

Exhibit No.:

Issues: Plant In Service
Depreciation Expense
Depreciation Reserve
Operation and Maintenance
Expense

Witness: AMANDA C. MCMELLEN

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: SR-2000-556

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

AMANDA C. MCMELLEN

OSAGE WATER COMPANY

CASE NO. SR-2000-556

Exhibit No. 5

Date 3-05-01 **Case No.** SR-2000-556

Reporter KF

Jefferson City, Missouri
February 2001

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AMANDA C. McMELLEN

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DIRECT TESTIMONY
OF
AMANDA C. McMELLEN
OSAGE WATER COMPANY
CASE NO. SR-2000-556

Q. Please state your name and business address.

A. Amanda C. McMellen, PO Box 360, Jefferson City, MO 65102.

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 and employment background.

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

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

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

Q. Have you previously filed testimony before this Commission?

A. No.

Q. Have you made an investigation or study of the books and records of
Osage Water Company (OWC) in Case No. SR-2000-556?

A. Yes, in conjunction with other members of the Commission Staff (Staff).

1 Q. Please identify your areas of responsibility in Case No. SR-2000-556.

2 A. My principal areas of responsibility are plant in service, depreciation
3 expense, depreciation reserve and operation and maintenance expenses.

4 Q. Please identify the Accounting Schedules you are sponsoring.

5 A. I am sponsoring the following Accounting Schedules:

6 Accounting Schedule 3 Total Plant in Service

7 Accounting Schedule 4 Adjustments to Total Plant

8 Accounting Schedule 5 Depreciation Expense

9 Accounting Schedule 6 Depreciation Reserve

10 **ACCOUNTING SCHEDULES**

11 Q. Please explain Accounting Schedule 3 for sewer services.

12 A. Accounting Schedule 3, Total Plant in Service, lists in Column B OWC's
13 total jurisdictional sewer plant in service balances as of December 31, 1999. Column C
14 lists Staff's adjustment to jurisdictional sewer plant, which updates plant in service
15 through March 31, 2000. Column D contains Staff's adjusted total jurisdictional plant in
16 service balances as of March 31, 2000.

17 Q. Please explain Accounting Schedule 4.

18 A. Accounting Schedule 4, Adjustments to Total Plant, details the individual
19 adjustment to OWC's total jurisdictional sewer plant in service balance, which is listed in
20 Column C of Accounting Schedule 3. This plant adjustment will be discussed later in
21 this direct testimony.

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1 Q. Please explain Accounting Schedule 5.

2 A. Accounting Schedule 5, Depreciation Expense, lists in Column B the total
3 jurisdictional sewer plant in service balances from Accounting Schedule 3, Column D.
4 Column C contains the Staff's proposed depreciation rates. Please refer to the direct
5 testimony of Staff witness Rosella Schad of the Commission's Engineering &
6 Management Services Department for further information regarding the development of
7 the Staff's proposed depreciation rates. The rates in Column C are then applied to the
8 plant balances in Column B to determine the annualized level of depreciation expense
9 that appears in Column D.

10 Q. Please explain Accounting Schedule 6.

11 A. Accounting Schedule 6, Depreciation Reserve, lists in Column B OWC's
12 total jurisdictional sewer depreciation reserve balances as of December 31, 1999.
13 Column C lists Staff's adjustments to jurisdictional sewer depreciation reserve, which
14 update depreciation reserve through March 31, 2000. Column D contains Staff's adjusted
15 jurisdictional depreciation reserve balances.

16 Q. Referring to Accounting Schedule 9, please describe the allocation factors
17 which appear in Column D.

18 A. Currently, OWC is providing non-regulated sewer service to customers
19 who are outside the service territories that have been certificated to OWC by this
20 Commission. The allocation factors in Column D represent the Staff's allocation
21 between OWC's regulated and non-regulated sewer operations.

22 Q. Please describe the basis for the Staff's allocation factors.

1 A. The Staff's allocation factors were derived on the basis of customer counts
2 of regulated versus non-regulated customers.

3 Q. What adjustments are you sponsoring in Case No. SR-2000-556?

4 A. I am sponsoring the following adjustments to the Staff's sewer case:

5 Plant in Service P-1

6 Income Statement S-1, S-2, S-3, S-4

7 **PLANT IN SERVICE**

8 Q. How did the Staff arrive at the Plant in Service balances?

9 A. The Staff reviewed all invoices OWC had available. Then, the Staff
10 calculated the depreciation expense and reserve from those numbers.

11 Q. Please explain adjustment P-1.

12 A. Adjustment P-1 is to adjust the Plant in Service balance at
13 December 31, 1999 to account for engineering fees that were not included previously.
14 These fees were necessary to install plant.

15 Q. Did OWC expense any items that the Staff has capitalized?

16 A. Yes. The Staff believes that certain items should not be expensed because
17 they relate to plant that is being capitalized. These expenses are payments for a truck
18 loan and payments on the money OWC borrowed to install the Chelsea Rose plant. The
19 investment associated with these items is included in the Staff's rate base and therefore
20 should not be recognized as an expense.

21 **OTHER OPERATION & MAINTENANCE EXPENSES**

22 Q. Please explain adjustment S-1.

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Amanda C. McMellen

1 A. Adjustment S-1 reduces the sewer testing expense to reflect OWC's
2 proposed amount. The Staff adopted OWC's proposed amount, because the test year
3 expense was unusually high.

4 Q. Please explain adjustment S-2.

5 A. Adjustment S-2 reduces the Supplies-Other expense to reflect OWC's
6 proposed amount. The Staff adopted OWC's proposed amount, because the test year
7 expense was unusually high.

8 Q. Please explain adjustment S-3.

9 A. Adjustment S-3 reflects the jurisdictional adjustment to include sewer
10 plant depreciation.

11 Q. Please explain adjustment S-4.

12 A. Adjustment S-4 reduces the jurisdictional plant depreciation to exclude
13 depreciation on sewer plant that was contributed to OWC.

14 Q. How did Staff arrive at the amounts for OWC's remaining Operation and
15 Maintenance expenses?

16 A. The Staff reviewed OWC's "General Ledger Activity" report and
17 invoices.

18 Q. Are there any expenses the Staff did not include in OWC's cost of
19 service?

20 A. Yes. The Staff excluded the lease on the Bobcat. This was done because
21 the lease on the Bobcat was due to expire in March or April 2001. OWC intends to
22 purchase the Bobcat at the expiration of the lease. The remaining value of the Bobcat

1 was included as investment in rate base and therefore should not be expensed. The
2 investment in the Bobcat was allocated between water and sewer.

3 Q. Did the Staff use any numbers that were not in the "General Ledger
4 Activity" report mentioned above in the Staff's cost of service calculation?

5 A. Yes. The Salaries-O&M expense was based on hours reported on
6 Company timesheets, multiplied by the employee's hourly wage. The Salaries-
7 Supervision expense was based on OWC's proposed salary and a 60% allocation factor.
8 The allocation factor was based on the Staff's observation of the supervisor's utility
9 work. The Salaries-Secretary expense was based on the employee's hourly rate,
10 multiplied by the annual working hours (2,080) and the Staff's observation of workload.

11 Q. Were the Staff's adjustments that are detailed above, allocated between
12 the regulated and non-regulated operations of OWC, which were discussed earlier in your
13 direct testimony?

14 A. Yes.

15 Q. Does this conclude your direct testimony?

16 A. Yes, it does.

In the Matter of Osage Water Company's)
Request For A Rate Increase For Sewer Service) Case No. SR-2000-556
Pursuant To The Public Service Commission's)
Small Company Rate Increase Procedure.)

STATE OF MISSOURI)
)
COUNTY OF COLE) SS.

Amanda C. McMellen
Amanda C. McMellen

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NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21, 2004