

Exhibit No.:
Issues: *Test Year;*
Accounting Schedules;
Revenues and Cost of
Removal and Salvage
Witness: *Janis E. Fischer*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case Nos.: *ST-2003-0562 and*
WT-2003-0563
(Consolidated)
Date Testimony Prepared: *December 19, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JANIS E. FISCHER

OSAGE WATER COMPANY

CASE NOS. ST-2003-0562 and WT-2003-0563
(CONSOLIDATED)

Jefferson City, Missouri
December 2003

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter of Sewer and Water Tariff
Filings made by Osage Water Company

) Case No. ST-2003-0562 and
) Case No. WT-2003-0563
(Consolidated)

AFFIDAVIT OF JANIS E. FISCHER

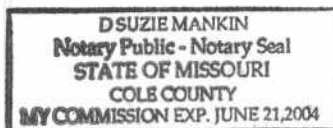
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Janis E. Fischer, being of lawful age, on her oath states: that she has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the following 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.



Janis E. Fischer

Subscribed and sworn to before me this 18th day of December 2003.





Notary

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DIRECT TESTIMONY

OF

JANIS E. FISCHER

OSAGE WATER COMPANY

CASE NOS. ST-2003-0562 and WT-2003-0563

(Consolidated)

Q. Please state your name and business address.

A. Janis E. Fischer, Governor Office Building, PO Box 360, Jefferson City,
Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission
(Commission or PSC).

Background of Witness

Q. Please describe your educational background.

A. I graduated from Peru State College, Peru, Nebraska, and received a
Bachelor of Science degree in Education (Basic Business) and Business Administration.
In May 1985, I completed course work and earned a Bachelor of Science degree in
Accounting. I passed the Uniform Certified Public Accountant examination in May 1994
and received my license to practice in March 1997.

Q. Please describe your work background.

A. Prior to my employment at the Commission, I worked over six years as the
office and accounting supervisor for the Falls City, Nebraska Utilities Department
(Utilities Department).

1 I also was employed as a staff accountant with the accounting firm of
2 Cuneo, Lawson, Shay and Staley, PC, in Kansas City, Missouri, for approximately two
3 years. Prior to that, I worked in the business office of the Falls City Community Hospital
4 and as the accountant for the Sac and Fox Tribe of Missouri.

5 Q. What has been the nature of your duties while employed by the
6 Commission?

7 A. Since I began employment with the Commission in 1996, I have directed
8 and assisted with various audits and examinations of the books and records of public
9 utilities operating within the state of Missouri under the jurisdiction of the Commission.
10 I assumed my present position of Regulatory Auditor IV in December 2001.

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

12 A. Yes. Please refer to Schedule 1, attached to this direct testimony, for a list
13 of the major audits and issues on which I have assisted and filed testimony.

14 **Purpose of Testimony**

15 Q. With reference to Case Nos. ST-2003-0562 and WT-2003-0563, have you
16 examined and studied the books and records of Osage Water Company (OWC or
17 Company) relevant to the filing in this case?

18 A. Yes, with the assistance of other members of the Commission
19 Staff (Staff). I have examined the cost of service to OWC water and sewer customers
20 through analysis and review of OWC's filing, financial information provided to the Staff
21 by OWC during fieldwork and prior Commission case workpapers of the Auditing
22 Department Staff.

23 Q. What matters will you address in your testimony?

24 A. My direct testimony will discuss the following items:

1 The Staff's recommendation regarding revenue and expense adjustments
2 included in Staff Accounting Schedule 10, Adjustments To Income Statement for water
3 and sewer revenues, wholesale purchased water expense and the appropriate level of
4 expense to include for cost of removal and salvage.

5 Q. What knowledge, skill, experience, training or education do you have in
6 regulatory matters?

7 A. My knowledge is based upon being assigned a variety of issues in a
8 number of PSC cases over the past seven years. Specifically, I filed testimony in Osage
9 Water Company Case No.WC-98-236. My principal areas of responsibility included the
10 determination of the Company's rate base and the financial viability of the Company.

11 I have reviewed the Staff Auditing Department position papers, training
12 manuals and technical manuals dealing with accounting issues in this case. In addition, I
13 have reviewed Commission Report And Orders, testimony and transcripts of recent
14 Commission cases, including the Osage Water Company Case Nos. SR-2000-556 and
15 WR-2000-557. I have also attended in-house and PSC sponsored training throughout the
16 seven years of my employment with the Commission.

17 In addition to knowledge gained while employed at the Commission, my
18 work at a municipal utility company for over six years has given me additional expertise
19 related to the daily operations of an electric and natural gas utility. A small municipal
20 utility operation provides employees the opportunity to gain knowledge in many aspects
21 of utility operations. While with the Utilities Department, I completed water and electric
22 rate reviews, developed procedures for PCB monitoring and disposal, implemented a
23 program to verify the accuracy of remote water meters, supervised office staff and
24 handled customer complaints. I assisted with the acquisition of Falls City's natural gas

1 distribution system from Kansas Power and Light Company, predecessor company of
2 Western Resources, Inc. After the acquisition, I compiled asset records for the natural
3 gas distribution system for the utility, nominated gas supplies for the municipal power
4 plant, negotiated prices for gas purchased from marketers, monitored gas transportation
5 customer loads and billed transportation customers.

6 I was appointed by the Board of Public Works (Board) to the Nebraska
7 Public Gas Agency (NPGA) Board and later was elected Secretary and then
8 Vice Chairperson of the Board. NPGA is comprised of members from municipal natural
9 gas systems who collectively purchase natural gas and acquire natural gas wells to supply
10 gas to municipal gas systems and power plants at reduced costs. As a member of the
11 Board, I reviewed annual budgets and natural gas purchases for member communities.
12 I participated in management salary negotiations and the development of incentive
13 compensation programs for management and other employee groups. In addition
14 I participated in NPGA's negotiations to purchase gas wells, reviewed terms and
15 conditions for the issuance of revenue bonds and attended meetings with NPGA's
16 lobbyist and future planning sessions.

17 While employed as a staff accountant with Cuneo, Lawson, Shay and
18 Staley, I assisted in various audits, compilations and reviews of corporations and
19 prepared individual and corporate state and federal tax returns. I researched tax issues for
20 international client business operations and interacted with various clients. I completed
21 pension plan audits, health care plan compliance audits for several unions in the
22 Kansas City area, a stock brokerage firm audit and a nursing home audit.

23 In addition, my prior work experience in the area of accounting included
24 assisting in preparing monthly financial statements, reconciling cash receipts to customer

1 payments, completing accounts payable functions and maintaining investment records for
2 a non-profit hospital. While employed as the accountant for the Sac and Fox Tribe of
3 Missouri, my responsibilities included maintenance of all accounting records of federal
4 and state governmental grants and contracts. I compiled monthly financial statements,
5 completed payroll functions and corresponded with the Bureau of Indian Affairs and the
6 United States Department of the Interior on a quarterly basis regarding the status of
7 grants and contracts administered by the Sac and Fox Tribe.

8 **TEST YEAR**

9 Q. What test year and update period is the Staff using in this case?

10 A. The twelve-month period from July 1, 2002, through June 30, 2003, is the
11 test year the Company and the Staff agreed to use for this case.

12 Q. Would you please describe what a test year is and how it is used?

13 A. The test year is a twelve-month period used to determine the cost of
14 providing service. The test year is the basis for the audit of a general rate increase filing
15 or an earnings/revenues investigation. This period serves as the starting point for review
16 and analysis of the utility's operations in determining the reasonableness and
17 appropriateness of the utility's rates and rate levels. The test year financial statements
18 form the basis for any adjustments necessary to remove abnormalities that have occurred
19 during the test year and to reflect any increase or decrease to the accounts of the utility.
20 Adjustments are made to the test year levels of revenue, expense and investment to
21 determine the proper cost of service. A recommended rate of return range is determined
22 for the utility and a review of existing rates is made to determine if any additional
23 revenues are necessary or if existing revenues are excessive. If the Staff determines that
24 the utility's earnings/revenues are deficient, it may make a recommendation that rates

1 need to be increased. If existing rates generate earnings/revenues in excess of what are
2 deemed to be just and reasonable levels, this may indicate the need for rate reductions.
3 The test year is the vehicle used to evaluate and determine the proper relationship among
4 revenue, expense and investment. This relationship is essential to determine the
5 appropriate level of earnings/revenues for the utility for the setting of just and reasonable
6 rates, which will permit the utility to provide safe and adequate service.

7 **ACCOUNTING SCHEDULES**

8 Q. What is the purpose of your testimony?

9 A. The purpose of my direct testimony is to sponsor and explain the
10 following accounting schedules:

11	Accounting Schedule 1	Revenue Requirement
12	Accounting Schedule 2	Rate Base
13	Accounting Schedule 3	Total Plant in Service
14	Accounting Schedule 4	Adjustments to Total Plant
15	Accounting Schedule 5	Depreciation Expense
16	Accounting Schedule 6	Depreciation Reserve
17	Accounting Schedule 9	Income Statement
18	Accounting Schedule 10	Adjustments to Income Statement
19	Accounting Schedule 11	Income Tax

20 Each of the schedules listed above has been developed for both water and
21 sewer operations, since a separate revenue requirement is calculated for each type of
22 utility service.

23 I am also sponsoring the following adjustments appearing on Accounting
24 Schedule 10:

25	Water Revenue	S-33.1 and S-33.2
26	Sewer Revenue	S-40.1 and S-40.2
27	Purchased Water Expense	S-30.1

28 Q. Please explain Accounting Schedule 1.

1 A. Accounting Schedule 1, Revenue Requirement, represents the gross
2 revenue requirement recommendation as determined by the Staff. Line 1 is the net
3 original cost rate base obtained from Accounting Schedule 2, Rate Base. Line 2 reflects
4 the rate of return supplied by Staff witness David Murray of the Financial Analysis
5 Department. The product of lines 1 and 2 is the net operating income requirement before
6 income taxes (NOIBT), shown on line 3. Line 4 is the net income available per the
7 Income Statement, Accounting Schedule 9. Line 3 less line 4 is the additional NOIBT
8 shown on line 5. Line 7 is the required current income tax from Accounting Schedule 11,
9 Income Tax, using the net operating income requirement on line 3 and the rate of return
10 recommended by the Staff. This is the additional tax associated with the additional net
11 operating income needed before income taxes shown on line 5. The total additional tax
12 required is shown on line 13. Line 13 plus the additional NOIBT from line 5 is the gross
13 revenue requirement shown on line 14. This amount represents the Staff's gross revenue
14 requirement recommendation based on the Staff's audit in this case.

15 Q. Please explain Accounting Schedule 2.

16 A. Accounting Schedule 2, Rate Base, represents the total rate base that is
17 transferred to line 1 of Accounting Schedule 1. Line 1 is the total plant in service as
18 shown on Accounting Schedule 3. Line 2 is the total depreciation reserve as shown on
19 Accounting Schedule 6. Line 1 less line 2 is the net plant in service shown on line 3.

20 Q. Please explain Accounting Schedule 3.

21 A. Accounting Schedule 3, Total Plant in Service, lists in column B OWC
22 plant balances as of July 31, 2003. Plant adjustments are listed in column C. Columns D
23 through E are not applicable to OWC. Column F contains the adjusted jurisdictional
24 plant in service balances.

1 Q. Please explain Accounting Schedule 4.

2 A. Accounting Schedule 4, Adjustments to Total Plant, details the Staff's
3 individual adjustments to plant in service, which are listed in column C of Accounting
4 Schedule 3. Staff witness Dana E. Eaves of the Commission's Auditing Department
5 describes adjustments to plant in his direct testimony.

6 Q. Please explain Accounting Schedule 5.

7 A. Accounting Schedule 5, Depreciation Expense, lists in Column B the plant
8 in service balances from Accounting Schedule 3, column F. Column C contains the
9 depreciation rates proposed by Staff witness Gregory E. Macias of the Commission's
10 Engineering and Management Services Department. The rates in column C are then
11 applied to the plant balances in column B to determine the annualized level of
12 depreciation expense that appears in column D.

13 Q. Please explain Accounting Schedule 6.

14 A. Accounting Schedule 6, Depreciation Reserve, lists in column B OWC
15 depreciation reserve balances as of June 30, 2003. Columns C through E are not
16 applicable to OWC in these consolidated cases. Column F contains the adjusted
17 depreciation reserve balances, which in the case of OWC are the same as the balances
18 listed in column B.

19 Q. Why are Accounting Schedules 7, Adjustments to Depreciation Reserve
20 and 8, Cash Working Capital not included in this filing?

21 A. Accounting Schedules 7 and 8 are not applicable to OWC and therefore
22 are not included in this filing.

23 Q. Please explain Accounting Schedule 9.

1 A. Accounting Schedule 9, Income Statement, lists in column B, OWC's
2 book amounts of revenues and expenses for the test year ended June 30, 2003. Staff's
3 adjustments to revenue and expense (detailed in Accounting Schedule 10, Adjustments to
4 Income Statement) are listed in column C. Column D contains the Staff's revenues and
5 expenses for the test year ended June 30, 2003. Some of the expenses are common to
6 both water and sewer operations and were allocated between the types of service, based
7 upon the number of customers for each service.

8 Q. Please explain Accounting Schedule 10.

9 A. Accounting Schedule 10, Adjustments to Income Statement, contains a
10 listing of the specific adjustments that the Staff has made to the unadjusted test year
11 income statement to derive the Staff's adjusted net income. A brief explanation for each
12 adjustment, the adjustment amount and the name of the Staff witness sponsoring the
13 adjustment are listed on Accounting Schedule 10.

14 Q. Please explain Accounting Schedule 11.

15 A. Accounting Schedule 11, Income Tax, reflects the Staff's calculation of
16 current and deferred income taxes using the recommended range of rate of return based
17 on the adjusted NOIBT amount from column D, Accounting Schedule 9, Income
18 Statement.

19 **REVENUES**

20 Q. How did Staff determine OWC's operating revenues as shown on
21 Accounting Schedule 9 Income Statement?

22 A. The Staff reviewed the billing records of OWC for the test year and
23 beyond, through October 2003, and annualized the revenues based on water and sewer
24 customer counts or growth as of July 31, 2003. Customer growth that occurred in

1 July 2003 is more representative of an ongoing level than June 2003, the last month of
2 the test year. In addition, water revenues associated with the Eaglewoods service
3 territory required further analysis.

4 Q. Why did you perform additional analysis of the Eaglewoods water
5 revenues?

6 A. OWC purchases water for the Eaglewoods service territory from
7 Environmental Utilities and the purchased water charges for May 2003 through
8 September 2003 service did not appear to support the revenues being billed by OWC to
9 its Eaglewoods customers.

10 Q. What conclusions did you reach based upon your analysis of the
11 Eaglewoods purchased water and billed revenues?

12 A. Osage Water Company representatives explained the fact that most
13 customers in the Eaglewoods service territory are not currently being metered for water
14 usage. In addition, water quality problems required that the lines be flushed on occasion.
15 Since OWC is required to purchase water from Environmental Utilities, it is essential that
16 all customers in the Eaglewoods service territory must be metered. The Staff is
17 recommending that all customers in the Eaglewoods service territory be metered as soon
18 as possible.

19 Q. How did you determine an annualized level of water usage for
20 Eaglewoods customers?

21 A. I reviewed the detailed billing reports for June through October 2003.
22 These are the most current reports available and correspond to Environmental Utilities
23 invoices received for the purchased water. I took an average of the July and

1 September 2003 water volumes for the five metered customers and applied the average
2 water usage level to all customers in the Eaglewoods service territory.

3 Q. How did you determine an annualized level of purchased water expense?

4 A. I applied the same water volumes used to calculate the annualized water
5 revenues to determine an annualized purchased water expense.

6 Q. How did you calculate an annualized level of sewer revenues?

7 A. I used the same methodology for the sewer revenue annualization as I did
8 for the water revenue annualization. I calculated the sewer revenues based upon
9 July 2003 customer levels. I multiplied the number of sewer customers by the current
10 sewer charge and then multiplied by twelve to determine the annualized sewer revenue.

11 **COST OF REMOVAL AND SALVAGE**

12 Q. Did the Staff make an adjustment for water or sewer plant cost of removal
13 or salvage?

14 A. No. Discussions with the Company representatives substantiated the fact
15 that the Company has not removed any plant prior to or during the test year, which would
16 result in cost of removal expense or salvage revenue. Therefore the Staff did not make an
17 adjustment.

18 Q. What is cost of removal and salvage?

19 A. Cost of removal is incurred when utility plant is removed from service.
20 Removing property from service can cause the utility to incur costs to abandon,
21 physically dismantle, tear down or otherwise remove the property from its site.

22 Salvage is the proceeds received for the retired plant material recovered
23 during the dismantling and/or removal process. The amount of salvage can be influenced
24 by the level of cost incurred in the removal of plant from service.

1 Typically, the cost of removal exceeds the salvage recovered resulting in a
2 positive net expense to the utility. Utilities track the amounts of cost of removal and
3 salvage received on an ongoing basis.

4 Q. Does this conclude your direct testimony?

5 A. Yes it does.

CASE PROCEEDING PARTICIPATION

JANIS E. FISCHER

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Union Electric Company d/b/a AmerenUE	GR-2003-0517	Direct - Rate Case Expense, Legal Expense, Corporate Franchise Tax, Cost of Removal and Salvage, Pensions and OPEBs
Laclede Gas Company	GR-2002-356	Direct - Pensions and OPEBs, Rate Base Asset, Incentive Compensation
Missouri Gas Energy, Division of Southern Union Company	GR-2002-292	Direct - Pensions and OPEBs, Other Employee Benefits, SERP, COLI Amortization
Missouri-American Water Company	WO-2002-273	Rebuttal - Security Costs, Accounting Authority Order Staff Criteria
Citizens Electric Company	ER-2002-217	Direct - Test Year, Accounting Schedules, Revenues, Purchased Power and Transmission, Other Revenues, Uncollectibles Expense
Union Electric Company d/b/a AmerenUE	EC-2002-1	Surrebuttal - Incentive Compensation
Missouri Public Service, Division of UtiliCorp United, Inc.	ER-2001-672 EC-2002-265	Direct - Pensions and OPEBs, Merger Transition/Transaction Costs, Merger Savings-SJLP, Revenues, Uncollectibles
Missouri Public Service, Division of UtiliCorp United, Inc.	ER-2001-672 EC-2002-265	Rebuttal - Merger Transition/Transaction Costs, Merger Savings-SJLP, Revenues, Uncollectibles
The Empire District Electric Company	ER-2001-299	Direct - Payroll, Pensions and OPEBs, Payroll Related Benefits, Payroll Taxes, Outside Services, Merger Costs, Miscellaneous Expenses True-up Rebuttal – Chemicals, Property Taxes
The Empire District Electric Company	ER-2001-299	Rebuttal - Payroll Expense, Bonuses and Incentive Pay
The Empire District Electric Company	ER-2001-299	Surrebuttal - Payroll Expense, Bonuses and Incentive Pay
The Empire District Electric Company	ER-2001-299	Supplemental Surrebuttal - Incentive Awards
The Empire District Electric Company	ER-2001-299	True-up Direct - Payroll, Payroll Taxes, Payroll Related Benefits
KLM Telephone Company	TT-2001-120	Direct - Revenue Requirement
UtiliCorp United, Inc./ Empire District Electric Company	EM-2000-369	Rebuttal - Merger Savings, Acquisition Adjustment, Tracking of Merger Savings
UtiliCorp United, Inc./ St. Joseph Light & Power Company	EM-2000-292	Rebuttal - Merger Savings, Acquisition Adjustment, Tracking of Merger Savings
Osage Water Company	WA-98-236 WC-98-211	Rebuttal - Financial Viability, Organizational Costs

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Western Resources/ Kansas City Power & Light Company	EM-97-515	Rebuttal - Merger Savings, Tracking of Merger Savings, Transaction Costs, Costs to Achieve
Union Electric Company d/b/a AmerenUE	GR-97-393	Direct - Cash Working Capital, Materials/Supplies, Prepayments, Federal/State Income Tax Offset, Purchased Gas Offset, Interest Expense Offset
The Empire District Electric Company	ER-97-81	Direct - Dues and Donations, Advertising, Rate Case Expenses, PSC Assessment, Non-Health Insurance, Miscellaneous Expenses