staff's revenue requirement recommendations for SNG.

21 Q. Did Staff develop its revenue requirement recommendation for SNG in  
22 this rate case differently in any material way than it has done so in the past for other utilities?

1           A.     No. Staff developed its revenue requirements for SNG consistently with how  
2 Staff has developed revenue requirements for other utilities, and the inputs provided by the  
3 various Staff experts assigned to the SNG rate case are reasonable.

4           Based on my extensive experience as a regulatory auditor, the effect of the inputs  
5 provided by the various Staff experts assigned to these rate cases, Staff's overall revenue  
6 requirements for SNG as presented in this testimony and the Staff's Cost of Service Report,  
7 including the Accounting Schedules, are all reasonable.

8           Q.     Does this May 30, 2014 filing by Staff present all of Staff's direct case?

9           A.     No. Staff is scheduled to file its class cost of service and rate design  
10 recommendation for SNG on June 13, 2014.

11          Q.     Does Staff have any recommendations for the Company as a result of  
12 this audit?

13          A.     Yes. Staff encountered problems receiving some information in a way that  
14 was useful in our analysis during the audit. Therefore, Staff recommends the Company  
15 review the major concerns brought to its attention by Staff in this case, and make appropriate  
16 changes to attempt to remedy the problems for the remainder of this case, if possible, and for  
17 purposes of future rate cases.

18          Q.     Please provide an example of a significant data problem that arose during  
19 this case.

20          A.     One of the main expenses on SNG's books is corporate costs allocated from  
21 SUI, its parent company. During the course of the audit, based upon the data provided it was  
22 hard for Staff to ascertain what these costs were in total and what methodology was used to  
23 allocate these expenses to SNG. Typically, Staff can review a utility's cost allocation manual

1 (CAM) to analyze the methodologies used to allocate shared corporate costs. However,  
2 SNG's current Cost Assignment and Allocation Manual ("CAAM", their version of a CAM)  
3 contains more information on how costs are allocated within SNG to each Missouri district in  
4 contrast to how actual SUI corporate costs are allocated to Missouri, Colorado and Maine  
5 operations. The purpose of a company's CAM is to provide transparency into the process and  
6 procedures employed by the Commission to comply with the Commission's affiliate  
7 transaction rules, 4 CSR 240-20.015 (Electric) and 4 CSR 240-40.015 (Gas). The affiliate  
8 transaction rules are intended to prevent regulated utilities from subsidizing or otherwise  
9 advantaging their non-regulated operations. Staff recommends that SNG revise their CAAM  
10 to include more specific information related to allocation methodologies used for SUI  
11 corporate costs to be more in line with the current CAMs of other utilities in Missouri.

12 Q. Does Staff have any other major concerns with the Company as a result of  
13 this audit?

14 A. Yes. SNG has a high amount of payroll costs (81.67 percent) being allocated  
15 to capital projects versus expense in the test year, compared to other utilities in Missouri. As  
16 a comparison, most utilities have a payroll capitalization ratios of anywhere from 15 percent  
17 to 30 percent. Staff had discussed this concern with SNG, and will continue to review the  
18 issue. Although Staff believes the amount of costs being capitalized for SNG is high, the  
19 current time reporting documents provided showed that SNG truly does capitalize this amount  
20 of costs.

21 Q. Is SNG's payroll capitalization ratio a new concern of Staffs?

22 A. No. Staff raised similar concerns in Missouri Gas Utility's last general rate  
23 case, No. GR-2008-0060, particularly in that utility's practice of capitalizing marketing and

1 sales activities of their employees. Staff believed capitalization of costs associated with  
2 marketing and sales activities is inappropriate under the terms of the Federal Energy  
3 Regulatory Commission (“FERC”) Uniform System of Accounts (“USOA”).

4 Q. Is SNG still inappropriately capitalizing the costs associated with sales and  
5 marketing activities of its employees?

6 A. Based upon its review in this audit, Staff believes that SNG is doing a better  
7 job of charging labor costs associated with marketing and sales activities to expense than  
8 MGU did in its last case. However, Staff still has concerns on this point, based upon the fact  
9 that certain employees whose job descriptions indicate a primary focus on marketing and sales  
10 activity are still charging a majority of their time in the test year to capital accounts.

11 Q. Is Staff recommending an adjustment in this case to decrease the amount of  
12 payroll charged to capital accounts?

13 A. No. Staff used the most current actual ratio of 81.67 percent to allocate costs  
14 for this case. However, Staff recommends that the Company analyze their current time  
15 keeping processes for charging payroll costs, and develop a manual or guide specifying in  
16 detail for employees the types of activities that should be charged to expense and  
17 construction, respectively, consistent with the requirements of the FERC USOA

18 Q. Does this conclude your direct testimony?

19 A. Yes, it does.

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

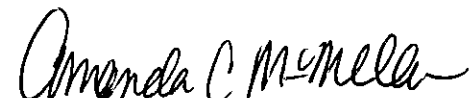
In the Matter of Summit Natural Gas of )  
Missouri Inc.'s Filing of Revised Tariffs To )  
Increase its Annual Revenues For Natural Gas )  
Service )

Case No. GR-2014-0086

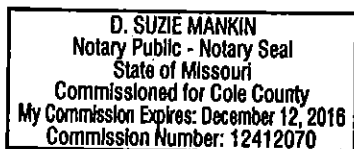
AFFIDAVIT OF AMANDA C. MCMELLEN


STATE OF MISSOURI     )  
  )  
COUNTY OF COLE     )     ss.

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 19 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Amanda C. McMellen

Subscribed and sworn to before me this 30<sup>th</sup> day of May, 2014.



  
\_\_\_\_\_  
Notary Public

# Amanda C. McMellen

## SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Osage Water Company	SR-2000-556	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Osage Water Company	WR-2000-557	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Empire District Electric Company	ER-2001-299	Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions
UtiliCorp United, Inc./ d/b/a Missouri Public Service	ER-2001-672	Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses
BPS Telephone Company	TC-2002-1076	Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses

# Amanda C. McMellen

## SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2004-0034	Revenue Annualizations Uncollectibles
Fidelity Telephone Company	IR-2004-0272	Revenue Revenue Related Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2005-0436	Revenue Annualizations Uncollectibles
Empire District Electric Company	ER-2006-0315	Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2007-0004	Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance
Empire District Electric Company	ER-2008-0093	Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations



# Amanda C. McMellen

## SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Missouri Gas Energy, a Division of Southern Union Company	GR-2009-0355	Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortization Expense Interest expense on customer Deposits Rents and Leases
Missouri-American Water Company	WR-2010-0131	Staff Report Cost of Service Corporate and District Allocations Lobbying Costs Net Negative Salvage Amortization of Regulatory Assets Belleville Lab Expenses Comprehensive Planning Study Payroll Payroll Taxes
Kansas City Power & Light Company	ER-2010-0355	Staff Report Cost of Service Revenues-Customer Growth In-Field Service Fees Gross Receipts Taxes Forfeited Discounts Other Revenues Credit Card Acceptance Program Bad Debts
KCP&L Greater Missouri Operations Company	ER-2010-0356	Staff Report Cost of Service Revenues-Customer Growth Other Revenues Credit Card Acceptance Program Bad Debts
Empire District Electric Company	ER-2011-0004	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Pensions & OPEBs Customer Programs Amortizations Carrying Costs Revenue Annualizations

# Amanda C. McMellen

## SUMMARY OF RATE CASE TESTIMONY FILED

Empire District Electric Company

ER-2012-0345

Staff Report Cost of Service  
Plant in Service  
Depreciation Reserve  
Depreciation Expense  
Prepayments  
Materials and Supplies  
Customer Demand Programs  
Amortization of Electric Plant  
Customer Deposits  
Customer Advances  
Carrying Costs  
Customer Programs  
Customer Deposit Interest Expense  
Franchise Taxes  
Amortizations  
Banking Fees  
Lease Expense  
Pay Station Fees  
Amortizations