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Missouri Public  
Service Commission

*Exhibit No.:*

*Issue:*

*Adequacy of Existing Rates;  
Organizational Structure;  
Plant and Depreciation Reserve  
Adjustments; and  
Income Statement Adjustments*

*Witness:*

*STEVE M. TRAXLER*

*Sponsoring Party:*

*MoPSC Staff*

*Type of Exhibit:*

*Rebuttal Testimony*

*Case No.:*

*TT-2001-328*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**STEVE M. TRAXLER**

**OREGON FARMERS MUTUAL TELEPHONE COMPANY**

**CASE NO. TT-2001-328**

*Jefferson City, Missouri  
March 2001*

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STEVE M. TRAXLER**

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**REBUTTAL TESTIMONY**  
**OF**  
**STEVE M. TRAXLER**  
**OREGON FARMERS MUTUAL TELEPHONE COMPANY**  
**CASE NO. TT-2001-328**

Q. Please state your name and business address.

A. Steve M. Traxler, Noland Plaza Office Building, 3675 Noland Road, Independence, Missouri 64055.

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

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

Q. Please describe your educational background.

A. I graduated from Missouri Valley College at Marshall, Missouri, in 1974 with a Bachelor of Science degree in Business Administration with a major in Accounting.

Q. Please describe your employment history.

A. I was employed as an accountant with Rival Manufacturing Company in Kansas City from June 1974 to May 1977. I was employed as a Regulatory Auditor with the Missouri Public Service Commission from June 1977 to January 1983. I was employed by United Telephone Company as a Regulatory Accountant from February 1983 to May 1986. In June 1986, I began my employment with Dittmer, Brosch & Associates (DBA) in Lee's Summit, Missouri as a Regulatory Consultant. I left DBA in April 1988. I was self-employed from May 1988 until I came back to the Commission in

Rebuttal Testimony of  
Steve M. Traxler

1 December 1989. My current position is an Auditor V within the Commission's  
2 Accounting Department.

3 Q. What are the nature of your duties while in the employ of this  
4 Commission?

5 A. I am responsible for assisting in the audits and examinations of the books  
6 and records of utility companies operating within the State of Missouri.

7 Q. Have you previously testified before this Commission?

8 A. Yes, I have. A list of cases in which I have filed testimony is shown on  
9 Schedule SMT-1 of this testimony.

10 Q. Have you filed testimony in rate proceedings involving a regulated utility  
11 company in any jurisdictions besides Missouri?

12 A. Yes, I have also filed testimony in Kansas, Minnesota, Arizona, Indiana,  
13 Iowa and Mississippi while employed by United Telephone Company and DBA.

14 Q. What are your areas of responsibility in Case No. TT-2001-328 involving  
15 Oregon Farmers Mutual Telephone Company (Oregon Telephone or Company)?

16 A. My responsibility was to conduct an audit of Oregon Telephone regarding  
17 the adequacy of existing rates for their intrastate telephone operations. This audit was  
18 initiated as a result of the Company implementing a revenue surcharge following the  
19 Commission's decision to eliminate the Primary Toll Carrier (PTC) Plan in Case  
20 No. TO-99-254, by Order dated June 10, 1999. Staff Accounting witnesses Mark L.  
21 Oligschlaeger and William A. Meyer, Jr., will provide rebuttal testimony presenting the  
22 Staff's overall recommendations concerning Oregon Telephone's tariff filing made in this  
23 proceeding.

I am the primary Staff witness sponsoring the revenue requirement calculation as reflected in Staff's Exhibit Manipulation System (EMS) run. The EMS run filed in this case reflects Oregon Telephone's cost of service based upon adjusted results through December 31, 2000.

Q. What Accounting Schedules are you sponsoring in this case?

A. I am sponsoring all of the Accounting Schedules in the EMS run that include Schedules 1-1 through 11-1.

Q. What adjustments are you sponsoring?

A. I am sponsoring the following adjustments:

|                   |   |
|-------------------|---|
| Plant In Service: | P-1, P-2.2, P-4.1, P-5.1, P-6.1, P-7.1, P-8.1, P-9.1, P-13.1, P-20.1, P-22.1, P-32.1 and P-33.1 |
|-------------------|---|

|                       |  |
|-----------------------|--|
| Depreciation Reserve: | R-1.2, R-7.1, R-8.1, R-11.1, R-12.1, R-13.1 and R-14.1 |
|-----------------------|--|

|                   |                                       |
|-------------------|---------------------------------------|
| Income Statement: | Adjustments from S-1.1 through S-68.4 |
|-------------------|---------------------------------------|

#### **ADEQUACY OF EXISTING RATES**

Q. What does the Staff's EMS revenue requirement calculation reflect regarding the adequacy of Oregon Telephone's existing rates for intrastate telephone service?

A. The Staff's EMS run, based upon adjusted results through December 31, 2000, reflects an excess revenue condition of approximately \$86,000 for intrastate telephone operations. This amount represents approximately 12.2% of the Company's intrastate revenue.

1           Q.     Do the results of the Staff's investigation of Oregon Telephone's existing  
2 rates necessitate the filing of a complaint?

3           A.     Yes. An excessive revenue condition that equates to 12.2% of existing  
4 intrastate revenue is significant enough to justify an earnings complaint against the  
5 Company. A complaint is being filed by the Staff concurrent with its rebuttal testimony  
6 in this proceeding.

7           **ORGANIZATIONAL STRUCTURE**

8           Q.     Please provide a brief description of the organizational structure of Oregon  
9 Telephone and its affiliated companies.

10          A.     Oregon Telephone provides telephone service in the exchange of Oregon  
11 to approximately 1,140 access lines. The Company is 100% owned by Robert D.  
12 Williams and members of his family. Mr. Williams is the President and General Manager  
13 of the Company.

14          Mr. Williams also owns 100% of the stock of South Holt Communications, which  
15 provides 100% of the labor and general and administrative services for Oregon  
16 Telephone. South Holt Communications also provides general and administrative  
17 services to other companies in which Mr. Williams owns stock. These companies are:

18                       Northwest Missouri Cellular

19                       South Holt Cable Vision

20                       Lake Livingston Telephone located in Texas

21          In addition to providing administrative and general services to these separate  
22 companies identified above, South Holt Communications is also involved in providing  
23 non-regulated internet and inside wiring services.

1           Q.     What regulatory concerns result from the organizational structure of  
2 Oregon Telephone, South Holt Communications, their affiliated companies and non-  
3 regulated operations?

4           A.     As discussed, South Holt Communications provides general and  
5 administrative services to Oregon Telephone, Northwest Missouri Cellular, South Holt  
6 Cable Vision, Lake Livingston Telephone in Texas, and is also engaged in providing  
7 non-regulated internet and inside wiring services.

8           The concern to the regulator in this instance is that the cost of common plant  
9 facilities and general administrative services be allocated fairly between the regulated and  
10 non-regulated operations and to all entities receiving services.

11           In any utility organizational structure which provides both regulated and non-  
12 regulated services, there is an incentive to allocate a larger share of joint and common  
13 costs to the regulated operations.

14           Q.     What audit procedures did you employ in determining the fairness of the  
15 allocation methodology used by South Holt Communications in allocating common costs  
16 to the entities for which they provide administrative and general services?

17           A.     I interviewed Mr. Williams regarding the specific job responsibilities of  
18 all employees of South Holt Communications and identified the specific services  
19 provided to the separate entities. In addition, I also examined the relationship of plant  
20 investment, revenue and expenses of the separate entities in order to make a judgment as  
21 to the time necessary to provide the general and administrative services to each. Finally,  
22 I noted that some of the entities received a much lower level of service than others.

Rebuttal Testimony of  
Steve M. Traxler

1           As an example, South Holt Communications provides 100% of the labor, benefits  
2 and general and administrative functions for Oregon Telephone. However, the only  
3 service provided to Northwest Missouri Cellular is accounting.

4           Q.     What is your position regarding the allocation factors used by South Holt  
5 Communications in allocating labor and benefits costs for the services it provides?

6           A.     I consider the allocation factors for these costs to be reasonable.

7           Q.     What remaining joint and common costs does South Holt  
8 Communications allocate to Oregon Telephone?

9           A.     The management fee billed to Oregon Telephone includes a 20% add-on  
10 to the cost of labor and benefits allocated from South Holt Communications.

11          Q.     Do you consider the 20% add-on to allocated labor and benefit costs to be  
12 a legitimate cost for ratemaking purposes?

13          A.     No, I do not. Since all of the general plant facilities are on the books of  
14 Oregon Telephone, no additional add-on fee for a return on investment and depreciation  
15 recovery can be justified.

16          Q.     What is your recommendation regarding an appropriate allocation of  
17 general plant and depreciation expense between the separate entities who receive services  
18 from South Holt Communications?

19          A.     The allocation of labor and benefits from South Holt Communications to  
20 Oregon Telephone results in a 76% allocation to the telephone company. It is my opinion  
21 that the allocation of general plant based upon the same allocation relationship for labor  
22 and benefits represents a fair allocation of the general plant costs and related depreciation  
23 expense.



1           Q.     How have you reflected the allocation of general plant costs and  
2 depreciation expense to the other entities who receive services from South Holt  
3 Communications?

4           A.     I have eliminated approximately \$67,000 in costs representing the 20%  
5 add-on fee recorded on the books of Oregon Telephone in the test year 2000.

6           After eliminating the 20% add-on fee for the test year, I allocated 24% of the  
7 general plant investment and depreciation reserve to the entities served by South Holt  
8 Communications in addition to Oregon Telephone. This method also results in assigning  
9 24% of the related depreciation expense and return on investment to these other entities  
10 served by South Holt Communications.

11     **PLANT AND DEPRECIATION RESERVE ADJUSTMENTS**

12           Q.     Please explain plant and depreciation reserve adjustments P-5.1, P-6.1,  
13 P-7.1, P-8.1, P-9.1, R-1.2, R-7.1, R-8.2, R-11.1, R-12.1, R-13.1 and R-14.1.

14           A.     These adjustments allocate Oregon Telephone's plant investment and  
15 depreciation reserve in general plant to South Holt's non-regulated operations and the  
16 other affiliated companies that include Northwest Missouri Cellular, South Holt Cable  
17 Vision and Lake Livingston Telephone.

18           The general plant facilities used to serve the entities are reflected on the books of  
19 Oregon Telephone. The adjustments referenced above provide a fair allocation of these  
20 joint-use facilities to all entities receiving services from South Holt Communications.

21           Q.     Please explain plant adjustments P-13.1, P-20.1, P-32.1 and P-33.1.

22           A.     Oregon Telephone decided to become a "cost schedule" company for  
23 separation purposes effective July 1, 2000. A cost study has been prepared by an outside

1 consultant and is currently being used by the National Exchange Carriers Association  
2 (NECA) for settlement purposes.

3 The plant adjustments identified above reclassify plant investment on Oregon  
4 Telephone's books to reflect the proper allocation between intrastate and interstate  
5 operations.

6 **INCOME STATEMENT ADJUSTMENTS**

7 Q. Please explain revenue adjustments S-1.1, S-4.1, S-6.1, S-7.1, S-20.1,  
8 S-21.1, S-32.1, S-34.1 and S-37.1.

9 A. These adjustments annualize intrastate revenue based upon activity from  
10 July through December 2000.

11 Q. Please explain revenue adjustments S-17.1 and S-18.1.

12 A. These adjustments eliminate revenue booked in the 2000 test year which  
13 relates to a prior year.

14 Q. Please explain income statement adjustments S-49.1, S-50.1, S-52.1,  
15 S-58.1 and S-62.1.

16 A. These adjustments annualize wages, payroll taxes, pension costs, and  
17 health insurance costs as of December 31, 2000.

18 Q. Please explain adjustments S-49.2, S-50.2, S-52.2, S-58.2 and S-62.2.

19 A. These adjustments eliminate the 20% add-on fee allocated to Oregon  
20 Telephone from South Holt Communications during the test year 2000.

21 As explained in the organizational structure section of my testimony, this 20%  
22 add-on fee to allocated labor and benefit costs is not a legitimate cost of South Holt  
23 Communications in providing services to Oregon Telephone.

Rebuttal Testimony of  
Steve M. Traxler

1 Q. Please explain income adjustment S-68.1.

2 A. This adjustment eliminates charitable contributions made during the test  
3 year consistent with the Commission's policy assigning these costs to shareholders.

4 Q Please explain income statement adjustments S-68.2 and S-68.4.

5 A. Adjustment S-68.2 eliminates dues paid to The Organization for the  
6 Promotion and Advancement of Small Telecommunications Companies (OPASTCO)  
7 during the test year. OPASTCO is heavily involved in representing the interests of its  
8 members before Congress, the Federal Communications Commission (FCC) and U.S.  
9 Courts. It is the Staff's view that the benefits of such lobbying activity benefits  
10 shareholders and, therefore, the cost of lobbying activity should be assigned to  
11 shareholders.

12 Consistent with our recommendations on dues paid to OPASTCO, income  
13 statement adjustment S-68.4 eliminates travel costs to Hawaii for the purpose of  
14 attending an OPASTCO meeting.

15 Q. Please explain adjustment S-68.3.

16 A. Income statement adjustment S-68.3 reflects the Company's estimated rate  
17 case expense for accounting, legal and consulting costs relative to this case, No.  
18 TT-2001-328. These estimated costs have been included assuming a three-year  
19 amortization of this expense. These estimated amounts included in this adjustment will  
20 be replaced with actual costs when known.

21 Q. Is the Staff's recommendation on the level of excess earnings for Oregon  
22 Telephone subject to change based upon outstanding responses to Staff's data requests?

23 A. Yes.

Rebuttal Testimony of  
Steve M. Traxler

1           Q.     Does this complete your rebuttal testimony?

2           A.     Yes, it does.

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

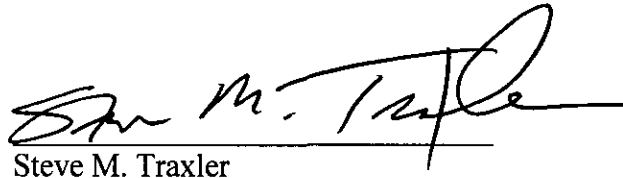
In the Matter of Oregon Farmers Mutual                     )  
Telephone Company's Request For A Rate Increase        )  
For Telephone Service Pursuant To The Public            )  
Service Commission's Small Company Rate                )  
Increase Procedure.    )

Case No. TT-2001-328

AFFIDAVIT OF STEVE M. TRAXLER

STATE OF MISSOURI        )  
                                      )  
COUNTY OF COLE        )        ss.

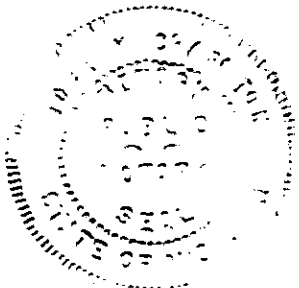
Steve M. Traxler, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Steve M. Traxler

Subscribed and sworn to before me this 28<sup>th</sup> day of February 2001.



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



*Steve M. Traxler*

SUMMARY OF RATE CASE INVOLVEMENT

| <u>Year</u> | <u>Case No.</u>    | <u>Utility</u>  | <u>Type of<br/>Testimony</u>      |            |
|-------------|--------------------|---|-----------------------------------|------------|
| 1978        | Case No. ER-78-29  | Missouri Public Service Company<br>(electric)                               | Direct<br>Rebuttal                | Contested  |
| 1979        | Case No. ER-79-60  | Missouri Public Service Company<br>(electric)                               | Direct<br>Rebuttal                | Contested  |
| 1979        |                    | Elimination of Fuel Adjustment<br>Clause Audits<br>(all electric utilities) |                                   |            |
| 1980        | Case No. ER-80-118 | Missouri Public Service Company<br>(electric)                               | Direct<br>Rebuttal                | Contested  |
| 1980        | Case No. ER-80-53  | St. Joseph Light & Power Company<br>(electric)                              | Direct                            | Stipulated |
| 1980        | Case No. OR-80-54  | St. Joseph Light & Power Company<br>(transit)                               | Direct                            | Stipulated |
| 1980        | Case No. HR-80-55  | St. Joseph & Power Company<br>(industrial steam)                            | Direct                            | Stipulated |
| 1980        | Case No. TR-80-235 | United Telephone Company of<br>Missouri<br>(telephone)                      | Direct<br>Rebuttal                | Contested  |
| 1981        | Case No. TR-81-208 | Southwestern Bell Telephone<br>Company<br>(telephone)                       | Direct<br>Rebuttal<br>Surrebuttal | Contested  |
| 1981        | Case No. TR-81-302 | United Telephone Company of<br>Missouri<br>(telephone)                      | Direct<br>Rebuttal                | Stipulated |
| 1982        | Case No. ER-82-66  | Kansas City Power & Light Company   | Rebuttal                          | Contested  |
| 1982        | Case No. TR-82-199 | Southwestern Bell Telephone<br>Company<br>(telephone)                       | Direct<br>Rebuttal                | Contested  |
| 1982        | Case No. ER-82-39  | Missouri Public Service   | Direct<br>Rebuttal<br>Surrebuttal | Contested  |
| 1990        | Case No. GR-90-50  | Kansas Power & Light - Gas Service<br>Division<br>(natural gas)             | Direct                            | Stipulated |

| <u>Year</u> | <u>Case No.</u>                          | <u>Utility</u>   | <u>Type of<br/>Testimony</u>      |            |
|-------------|--|--|-----------------------------------|------------|
| 1990        | Case No. ER-90-101                       | UtiliCorp United Inc.,<br>Missouri Public Service Division<br>(electric) | Direct<br>Surrebuttal             | Contested  |
| 1991        | Case No. EM-91-213                       | Kansas Power & Light - Gas Service<br>Division<br>(natural gas)          | Rebuttal                          | Contested  |
| 1993        | Case Nos. ER-93-37                       | UtiliCorp United Inc.<br>Missouri Public Service Division<br>(electric)  | Direct<br>Rebuttal<br>Surrebuttal | Stipulated |
| 1993        | Case No. ER-93-41                        | St. Joseph Light & Power Co.   | Direct<br>Rebuttal                | Contested  |
| 1993        | Case Nos. TC-93-224<br>and TO-93-192     | Southwestern Bell Telephone<br>Company<br>(telephone)                    | Direct<br>Rebuttal<br>Surrebuttal | Contested  |
| 1993        | Case No. TR-93-181                       | United Telephone Company of<br>Missouri                                  | Direct<br>Surrebuttal             | Contested  |
| 1993        | Case No. GM-94-40                        | Western Resources, Inc. and Southern<br>Union Company                    | Rebuttal                          | Stipulated |
| 1994        | Case Nos. ER-94-163<br>and HR-94-177     | St. Joseph Light & Power Co.   | Direct                            | Stipulated |
| 1995        | Case No. GR-95-160                       | United Cities Gas Co.  | Direct                            | Contested  |
| 1995        | Case No. ER-95-279                       | Empire Electric Co.  | Direct                            | Stipulated |
| 1996        | Case No. GR-96-193                       | Laclede Gas Co.  | Direct                            | Stipulated |
| 1996        | Case No. WR-96-263                       | St. Louis County Water   | Direct<br>Surrebuttal             | Contested  |
| 1996        | Case No. GR-96-285                       | Missouri Gas Energy  | Direct<br>Surrebuttal             | Contested  |
| 1997        | Case No. ER-97-394                       | UtiliCorp United Inc.<br>Missouri Public Service<br>(electric)           | Direct<br>Rebuttal<br>Surrebuttal | Contested  |
| 1998        | Case No. GR-98-374                       | Laclede Gas Company  | Direct                            | Settled    |
| 1999        | Case No. ER-99-247<br>Case No. EC-98-573 | St. Joseph Light & Power Co.   | Direct<br>Rebuttal<br>Surrebuttal | Settled    |
| 2000        | Case No.<br>EM-2000-292                  | UtiliCorp United Inc. and St. Joseph<br>Light & Power Merger             | Rebuttal                          | Contested  |

| <u>Year</u> | <u>Case No.</u>         | <u>Utility</u>                                      | <u>Type of<br/>Testimony</u> |           |
|-------------|-------------------------|---|------------------------------|-----------|
| 2000        | Case No.<br>EM-2000-369 | UtiliCorp United Inc. and<br>Empire Electric Merger | Rebuttal                     | Contested |