

Exhibit No.:
Issues: Revenues; Revenue-Related
Expenses; Cost of Removal and
Salvage; Uncollectible Expense
Witness: Edward F. Began, CPA
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

EDWARD F. BEGAN, CPA

MISSOURI-AMERICAN WATER COMPANY

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

Jefferson City, Missouri
October 2003

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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,)

v.)

Missouri-American Water Company,)

Respondent.)

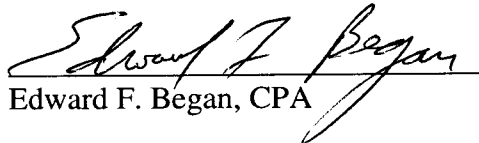
Case No. WC-2004-0168

AFFIDAVIT OF EDWARD F. BEGAN, CPA

STATE OF MISSOURI)
)
COUNTY OF COLE)

ss.

Edward F. Began, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Direct 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.


Edward F. Began, CPA

Subscribed and sworn to before me this 2nd day of October 2003.





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

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EDWARD F. BEGAN, CPA

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DIRECT TESTIMONY
OF
EDWARD F. BEGAN, CPA
MISSOURI-AMERICAN WATER COMPANY
CASE NOS. WR-2003-0500
AND WC-2004-0168

Q. Please state your name and business address.

A. Edward F. Began, CPA, 1845 Borman Court, Suite 101, St. Louis, Missouri
63146.

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

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

Q. Please describe your educational background.

A. I graduated from Washington University, St. Louis, Missouri, in January 1972,
and passed the entire Uniform Certified Public Accountant (CPA) examination in May 1972.
I possess a current Missouri CPA license and permit to practice.

Q. Please describe your work background.

A. I have held audit, accounting and controllership duties in public accounting
and in industry, which have required progressively increasing responsibility. I have been
employed by the Commission since November 2000.

Q. Please describe your duties while employed by the Commission.

1 A. In conjunction with other members of the Commission Staff (Staff) I have
2 performed audits and examinations of utility companies operating within the state of Missouri
3 with regard to rate cases and other regulatory proceedings.

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

5 A. Yes, please see Schedule 1 attached to this testimony for a list of cases in
6 which I have filed testimony and the issues I addressed.

7 Q. Have you made an examination of the books and records of
8 Missouri-American Water Company (MAWC or Company)?

9 A. Yes, in conjunction with other members of the Staff. I have examined the
10 Company's financial records, workpapers and responses to the Staff's data requests pertaining
11 to my areas of responsibility.

12 Q. Please list your areas of responsibility.

13 A. My primary areas of responsibility in this case are revenues; the revenue
14 related expenses of chemicals, fuel and power, and purchased water; cost of removal and
15 salvage; and uncollectible expense.

16 Q. What knowledge, skills, experience, training or education do you have in these
17 matters?

18 A. I acquired general knowledge of these topics through my previous work
19 experience in industry and at the Commission. I have also acquired knowledge of these areas
20 through my review of Staff workpapers from previous rate cases for MAWC and St. Louis
21 County Water Company. I have also reviewed prior Commission decisions with regard to
22 these matters. I have received supervision and guidance from my supervisor and other senior
23 members of the accounting Staff with regard to these topics. In addition, my college

1 coursework included accounting and auditing classes. I have successfully passed the CPA
2 exam that included sections dealing with accounting practice, theory and auditing. In
3 May 2001, I attended the Western NARUC Utility Rate School sponsored by the National
4 Association of Regulatory Utility Commissioners' Water Committee.

5 Q. What is the purpose of your testimony?

6 A. The purpose of my testimony is to sponsor and explain the following Staff
7 adjustments to Accounting Schedule 10 – Adjustment to Income Statement.

<u><i>Adjustment Area</i></u>	<u><i>Adjustment Number</i></u>
Revenues	S-1.1, S-2.1, S-3.1, S-3.2, S-4.1, S-5.1, S-6.1, S-7.1, S-8.2
Chemicals Expense	S-11.9
Fuel and Power Expense	S-9.6, S-10.3, S-11.1, S-14.26
Purchased Water Expense	S-9.5
Cost of Removal and Salvage	S-15.4
Uncollectible Expense	S-13.3

16 **REVENUES**

17 Q. Please identify the adjustments to revenues you are sponsoring.

18 A. I am sponsoring all the revenue adjustments, which include S-1.1, S-2.1, S-3.1,
19 S-3.2, S-4.1 S-5.1, S-6.1, S-7.1 and S-8.2. These adjustments normalize and annualize the
20 Company's revenues.

21 Q. What is meant by the terms normalizing and annualizing?

22 A. With regards to revenues, normalizing refers to the process of calculating what
23 revenues would have been if normal weather and rainfall effecting usage had occurred.
24 Annualization is a process that attempts to calculate an on-going level of annual revenues

1 based on the billing determinants, number of customers, meter size, and volumes consumed
2 that exist at the end of the test year, update period or true-up.

3 Q. Please discuss how revenues for residential, commercial, and larger municipal
4 customers was normalized and annualized (S-1.1 and S-2.1).

5 A. These rates consist of a customer charge and a volumetric charge. The
6 customer charge is a specified minimum charge varying by the meter size(s) serving the
7 customer. The number of customers at June 30, 2003 was multiplied by the applicable
8 minimum customer charge. The product of this calculation was multiplied by the number of
9 billing periods in a year, four for quarterly billed customers and twelve for monthly, to
10 produce the annualized minimum customer charge revenue.

11 The volumetric charge was determined by first multiplying the weather adjusted
12 average gallons used per day per customer or meter (GMD) times the number of customers or
13 meters at June 30, 2003. This was done for each of the residential and commercial customers.
14 The total gallons per day for these customer classes were then multiplied by the 365 days in a
15 year to determine the total annual use in gallons. The annual use in gallons was then
16 converted to ccf, 100 cubic feet, the billing measurement in the Company's tariffs. The
17 St. Charles district tariffs specify that 100 cubic feet, 1 ccf, of water is included in the
18 monthly minimum customer charge. Therefore, those customers total water volumetric
19 charge was calculated after excluding the first 100 cubic feet of water, because it is part of the
20 minimum customer charge.

21 Q. How was the adjustment finally determined?

22 A. The sum of the customer charge and the volumetric charge in the above
23 calculations were compared to the test year's recorded revenues to determine the adjustment.

1 Additionally, industrial and municipal customers having significant changes in water usage
2 (i.e., plant closings, new contracts, etc.) were individually analyzed and the estimated impacts
3 were included in the total volumetric and minimum customer charges.

4 Q. How was the GMD used in your calculation determined?

5 A. The GMD was calculated by, and is addressed in the direct testimony of, Staff
6 witness Dennis Patterson from the Energy – Economic Analysis Department of the
7 Commission’s Utility Operations Division.

8 Q. Please explain your adjustment to Industrial Revenue, S-3.2.

9 A. Adjustment S-3.2 reduces test year revenue from certain large industrial and
10 municipal customers due to major changes in their contracted purchases and/or industrial
11 plant closings.

12 Q. Please explain your adjustments to all remaining revenue categories, S-3.1,
13 S-4.1, S-5.1, S-6.1, S-7.1 and S-8.2.

14 A. These adjustments to all remaining revenue categories eliminate the test year
15 level of unbilled revenue and reclassify certain municipal sales. Because the revenues have
16 been adjusted to reflect an as-billed basis, the unbilled revenue must be eliminated to prevent
17 misstating total revenue.

18 **CHEMICALS**

19 Q. Please explain adjustment S-11.9.

20 A. Adjustment S-11.9 annualizes chemical expense for each district based on the
21 current cost of chemicals used in the water treatment process and the test year’s volume of
22 water produced. The average chemical cost per one thousand gallons (Mgal) of water
23 production was developed for each district based on the adjusted cost and test year volumes.

Each specific district's average cost was applied to its annualized water production to calculate the annualized chemical cost.

FUEL AND POWER

Q. Please explain adjustment S-9.6, S-10.3, S-11.1, S-14.26.

A. These adjustments annualize fuel and power costs for each district based on its test year actual costs, adjusted for electric rate reductions effective in 2002 and 2003. The average power cost per Mgal of water production was developed for each district based on the adjusted cost and test year volumes. Each specific district's average cost per Mgal was applied to its annualized water production to calculate the annualized fuel and power cost for each district.

PURCHASED WATER EXPENSE

Q. Please explain Accounting adjustment S-9.5.

A. Adjustment S-9.5 eliminates \$1,231,070 from Purchased Water expense. The adjustment reflects the elimination of the purchase water contract between the St. Charles District and St. Charles County. Beginning in 2003, water for the St. Charles District will be supplied by the St. Louis District's plants. Also included in Adjustment S-9.5 is an allocation to St. Charles District of a portion of the water produced by the St. Louis District's plants.

COST OF REMOVAL AND SALVAGE

Q. Please explain Income Statement adjustment S-15.4.

A. Adjustment S-15.4 includes a four-year average of the cost of removal and salvage in operating expense.

1 Q. What is cost of removal and salvage?

2 A. Cost of removal is incurred when utility property is retired from service.
3 Retiring property from service can cause the utility to incur costs to abandon, physically
4 dismantle, tear down or otherwise remove the property from its site. Salvage is the residual
5 value received from the reusable material recovered from the retired plant during the
6 dismantling and/or removal process. Typically, the cost of removal exceeds the salvage
7 recovered resulting in a positive net expense to the utility. Utilities track the amounts of cost
8 of removal and salvage received on an ongoing basis.

9 Q. Why is this adjustment necessary?

10 A. This adjustment is necessary to include the annual normal ongoing level of
11 cost of removal and salvage received in the cost of service. Cost of removal and salvage, like
12 other expenses (maintenance, payroll, postage, etc.), is an ongoing cost incurred by the utility.
13 Therefore, like maintenance expense, the Staff has determined an annual, normal ongoing
14 level for cost of removal and salvage.

15 Q. Why is a four-year average of the cost of removal and salvage a reasonable
16 level of expense to include in the cost of service?

17 A. The Staff examined the historical amounts of cost of removal and salvage
18 actually experienced by the Company and available by district during the period 1999 through
19 2002. The amounts of cost of removal and salvage have fluctuated from year to year during
20 the period examined. Averaging costs to mitigate the impact of fluctuating expense levels is a
21 common ratemaking technique and has been used to determine other costs in this case. The
22 Staff believes that an average of the last four years is the most representative of the annual
23 normal ongoing level of expense for this case.

1 Q. Were there any variances from the four-year average cost of removal and
2 salvage in this rate case?

3 A. Yes. The St. Joseph District recorded an unusually high amount of salvage
4 proceeds during 2002 from the sale of its office building. For that district, the Staff used a
5 three-year (1999-2001) average cost of removal and salvage to eliminate the effect of this
6 unusually high salvage amount. Schedule 2 attached to this testimony shows the historical
7 cost of removal and salvage by district for the years 1999 through 2002.

8 Q. Has the Staff proposed the inclusion of cost of removal and salvage in expense
9 in other recent rate cases?

10 A. Yes. A list of recent cases in which the Staff has proposed the inclusion of
11 cost of removal and salvage in expense is shown below.

12	Union Electric Company	GR-2000-512
13	Union Electric Company	EC-2002-1
14	Laclede Gas Company	GR-2001-621
15	Laclede Gas Company	GR-2002-356
16	St. Louis County Water	WR-2000-844
17	Empire District Electric Company	ER-2001-299
18	Empire District Electric Company	ER-2002-424
19	UtiliCorp United, Inc.	ER-2001-672
20	Missouri Gas Energy Company	GR-2001-292
21	Citizens Electric Company	ER-2002-217

22 **UNCOLLECTIBLE EXPENSE**

23 Q. Please explain Adjustment S-13.3.

24 A. Adjustment S-13.3 reflects the difference between the actual average amount
25 of net write-offs for the three years ending December 31, 2002 and the test year's bad debt
26 expense recorded on the Company's books.

27 Q. Does this conclude your direct testimony?

28 A. Yes it does.

CASE PROCEEDING PARTICIPATION

EDWARD F. BEGAN, CPA

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Citizens Electric Cooperative	ER-2002-217	Direct - Advertising; Dues Donations and Memberships; Maintenance Expense including Tree Trimming; Postage; PSC Assessment; and, Rate Case Expense
Laclede Gas Company	GR-2001-629	Direct - Advertising; Property Taxes; Other Rate Base Items; Plant, and Amortizing Assets, Their Related Reserves, and Current Amortization and Depreciation Expense; PSC Assessment; and, Rate Case Expense
Northeast Missouri Rural Telephone Company	TR-2001-344	Direct - Advertising; Memberships, Dues, Donations, and Subscriptions; Payroll

DIRECT TESTIMONY

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COST OF REMOVAL AND SALVAGE

District	1999	2000	2001	2002
Brunswick	2,459	8,234	443	250
Jefferson City	0	0	0	-1,951
Joplin	2,276	-953	3,821	-1,403
Mexico	68,760	226,629	86,736	73,983
Parksville-Water	-23,226	6,709	50,248	1,013
St. Charles	98,051	11,814	45,403	41,672
St. Joseph	45,141	4,044	7,106	-679,005
St. Louis	399,260	868,551	333,089	512,567
Warrensburg	-111,190	33,026	22,653	31,545
Water Utilities Total	481,531	1,158,054	549,499	-21,329