

Exhibit No.:
Issue: Accounting
Witness: Andrew Marmouget
Sponsoring Party: Rolla Mun. Utilities
Case No.: EA-2000-308
Date Testimony Prepared: October 17, 2000

PREPARED SURREBUTTAL TESTIMONY
OF
ANDREW A. MARMOUGET
ON BEHALF OF
CITY OF ROLLA / ROLLA MUNICIPAL UTILITIES

Exhibit No. 1
Date 12-11-00 Case No. EA-2000-308
Reporter RS

1 SURREBUTTAL TESTIMONY OF ANDREW A. MARMOUGET
2

3 Q. Please state your name for the record.

4 A. Andrew A. Marmouget.

5 Q. By whom are you employed?

6 A. Davis, Lynn, & Moots, P.C.

7 Q. In what capacity are you employed?

8 A. I am a senior accountant with that firm.

9 Q. In what business is Davis, Lynn, & Moots engaged?

10 A. Davis, Lynn, & Moots PC is a certified public accounting firm. The firm was formed in
11 1983 and provides accounting, tax, auditing, and consulting services to its clients. The
12 audit department specializes in audits of governmental, and not-for-profit entities.

13 Q. Please describe your professional duties with the firm.

14 A. I am responsible for providing auditing, accounting, and consulting services to
15 governmental and not-for-profit clients of Davis, Lynn, & Moots.

16 Q. Please explain your educational background and experience.

17 A. I graduated from Southwest Missouri State University, with a Bachelor of Science
18 Degree in Accounting in 1996. I obtained my CPA license in January of 1999 from the
19 State of Missouri.

20 Q. What is the purpose of your rebuttal testimony?

21 A. The purpose of my testimony is to rebut certain testimony presented by Intercounty
22 Electric Cooperative Association and people aligned with it on behalf of our firm's client,
23 Rolla Municipal Utilities ("RMU"). I was specifically asked to address certain aspects of

1 the rebuttal testimony dealing with the financial status and expenditures of RMU and
2 certain aspects of depreciation relevant to this proceeding.

3 Q. What qualifications do you have to address the financial status and expenditures of RMU
4 and depreciation?

5 A. I am qualified to address the financial status of RMU because I have participated in the
6 annual audits of RMU's financial statements for the past three years. These are
7 independent audits designed to provide a fair and accurate depiction of RMU's financial
8 statements and accounting practices. I am qualified to address depreciation because that
9 is a topic on which all Certified Public Accountants receive training in the course of their
10 curriculum.

11 RMU'S FINANCIAL STATUS / EXPENDITURES

12 Q. On page 5, lines 55 to 61 of Don Priest's rebuttal testimony for the Southside Intervenors,
13 he states that RMU expends money on non-utility items such as economic development.
14 In your experience, is it unusual for a municipal utility in Missouri to transfer money to
15 the general fund of the city government?

16 A. No this is not unusual. It is a generally accepted practice for municipal utilities to
17 contribute a percentage of their revenues to the general government as a reimbursement
18 for administrative costs including economic development. In fact, the State Auditor's
19 Office concurred on page 16 of their audit report, cited by Mr. Priest, that this is a
20 common practice in municipal governments.

21 Q. Do you have personal knowledge through your work of other municipal utility systems
22 doing that?

23 A. Yes.

1 Q. Is there anything inappropriate or illegal about that practice?

2 A. Not that I am aware of.

3 Q. On lines 95 and 120 of Mr. Priest's rebuttal testimony, he expresses concern that RMU
4 may have to raise rates due to the depletion of RMU reserves. Are you aware of the
5 reserve funds maintained by RMU?

6 A. Yes.

7 Q. What was the amount of RMU's reserves as of the latest independent audit?

8 A. According to our independent audit of RMU's financial statements for the year ended
9 September 30, 1999, RMU had a retained earnings balance of \$17,465,440.

10 Q. What is retained earnings?

11 A. Retained earnings represents an entity's total assets in excess of its total liabilities or the
12 excess of earnings retained as reserves.

13 Q. Did the audit you referred to indicate how much unrestricted cash and investments RMU
14 has?

15 A. Yes. RMU had an unrestricted cash and investment balance of \$8,362,122 as of
16 September 30, 1999.

17 Q. What was the amount of RMU's total liabilities as of September 30, 1999?

18 A. RMU's liabilities totaled \$1,817,893.

19 Q. For the years ended September 30, 1999 and September 30, 1998, have RMU's retained
20 earnings increased or decreased from previous years?

21 A. RMU's retained earnings have increased for the years ended September 30, 1999 and
22 September 30, 1998 by \$1,730,363 and \$778,083 respectively.

23 Q. Are you generally aware of the issues presented in this case?

1 A. I'd say I was generally aware of them. I have reviewed most of the prepared testimony
2 and looked at the statute involved.

3 Q. Based upon your familiarity with RMU's finances, and the amounts at issue in this
4 proceeding, in your opinion, based on RMU's financial position on September 30, 1999,
5 would RMU be forced to raise electric rates in Rolla if the proposed transfer of the
6 customers in the Southside Annexation area were to take place?

7 A. In my opinion, based on RMU's retained earnings balance of \$17,465,440 and
8 unrestricted cash and investment balance of \$8,362,122 as of September 30, 1999, I
9 cannot see how RMU would be forced to raise electric rates if it were required to pay a
10 fair amount for the Intercounty facilities.

11 Q. Given that, what is your opinion of Mr. Priest's assertion that RMU may have to raise
12 electric rates?

13 A. RMU's financial position as of September 30, 1999 does not support Mr. Priest's
14 allegation.

15 DEPRECIATION

16 Q. In Mr. Ledbetter's rebuttal testimony on behalf of Intercounty Electric Cooperative, he
17 uses a depreciation factor of 71.69%. Do you know how Mr. Ledbetter obtained this
18 factor?

19 A. It appears, Mr. Ledbetter took Intercounty's total fixed assets and subtracted total
20 accumulated depreciation. He then divided that number by the amount of Intercounty's
21 total fixed assets.

22 Q. How does the statute say that Intercounty's facilities are supposed to be valued with
23 regard to depreciation?

1 A. Subsection 5 of Section 386.800 of the Revised Statutes of Missouri says that the
2 Commission is supposed to use the "present-day reproduction cost, new, of the properties
3 and facilities serving the annexed areas, less depreciation computed on a straight-line
4 basis."

5 Q. Is the method utilized by Mr. Ledbetter the proper way to calculate depreciation on the
6 straight line basis?

7 A. No. According to Generally Accepted Accounting Principles (GAAP) straight line
8 depreciation is calculated by taking the cost of an asset and dividing it by the estimated
9 useful life of the asset. For example, if an asset were purchased for \$100,000 and its
10 estimated useful life were 35 years, straight line depreciation would be calculated as
11 follows: $\$100,000/35 = \$2,857.15$ per year. Another way to look at it is: $\$2,857.15 /$
12 $\$100,000 = 2.86\%$ per year.

13 Q. What is the effect of using the depreciation factor of 71.69% used by Mr. Ledbetter in his
14 rebuttal testimony?

15 A. He is saying, in effect, that Intercounty's entire system is only 10.1 years old, assuming
16 the estimated useful life of the system is 35 years. Mr. Ledbetter's calculation multiplies
17 total cost of \$1,046,115 by a factor of 71.69%. This means that the total depreciation
18 which has been taken on the system to date is 28.31%. If the useful life of the poles and
19 conductors and transformers etc. is 35 years, then the depreciation rate is 2.8% per year.
20 Dividing 28.31% by the annual depreciation rate 2.8% results in a system only 10.1 years
21 old. In other words, his calculations are really saying that Intercounty's system is only
22 10.1 year old, which would mean, in effect, that it was just built in 1990.

23 Q. Does Mr. Ledbetter's calculation seem realistic or reasonable to you as a certified public

1 accountant?

2 A. No.

3 Q. Does Intercounty use a system-wide depreciation rate of 71.69% for its own accounting
4 purposes?

5 A. No. According to information provided by Intercounty which I have reviewed,
6 Intercounty uses a rate of 2.8%.

7 Q. Are you in a position to draw any conclusions about Mr. Ledbetter's use of the 71.69 %
8 depreciation factor?

9 A. Yes. It definitely does not comply with the statutory requirement to utilize straight line
10 depreciation.

11 Q. Does this complete your surrebuttal testimony?

12 A. Yes, at this time.

13

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

In the matter of the application of the City of)
Rolla, Missouri, for an order assigning exclusive)
service territories and for determination of)
fair and reasonable compensation pursuant to)
section 386.800 RSMo 1994.)

Case No. EA-2000-308

AFFIDAVIT OF ANDREW A. MARMOUGET

STATE OF MISSOURI)
)ss
COUNTY OF GREENE)

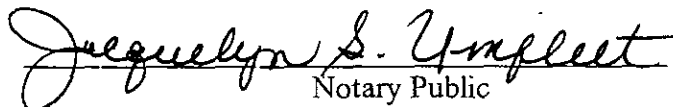
Andrew A. Marmouget, being first duly sworn, states upon his oath that he has participated in the preparation of the foregoing surrebuttal testimony in question and answer form; that the answers to the same were given by him; that he has knowledge of the matters set forth therein, and that such answers are true and correct to the best of his knowledge and belief.



Andrew A. Marmouget

Subscribed and sworn to before me this 13th day of October, 2000.

(Notary seal/stamp)



Notary Public

