

*Exhibit No.:*  
*Issues:* *Revenues, Related Expenses*  
*Witness:* *Amanda C. McMellen*  
*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**

**AMANDA C. McMELLEN**

**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. )

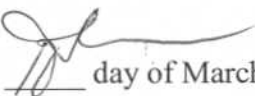
Case No. IR-2004-0272

**AFFIDAVIT OF AMANDA C. MCMELLEN**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Amanda C. McMellen, 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 7 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.

  
Amanda C. McMellen

Subscribed and sworn to before me this  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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**AMANDA C. McMELLEN**  
**FIDELITY TELEPHONE COMPANY**  
**CASE NO. IR-2004-0272**

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1                                   **DIRECT TESTIMONY**  
2                                   **OF**  
3                                   **AMANDA C. McMELLEN**  
4                                   **FIDELITY TELEPHONE COMPANY**  
5                                   **CASE NO. IR-2004-0272**

6           Q.     Please state your name and business address.

7           A.     Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO  
8     65102.

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

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

12          Q.     Please describe your educational and employment background.

13          A.     I graduated from DeVry Institute of Technology in June 1998 with a  
14     Bachelors of Science degree in Accounting. Before coming to work at the Commission, I  
15     worked as an accounts receivable clerk. I commenced employment with the Commission  
16     Staff (Staff) in June 1999.

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

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

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

21          A.     Yes, please refer to Schedule 1, attached to this direct testimony, for a list of  
22     the major audits on which I have assisted and filed testimony.

1 Q. Have you made an examination of the books and records of Fidelity  
2 Telephone Company (Fidelity or Company) for purposes of this case?

3 A. Yes, with the assistance of other members of the Staff.

4 Q. When was this case filed?

5 A. The Company filed this case on December 30, 2003. It was designated  
6 as Case No. IR-2004-0272 for Fidelity's Missouri telephone operations.

7 Q. What test year did the Staff use?

8 A. The Staff's test year is the twelve months ended August 31, 2003, with an  
9 update for known and measurable changes through January 31, 2004.

10 Q. Please describe your areas of responsibility in Case No. IR-2004-0272.

11 A. I am responsible for the areas of telephone revenue annualizations and  
12 uncollectibles (bad debts) expense.

13 Q. Please describe what adjustments you are sponsoring in this case.

14 A. I am sponsoring the following Income Statement adjustments:

15 Revenues	S-1.1, S-6.1, S-7.1, S-8.1,
16	S-9.1, S-11.1, S-12.1, S-13.1
17 Reciprocal Compensation	S-23.1
18 Intrastate Access	S-23.2
19 Universal Service Fund (USF)	S-23.3
20 Gross Receipts Tax	S-31.4

21 Q. What knowledge, skill, experience, training and education do you have  
22 relating to your audit assignments in this case?

1           A.     My college education provided a fundamental knowledge base, which I have  
2 utilized in my assigned duties at the Commission. I have attended training courses and  
3 reviewed in-house training materials while at the Commission. I have continually received  
4 guidance from the Senior Auditors in the Auditing Department on my assignments. I have  
5 reviewed the testimony and workpapers from previously filed cases on this issue. I reviewed  
6 the Company's testimony, workpapers and data requests. Finally, my previous work  
7 assignments at the Commission have provided a knowledge base upon which I rely to  
8 develop my assigned areas in this rate proceeding.

9     **REVENUES**

10           Q.     Why has the Staff annualized the revenues of Fidelity?

11           A.     To determine the cost of service of a company, all relevant and material  
12 components to the revenue requirement must be examined for possible adjustment through  
13 the annualization and normalization processes. Just as expense and rate base items have to  
14 be included in the rate case at proper levels, revenues also must be appropriately reflected to  
15 maintain the proper relationship between revenues, expenses and rate base.

16           Q.     What are annualizations?

17           A.     Annualizations are made to reflect a full 12-month period of revenues and  
18 expenses in the development of the proper revenue requirement. Examples of this type of  
19 adjustment relate to additions and disconnections of service through the test year and update  
20 period. The annualization process is also commonly used to adjust expense levels such as  
21 payroll increases and lease payments. Anytime an event occurs that causes revenue and  
22 expense levels to go up or down, an annualization is necessary. The events could be a price  
23 change for salaries and wages or depreciation levels for new plant additions. New customers

1 taking service from the Company have a partial year of usage and thereby, revenues, must be  
2 annualized or revenues will be understated, resulting in an overstatement of the revenue  
3 requirement.

4 Q. What are normalization adjustments?

5 A. Normalization adjustments are made to ensure that the revenue requirement  
6 properly reflects “normal” levels of revenues and expenses. Adjustments are made to  
7 remove abnormalities that do not reflect the Company’s ongoing operations.

8 Q. What is the purpose of Adjustment S-1.1?

9 A. Adjustment S-1.1 represents the Staff’s annualization of local revenues. The  
10 Staff used the August 2003 level and multiplied it by 12 months to annualize local revenues.  
11 A significant portion (\$251,608) of this adjustment relates to specific lines that were in  
12 service at the beginning of the test year but are no longer in service because of disconnection  
13 by customers. Information regarding all revenues, through the January 31, 2004, update  
14 period, will be examined when available. The Staff reserves the right to alter this adjustment  
15 if the new information warrants a change.

16 Q. Please explain Adjustment S-6.1.

17 A. Adjustment S-6.1 normalizes state access revenue. A major part (\$274,585)  
18 of this adjustment relates to the revenues associated with terminating cellular access minutes.  
19 This adjustment was calculated using the most current data available. Due to the apparent  
20 upward trend in this revenue category, the August 2003 level of state access revenues was  
21 multiplied by 12 months to represent the Company’s ongoing level of revenues. For the  
22 cellular terminating minutes, the current contracted rate of \$0.035 was used to calculate the  
23 adjustment.

1 Q. Please explain Adjustment S-7.1.

2 A. Adjustment S-7.1 annualizes other local service revenue by multiplying the  
3 August 2003 level by 12 months.

4 Q. Please explain Adjustment S-8.1.

5 A. Adjustment S-8.1 combines two separate adjustments to long distance  
6 revenue. The first part removes the portion of test year long distance revenue relating to the  
7 interstate intraLATA toll revenues because this item is non-jurisdictional revenue. The Staff  
8 deducted the test year per books amount to arrive at the adjustment. The second part of this  
9 adjustment annualizes the revenues associated with message toll and private line settlements  
10 based on August 2003 levels multiplied by 12 months.

11 Q. Please explain Adjustment S-9.1.

12 A. Adjustment S-9.1 annualizes directory revenue by multiplying the August  
13 2003 level by 12 months.

14 Q. Please explain Adjustment S-11.1.

15 A. Adjustment S-11.1 relates to Universal Service Fund (USF) revenue.

16 Q. What is the USF?

17 A. The USF is a fund established in 1983 and administered by the National  
18 Exchange Carrier Association (NECA) to help compensate telephone companies for  
19 providing telecommunications services at just and affordable rates in all areas of the country.  
20 Data is collected and submitted to NECA by local exchange companies (LECs) as to the  
21 amount of each company's actual investment, expenses and taxes. USF provides support for  
22 the "last mile" of connection for rural companies in service areas where their cost to provide  
23 service exceeds the national average per access line. Adjustment S-11.1 represents the



1 Company's best estimate, from NECA, of the ongoing level of actual receipts by Fidelity  
2 from the USF.

3 Q. For ratemaking purposes, how has the Staff traditionally treated USF dollars?

4 A. The Staff traditionally includes USF payments on a dollar-for-dollar basis in  
5 the cost of service, since these payments are designed to offset the investment to provide  
6 basic service.

7 Q. What is the purpose of Adjustment S-12.1?

8 A. Adjustment S-12.1 adjusts carrier billing and collection (B&C) revenues for  
9 two reasons. First, revenues are received as a result of Fidelity's provision of billing and  
10 collection services related to interstate revenues. The Staff deducted the test year per books  
11 amount associated with this non-jurisdictional revenue. Also, the intrastate intraLATA  
12 jurisdictional portion was annualized by taking the level at August 2003 and multiplying by  
13 12 months.

14 Q. Please explain adjustment S-13.1.

15 A. Adjustment S-13.1 annualizes miscellaneous revenues based on the August  
16 2003 level.

17 Q. Why did the Staff use the August 2003 levels for the revenue annualizations?

18 A. It's the Staff belief that the August 2003 revenue levels represent the  
19 Company's ongoing revenues for cost of service purposes.

20 **RELATED EXPENSES**

21 Q. Please explain Adjustment S-23.1?

22 A. Adjustment S-23.1 annualizes for reciprocal compensation with regards to  
23 cellular telephone providers.

1 Q. Please define the term reciprocal compensation as it relates to cellular  
2 telephone providers.

3 A. Reciprocal compensation for cellular telephone traffic assumes that there is  
4 traffic from a landline company, such as Fidelity, that terminates with a cellular telephone  
5 provider. The amount of reciprocal compensation is based on a negotiated traffic ratio  
6 related to the number of minutes the cellular telephone provider terminates with the  
7 Company. Fidelity treats reciprocal compensation costs as an expense.

8 Q. Please describe the Staff's reciprocal compensation calculation.

9 A. The Staff took the negotiated traffic ratio and multiplied it by the annualized  
10 termination minutes. This result was then multiplied by the per minute rate that was  
11 negotiated in the interconnection agreement between Fidelity and the cellular telephone  
12 provider to arrive at the total amount for Adjustment S-23.1.

13 Q. Please explain Adjustment S-23.2.

14 A. Adjustment S-23.2 represents the increase in the intrastate access expense on  
15 intraLATA toll in relation to the increase in revenues explained earlier in Adjustment S-8.1.

16 Q. Please explain Adjustment S-23.3.

17 A. Adjustment S-23.3 removes USF payments related to the non-jurisdictional  
18 interstate portion of the expense.

19 Q. Please explain Adjustment S-31.4.

20 A. Adjustment S-31.4 annualizes gross receipts tax relating to the adjustments to  
21 revenues.

22 Q. Does this conclude your direct testimony?

23 A. Yes, it does.

**SUMMARY OF RATE CASE TESTIMONY FILED**

**Amanda C. McMellen**

<b><u>COMPANY</u></b>	<b><u>CASE NO.</u></b>	<b><u>ISSUES</u></b>
Osage Water Company	SR-2000-556	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
	WR-2000-557	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Empire District Electric Company	ER-2001-299	Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions
UtiliCorp United, Inc./ d/b/a Missouri Public Service	ER-2001-672	Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses
BPS Telephone Company	TC-2002-1076	Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses

**SUMMARY OF RATE CASE TESTIMONY FILED**

**Amanda C. McMellen**

Aquila, Inc. d/b/a  
Aquila Networks-MPS &  
Aquila Networks-L&P

ER-2004-0034

Revenue Annualizations  
Uncollectibles