

*Exhibit No.:*  
*Issues:* *Rate Base and Related Expenses;*  
*Insurance Other Than Group;*  
*Miscellaneous Other Taxes*  
*Witness:* *Lisa K. Hanneken*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *IR-2004-0272*  
*Date Testimony Prepared:* *March 11, 2004*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**LISA K. HANNEKEN**

**FIDELITY TELEPHONE COMPANY**

**CASE NO. IR-2004-0272**

*Jefferson City, Missouri*  
*March 2004*

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

In the Matter of the Application of Fidelity  
Telephone Company for Authority to File,  
Establish, and Put into Effect New, Increased,  
or Revised Rates and Charges for Telephone  
Service.

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Case No. IR-2004-0272

AFFIDAVIT OF LISA K. HANNEKEN

STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )

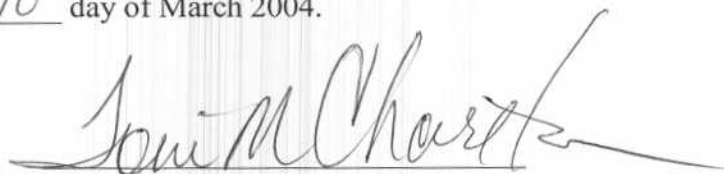
ss.

Lisa K. Hanneken, 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 9 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.

  
Lisa K. Hanneken

Subscribed and sworn to before me this 10 day of March 2004.





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

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**LISA K. HANNEKEN**

**FIDELITY TELEPHONE COMPANY**

**CASE NO. IR-2004-0272**

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**DIRECT TESTIMONY**

**OF**

**LISA K. HANNEKEN**

**FIDELITY TELEPHONE COMPANY**

**CASE NO. IR-2004-0272**

Q. Please state your name and business address.

A. Lisa K. Hanneken, 1845 Borman Court, Ste. 101, St. Louis, Missouri 63146-4138.

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

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

Q. Please describe your educational background.

A. In July of 2001, I earned a Bachelors degree in Accounting from Webster University.

Q. Please describe your work background.

A. In August 1989, I began employment with Rinderer's Union Drug as a pharmacy technician and bookkeeper. Beginning in June of 1997, I was employed by Bucklick Creek, Inc., a manufacturing firm, as the head of accounting and office manager. During 2000, I completed an internship at the Internal Revenue Service (IRS) as an auditor of small corporations and businesses. In September 2001, I commenced employment with the Commission's Staff (Staff).

Q. What is the nature of your duties at the Commission?

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

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

4           A.     Yes, please refer to Schedule 1, attached to this direct testimony, for a  
5 complete listing of testimony I have filed, including the related case numbers and issues  
6 involved.

7           Q.     Did you make an examination and analysis of the books and records of Fidelity  
8 Telephone Company (Company) in regards to matters raised in this case?

9           A.     Yes, in conjunction with other members of the Staff. I specifically examined  
10 the Company's workpapers and testimony, the Company's response to Staff data requests,  
11 various invoices and portions of the Company's general ledger.

12          Q.     What matters will you address in your direct testimony?

13          A.     I am addressing all the components of rate base other than deferred income  
14 taxes and unamortized operating ITC. I will also address depreciation expense, insurance  
15 other than group and miscellaneous taxes.

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

18          A.     Through the accounting classes, training and internships required for my  
19 educational degree, as well as my previous work experience, I have obtained a broad working  
20 knowledge of accounting. I have attended continuing professional education seminars and  
21 classes, including the NARUC Water Rate School in Florida. Through the review of  
22 workpapers and other information in the current and previous rate cases, as well as  
23 researching the Commission's orders, I have acquired knowledge of my assigned issues

related to this Company and other companies. Furthermore, I have received and continue to receive training and guidance from the experienced senior auditors at the Commission.

Q. What is the purpose of your testimony?

A. The purposed of my testimony is to explain and sponsor the following accounting schedules and adjustments:

Accounting Schedule 1 – Revenue Requirement

Accounting Schedule 2 – Rate Base

Accounting Schedule 3 – Total Plant in Service

Accounting Schedule 4 – Adjustments to Plant in Service

Accounting Schedule 5 – Depreciation Reserve

Accounting Schedule 6 – Adjustments to Depreciation Reserve

Accounting Schedule 7 – Depreciation Expense

**Staff Adjustment Number**

**Adjustment Area**

S-32.1

Customer Deposit Interest

S-24.1

Depreciation Expense

S-30.1

Insurance Other Than Group

S-31.1

Property Tax Expense

S-31.2

Franchise Tax Expense

S-31.3

Miscellaneous Tax Expense

Expense adjustments appear on Accounting Schedule 10 - Adjustments to the Income Statement.

**REVENUE REQUIREMENT**

Q. Please describe Accounting Schedule 1, Revenue Requirement.

1           A.     Accounting Schedule 1 presents the Staff's recommended Revenue  
2 Requirement for Fidelity Telephone Company's operations. This Accounting Schedule  
3 contains information from the Rate Base, Income Statement and Income Tax Accounting  
4 Schedules to determine the Staff's recommended revenue requirement. The rate of return  
5 (supplied by Staff witness David Murray of the Financial Analysis Department) is applied to  
6 the net original rate base detailed in Accounting Schedule 2 to determine the net operating  
7 income requirement before income taxes. A comparison is made of the net operating income  
8 requirement with the net income available determined from Accounting Schedule 9, Income  
9 Statement, to determine the net income deficiency or excess. This amount plus the associated  
10 current income taxes produces the total required change in revenues.

11     **RATE BASE**

12           Q.     Please describe Accounting Schedule 2, Rate Base.

13           A.     Accounting Schedule 2 presents the Staff's calculation of rate base and  
14 summarizes the components that comprise the rate base of the Company. Rate base  
15 represents the assets upon which the Company is allowed to earn a return. First, the  
16 depreciation reserve (Accounting Schedule 5) is subtracted from total plant in service  
17 (Accounting Schedule 3) to compute net plant in service. Added to net plant in service are the  
18 13-month averages of adjusted actual balances from August 31, 2002, through August 31,  
19 2003, for materials and supplies, prepayments and customer deposits. Deferred income taxes  
20 and unamortized operating ITC are sponsored by Staff Witness David G. Winter and reflect  
21 balances at January 31, 2004.

22           Q.     Please explain why the actual balances were adjusted for materials and  
23 supplies to determine the 13-month average?

1           A.     Staff noticed several non-regulated amounts in the materials and supplies  
2 account. The Company provided Staff with a schedule, which showed correcting entries and  
3 elimination of these items from the monthly balances. These updated monthly balances were  
4 then used to determine an accurate 13-month average. In addition, Staff made adjustments to  
5 the 13-month average to reflect the removal of promotional giveaway items. The  
6 disallowance of such items are sponsored by Staff Witness Sean Devore and discussed in  
7 detail in his testimony.

8           Q.     Please explain any adjustments made to the actual balances for prepayments.

9           A.     The Staff analyzed accounts 128000 [prepayments related to Operations  
10 Support System (OSS) maintenance] and 128001 (prepayments related to insurance). Staff  
11 first adjusted the amount of prepayments in account number 128000, based on actual invoices  
12 related to the OSS maintenance contract. The adjustment corrected the Company's over-  
13 amortization of the contract and annualized the amount in order to obtain a more accurate  
14 depiction of the monthly balances utilized to determine the 13-month average. Staff then  
15 analyzed the amounts in account 128001 related to insurance premiums. Staff determined the  
16 amounts in this account were not considered to be prepayments and therefore they were only  
17 included in the Company's expenses shown on the income statement. Prepayments are  
18 amounts that are paid in advance on an annual basis for services with a term of more than one  
19 year.

20          Q.     Please discuss the amount of customer deposits shown on the rate base  
21 schedule.

22          A.     The Staff made an adjustment to the month end balances of customer deposits  
23 to reduce the amount paid by ICG, a large customer, who decreased their operations and



1 therefore received a large deposit refund. Based on discussions with the Company the level  
2 of deposits for ICG are likely to remain the same, or could possibly decrease due to the  
3 continued reduction in operating levels. Therefore, Staff used the current level of deposits  
4 shown for this customer as an on-going level.

5 Q. Please discuss adjustment S-32.1 related to customer deposit interest.

6 A. The Staff calculated the amount of interest to include in the cost of service by  
7 multiplying the adjusted 13-month average of customer deposits by the authorized interest  
8 rate set forth in the Company's tariffs, currently at five percent. This percentage is calculated  
9 on an annual basis utilizing the prime rate shown in the Wall Street Journal. The resulting  
10 amount of interest was compared to the amount of interest expense the Company showed on  
11 its books during the test year and the difference appears on Accounting Schedule 10–  
12 Adjustments to the Income Statement as adjustment S-32.1.

13 **PLANT IN SERVICE**

14 Q. Please discuss Accounting Schedules 3 and 4.

15 A. Accounting Schedule 3, Plant in Service, lists in column "C" the plant balances  
16 as recorded in the Company's ledgers, by the accounts listed in column "B", for the test year  
17 ending August 31, 2003. The Staff's plant adjustments (detailed in Accounting Schedule 4-  
18 Adjustments to Total Plant) are listed in column "D" and represent updates through  
19 January 31, 2004. Utilizing the allocation factor in Column "E", and the amounts shown in  
20 "C" and "D", Staff calculated the jurisdictional portion of total updated plant shown in  
21 Column "H".

1     **DEPRECIATION RESERVE**

2           Q.     Please discuss Accounting Schedules 5 and 6.

3           A.     Accounting Schedule 5, Depreciation Reserve, lists in column "C" the  
4 depreciation reserve balances as provided by the Company for the twelve months ending  
5 August 31, 2003. The Staff's adjustments to the reserve balances (detailed in Accounting  
6 Schedule 6-Adjustments to Reserve) are listed in column "D". Utilizing the allocation factor  
7 in Column "E", and the amounts shown in "C" and "D", Staff calculated the jurisdictional  
8 portion of total updated reserve shown in Column "H". The adjustments to the reserve  
9 represent updates through January 31, 2004.

10    **DEPRECIATION EXPENSE**

11          Q.     Please explain Accounting Schedule 7 and Income Statement adjustment  
12 S-24.1.

13          A.     Accounting Schedule 7, Depreciation Expense, lists in column "C" the  
14 adjusted jurisdictional plant in service balances, from Accounting Schedule 3. Column "D"  
15 details the Staff's proposed depreciation rates as provided by Staff witness Gregory E. Macias  
16 of the Commission's Engineering and Management Services Department. The rates in  
17 column "D", when applied to the plant balances in column "C", calculate the annualized level  
18 of depreciation expense that appears in column "E". The difference between the total  
19 annualized level of depreciation expense and the per-book amount is reflected in adjustment  
20 S-24.1 on Schedule 10-Adjustments to the Income Statement.

21    **INSURANCE OTHER THAN GROUP**

22          Q.     Please explain Staff adjustment S-30.1.

1           A.     Staff adjustment S-30.1 annualizes the Company's expense for insurance other  
2 than group. Staff utilized the amounts of current premiums that were in effect through the  
3 update period, and then applied an operation and maintenance (O&M) factor that related to  
4 the types of coverage. For example, Staff applied the payroll O&M factor to the premiums  
5 related to workers compensation in order to determine the amount related to O&M expense.  
6 The Staff completed adjustment S-30.1 by computing the difference between the annualized  
7 expense and the amount that was recorded during the test year by the Company. It should be  
8 noted that the amount of premiums shown on the policies apply to all Fidelity Companies,  
9 with the exception of the Gas and Energy Companies. The premiums are charged to the  
10 different companies based on various allocation factors.

11     **PROPERTY TAX**

12           Q.     Please describe how property tax is calculated.

13           A.     Property tax is paid in December of the tax year, and is calculated on the  
14 amount of investment at January 1 of the tax year.

15           Q.     How was adjustment S-31.1 to property taxes calculated?

16           A.     The Staff compared the actual tax amounts paid by the Company in December  
17 2003 for the tax year 2003 and the amount expensed on the books for the test year. Staff  
18 adjustment S-31.1 is the difference in the two amounts. This adjustment reflects the most  
19 recent known and measurable on-going expense level related to property taxes.

20     **STATE FRANCHISE TAX**

21           Q.     Please explain Staff adjustment S-31.2.

1           A.     Staff adjustment S-31.2 annualizes corporate franchise tax. The Staff included  
2 the actual amount of Corporate Franchise Tax paid in 2003, for the 2002 tax year. The  
3 Company estimates that the amount of tax to be paid in 2004 for the 2003 tax year should  
4 remain at the present level.

5     **MISCELLANEOUS OTHER TAXES**

6           Q.     Please discuss adjustment S-31.3 related to miscellaneous taxes.

7           A.     Staff made adjustment S-31.3 to remove any non-regulated tax amounts from  
8 the telephone company's cost of service.

9           Q.     Does this conclude your testimony in this case?

10          A.     Yes, it does.

**CASE PROCEEDING PARTICIPATION**

**LISA K. HANNEKEN**

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GR-2002-356	<u>Direct</u> - Cash Working Capital, Rate Case Exp./PSC Assessment, Advertising, Misc. Expense
Missouri American Water Company	WR-2003-0500	<u>Direct</u> – Rate Base and Related Expenses, AFUDC, Dues and Donations, Waste Disposal Expense, Storage Tank Lease Expense, Deferred Maintenance Expense, Transportation Expense, Insurance Other Than Group, Cost of Depreciation Study Expense
Missouri American Water Company	WR-2003-0500	<u>Surrebuttal</u> –AFUDC, Dues and Donations, St. Joseph Waste Disposal Expense, Transportation Expense, Property Taxes