

Exhibit No.:

Issues: *Accounting Schedules;
Separation Factors;
Plant in Service and
Depreciation Reserve;
Revenues; Payroll and
Payroll Related Benefits;
Advertising; Other Expenses*

Witness: *Amanda C. McMellen*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Supplemental Direct Testimony*

Case No.: *TC-2002-1076*

Date Testimony Prepared: *October 15, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SUPPLEMENTAL DIRECT TESTIMONY

OF

AMANDA C. McMELLEN

BPS TELEPHONE COMPANY

CASE NO. TC-2002-1076

*Jefferson City, Missouri
October 2004*

****Denotes Highly Confidential Information****

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Staff of the Missouri Public Service Commission,)	
)	
Complainant)	
)	
v.)	Case No. TC-2002-1076
)	
BPS Telephone Company,)	
)	
Respondent.)	

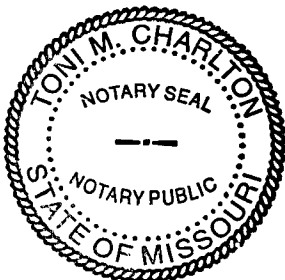
AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

Amanda C. McMellen, being of lawful age, on her oath states: that she has participated in the preparation of the following Supplemental Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following Supplemental 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 14th day of October 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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AMANDA C. McMELLEN
BPS TELEPHONE COMPANY
CASE NO. TC-2002-1076

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1 **SUPPLEMENTAL DIRECT TESTIMONY OF**

2 **AMANDA C. McMELLEN**

3 **BPS TELEPHONE COMPANY**

4 **CASE NO. TC-2002-1076**

5 Q. Please state your name and business address.

6 A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO
7 65102.

8 Q. Are you the same Amanda C. McMellen that has previously filed direct
9 testimony in this case?

10 A. Yes, I am.

11 Q. Have you filed additional testimony before this Commission since the prior
12 direct filing in this case?

13 A. Yes. Please refer to Schedule 1, which is an updated list of cases and issues in
14 which I have previously filed testimony.

15 Q. What is the purpose of this testimony?

16 A. The purpose of this testimony is to provide the Commission with the Staff's
17 current revenue requirement recommendations regarding the Staff's earnings investigation of
18 BPS Telephone Company (BPS or Company).

19 Q. What test year did the Staff use?

20 A. The Staff utilized a test year of the 12 months ending June 30, 2004.

21 Q. What test year did the Staff utilize in its initial direct filing in this proceeding?

22 A. The Staff originally used a test year of the 12 months ending December 31,
23 2001.

1 Q. Why did the Staff change its test year in this proceeding?

2 A. The Staff changed the test year for two (2) reasons. First, the data in the
3 Staff's original test year ending December 31, 2001, is over two (2) years old and does not
4 reflect ongoing operations. Secondly, the Staff's new test year, the 12 months ending
5 June 30, 2004, allows the Staff to make recommendations on the basis of the most recent
6 auditable information available in connection with the Company.

7 Q. What Accounting Schedules are you sponsoring?

8 A. I am sponsoring the same Accounting Schedules as stated in my initial direct
9 testimony.

10 Q. Have any of the rate base amounts changed since the initial direct filing?

11 A. Yes. All rate base items reflect the new test year.

12 Q. Have any of the methodologies used to calculate the rate base items changed
13 since the initial direct filing?

14 A. No. The methodologies used to calculate the rate base items are the same as
15 stated in my initial direct testimony.

16 Q. Have there been changes in the Staff's calculation of depreciation expense or
17 reserve from the initial direct filing?

18 A. Yes. Please refer to the supplemental direct testimony of Staff witness
19 Jolie Mathis of the Engineering and Management Services Department for a discussion of
20 these changes.

21 Q. Have any of the methodologies used to calculate the income statement items
22 (revenues and expenses) changed since the initial direct filing?

1 A. No. The methodologies used to calculate the income statement items are the
2 same as stated in my initial direct testimony.

3 Q. What Accounting adjustments are you sponsoring?

4 A. I am sponsoring the following Accounting adjustments:

5	Plant In Service	P-9.1
6	Depreciation Reserve	R-9.1
7	Revenues	S-5.1, S-5.2, S-7.1 and S-15.1
8	Advertising	S-21.1 and S-22.6
9	Dues	S-22.1
10	Donations	S-22.2
11	Customer Deposits	S-22.3
12	Payroll	S-22.4
13	Payroll Benefits	S-22.5
14	Depreciation Expense	S-23.1
15	Cost of Removal	S-24.1
16	Property Taxes	S-25.1
17	PSC Assessment	S-26.1
18	Current Income Tax	S-28.1

19 **ADVERTISING**

20 Q. Are there any of the above adjustments that were not part of the initial direct
21 filing?

22 A. Yes. The Staff is proposing adjustments S-21.1 and S-22.6 for advertising.
23 These adjustments were not included in the earlier direct filing.

24 Q. Please explain adjustments S-21.1 and S-22.6.

25 A. These adjustments restate the test year advertising levels to reflect allowable
26 expense.

27 Q. Please explain the history of such adjustments before the Commission.

28 A. As part of Re: Kansas City Power and Light Company, 28 MO P.S.C. (N.S.)
29 228 (1986) (KCPL), the Commission adopted an approach which classifies advertisements

1 into five categories and provides separate rate treatment for each category. The five
2 categories of advertisements recognized by the Commission for purposes of this approach are:

- 3 1. General: advertising that is useful in the provision of adequate service;
- 4 2. Safety: advertising that conveys the ways to use the Company's
5 service safely and to avoid accidents;
- 6 3. Promotional: advertising that encourages or promotes the use of the
7 particular commodity the utility is selling;
- 8 4. Institutional: advertising that seeks to improve or retain the Company's
9 public image; and
- 10 5. Political: advertising which is associated with political issues.

11 The Commission adopted these categories of advertisements because it believed that a
12 utility's revenue requirement should: 1) always include the reasonable and necessary cost of
13 general and safety advertisements; 2) never include the cost of institutional or political
14 advertisements; and 3) include the cost of promotional advertisements only to the extent that
15 the utility can provide cost-justification for the advertisement (KCPL, pp. 269-271).

16 Q. What standard did the Staff use to evaluate the Company's advertising expense
17 in this case and to develop the adjustments?

18 A. The Staff utilized the standards as initially established in the KCPL case
19 identified above, and utilized in subsequent cases, to determine the test year level of
20 advertising expense for the general, safety, institutional, promotional and political categories
21 of advertising. The Staff proposes to disallow advertisements that are institutional,
22 promotional, unrelated to the telephone industry or ask for charitable donations.

23 Q. How did the Staff apply the standard established in the KCPL case to your
24 examination of advertising expense in this case?

1 A. I categorized all of the Company's advertisements on an ad-by-ad basis using
2 the KCPL standard to determine the amount allowed or disallowed. I began by reviewing
3 each advertisement to determine which of the following primary messages the advertisement
4 was designed to communicate:

- 5 1. The promotion of a service or product (Promotional);
- 6 2. The dissemination of information necessary to obtain safe and
7 adequate electric service (General and Safety);
- 8 3. The promotion of the Company image (Institutional); or
- 9 4. The endorsement of a political candidate or any political
10 message (Political).

11 Once I determined the primary message, I classified the advertisements accordingly.
12 Schedule 2, attached to this testimony, is my itemized analysis of the Company's advertising
13 costs and a copy of all the Company's advertisements for the test year, as provided in
14 response to Staff Data Request No. 7.

15 Q. How did the Staff develop its advertising adjustments?

16 A. The Staff requested that the Company supply the cost of all advertisements on
17 a per-ad basis. Based on its categorization, the Staff disallowed the expense associated with
18 advertisements that it classified as institutional or promotional, as well as advertisements
19 requested by the Staff but not provided by the Company.

20 Q. Please describe the Staff's adjustment for general and safety advertisements.

21 A. There was no adjustment for general and safety advertisements because none
22 were provided by the Company.

23 Q. Did the Staff adjust test year expense for any political advertising?

1 A. No. The Company placed no political advertisements during the test year.

2 **OTHER EXPENSES**

3 Q. Have any adjustment calculations changed since the initial direct filing?

4 A. Yes. The calculation for cost of removal and salvage expenses has changed
5 slightly. The Staff is now using a five-year average instead of a two-year average.

6 Q. Why did the Staff change from a two-year to a five-year average for its
7 treatment of cost of removal and salvage costs?

8 A. Based upon review of the Company's cost of removal data, it was determined
9 that there was significant volatility, with no apparent trend (up or down), in cost of removal
10 and salvage expenses.

11 Q. Is this change in calculation a change in methodology?

12 A. No. When normalizing expenses, it is common for the Staff to look at a five-
13 year period and based on the results decide whether there is a trend, up or down, or
14 fluctuation. In the original filing there appeared to be a downward trend. Now that the Staff
15 has been able to look at more current information, there is no longer a downward trend and a
16 five-year average is more appropriate. So, the methodology is the same as stated in my direct
17 testimony.

18 Q. What are the results of the Staff's updated earnings investigation of BPS?

19 A. The Staff's revenue requirement shows an excess earnings amount of
20 \$932,459. The Staff recommends that the Commission order a revenue reduction for BPS of
21 that amount.

22 Q. Does this conclude your supplemental direct testimony?

23 A. Yes, it does.

SUMMARY OF RATE CASE TESTIMONY FILED

Amanda C. McMellen

<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
	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

SUMMARY OF RATE CASE TESTIMONY FILED

Amanda C. McMellen

<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

SCHEDULE 2
HAS BEEN
DEEMED
HIGHLY CONFIDENTIAL
IN ITS
ENTIRETY