

Exhibit No.:
Issues: *Plant-in-Service and Accumulated
Depreciation Reserve; Miscellaneous
Revenues; Hancock Construction Co.
and Organization Costs*
Witness: *Greg R. Meyer*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case Nos.: *ST-2003-0562 AND WT-2002-0563
(Consolidated)*
Date Testimony Prepared: *December 19, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

GREG R. MEYER

OSAGE WATER COMPANY

**CASE NOS. ST-2003-0562 AND WT-2002-0563
(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 GREG MEYER

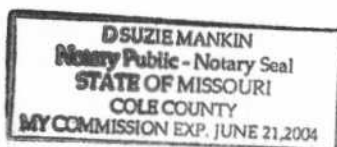
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

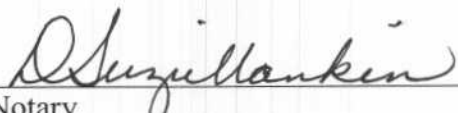
Greg Meyer, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Greg Meyer

Subscribed and sworn to before me this 19th day of December 2003.





Notary

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TABLE OF CONTENTS OF
DIRECT TESTIMONY
GREG R. MEYER
OSAGE WATER COMPANY
CASE NOS. ST-2003-0562 AND WT-2002-0563
(Consolidated)

PLANT-IN-SERVICE AND ACCUMULATED DEPRECIATION RESERVE..... 2

MISCELLANEOUS REVENUES 3

HANCOCK CONSTUCTION COMPANY..... 3

ORGANIZATION COSTS..... 5

DIRECT TESTIMONY

OF

GREG R. MEYER

OSAGE WATER COMPANY

CASE NOS. ST-2003-0562 AND WT-2002-0563

(Consolidated)

Q. Please state your name and business address.

A. Greg R. Meyer, 1845 Borman Court, Ste. 101, St. Louis, Missouri 63146.

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

A. I am a Regulatory Auditor V with the Missouri Public Service Commission (commission).

Q. Please describe your educational and employment background.

A. In May 1979, I graduated from the University of Missouri at Columbia, with a
 or of Science degree with an emphasis in Accounting.

Q. What has been the nature of your duties while in the employ of the mission?

A. I have supervised and assisted in audits and examinations of the books and records of utility companies operating within the State of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. Please refer to Schedule 1, which is attached to this direct testimony, for the major audits on which I have previously filed testimony. I also have been responsible for case coordination regarding Commission cases where I did not file direct

1 testimony. Additionally, I have performed numerous audits of small water and sewer
2 companies for rate increases and certification cases.

3 Q. What is the purpose of your direct testimony?

4 A. I will provide testimony concerning Osage Water Company's (OWC or
5 Company) plant-in-service and accumulated depreciation reserve balances included in the
6 Staff's cost of service. In addition, I will provide testimony concerning the proper level of
7 miscellaneous revenues for the water and sewer operations. I will also testify to the Staff's
8 ratemaking treatment of the Hancock Construction Company lawsuit. Finally, I will provide
9 testimony regarding OWC's organization and franchises and concerns costs and the Staff's
10 ratemaking treatment.

11 **PLANT-IN-SERVICE AND ACCUMULATED DEPRECIATION RESERVE**

12 Q. Please describe the Staff's methodology to determine the Company's plant-in-
13 service and accumulated depreciation reserve balances for the water and sewer operations.

14 A. I used the plant-in-service and accumulated depreciation reserve balances that
15 were filed by the Staff in the Company's last rate cases. Those balances were recorded as of
16 December 31, 1999. I then updated these balances for the additions to plant that occurred
17 through July 2003. I used the Company's general ledger to identify the additions to plant. I
18 disallowed expenditures such as loan payments, which do not qualify for capitalization.

19 I then calculated the accumulated depreciation reserve balances for the water and
20 sewer operations. I started with the reserve balances that the Staff used in the Company's
21 last case and calculated the additional annual depreciation expense attributable to the plant-
22 in-service balance at the end of each year. Additions to plant that occurred during any
23 calendar year were treated as mid-year additions for depreciation expense calculations. I

1 then summed the annual depreciation expense totals for the years 2000 through 2003 and
2 added that total to the December 31, 1999, depreciation reserve balances that the Staff filed
3 in the Company's last rate case. I used the OWC authorized depreciation rates to perform
4 these calculations.

5 The plant-in-service balances and accumulated depreciation reserve balances for both
6 water and sewer operations were given to Staff auditor Dana E. Eaves to input into the
7 Staff's cost of service calculations. Workpapers supporting these calculations have been
8 previously provided to Mr. Greg Williams.

9 **MISCELLANEOUS REVENUES**

10 Q. Please describe the Staff's position regarding miscellaneous revenues.

11 A. The Staff has included \$1,000 of miscellaneous revenues in the cost of service
12 for both the water and sewer operations.

13 Q. What does the \$1,000 of miscellaneous revenues represent?

14 A. The amount for miscellaneous revenues for the water and sewer operations
15 relates to fees collected by the Company through its tariffs for service
16 connection/disconnections. The Company has several water and sewer tariffs dealing with
17 service connections and disconnections. It is the Staff's position that \$1,000 for both the
18 water and sewer operations is a reasonable estimate of the miscellaneous revenue that the
19 Company receives.

20 **HANCOCK CONSTRUCTION COMPANY**

21 Q. Please describe the adjustment to the Staff's water cost of service related to
22 the Hancock Construction Company.

1 A. Dave Hancock was a shareholder of OWC in the early 1990's. Mr. Hancock
2 owns and operates a construction company named Hancock Construction Company.

3 Hancock Construction Company constructed several water facilities for OWC. As a
4 result of non-payment for these services by OWC, Hancock Construction Company filed
5 civil litigation regarding this matter in Case No. CV196-305CC in the Circuit Court of
6 Camden County. However, OWC and Hancock Construction Company reached an
7 agreement prior to an actual court ruling. As part of that agreement, OWC was obligated to
8 pay Hancock Construction Company \$1,000 per month for a specified period. The
9 agreement also noted that no interest would accumulate on the balance.

10 The Company has not paid the \$1,000 per month as agreed and Hancock Construction
11 subsequently filed in court against OWC. As a result of this filing, it is my understanding
12 that OWC has now been ordered to pay the remaining balance plus the accumulation of
13 interest on the outstanding balance.

14 The Staff has included the \$1,000 per month amount agreed to between OWC and
15 Hancock Construction Company in the original settlement of this case.

16 Q. Was this amount included in the Staff's cost of service calculation in the
17 Company's last rate case?

18 A. Yes. In fact, the Staff would contend that the \$1,000 per month is in the
19 current rates of the Company. The Company's last water rate case resulted in an Agreement
20 Regarding Disposition Of Small Company Rate Increase Request (Disposition Agreement).
21 Sections 9-12 of the Disposition Agreement describe the ratemaking treatment of this area.
22 Those sections of the Disposition Agreement are included below:

23 (9) That the Company and Staff do not agree on the ratemaking
24 treatment that should be accorded the plant-in-service balances

1 pertaining to certain facilities that were constructed for the Company
2 by Hancock Construction Company, and which were the subject of
3 civil litigation in Case No. CV196-305CC in the Circuit Court of
4 Camden County. However, for the purpose of completing this case,
5 the Staff's position on this matter has been incorporated into the
6 development of the agreed-upon increase in the Company's operating
7 revenues.

8 (10) That the Company will remove the plant balances referenced in
9 paragraph (9) above from its regular plant accounts and will set the
10 same aside in a separate special plant account on the Company's books
11 until such time as the disagreement regarding the ratemaking treatment
12 to be accorded those balances is resolved in a future rate increase
13 proceeding.

14 (11) That in lieu of normal rate base treatment for the plant balances
15 referenced in paragraph (9) above, the development of the agreed-upon
16 increase in the Company's operating revenues included recognition of
17 the Company's \$1,000/month payment obligation to Hancock
18 Construction Company, which resulted from the terms of a settlement
19 agreement reached in the civil litigation referenced in paragraph (9)
20 above.

21 (12) That for accounting purposes, payments made by the Company
22 to Hancock Construction under the terms of the above-referenced
23 settlement agreement will be credited against the balance of the special
24 plant account referenced in paragraph (10) above until such time as the
25 disagreements regarding the ratemaking treatment to be accorded the
26 balances in that special account are resolved in a future rate
27 proceeding.

28 **ORGANIZATION COSTS**

29 Q. Please describe the areas of Organization-Account 301, and Franchises and
30 Consents-Account 302.

31 A. During the 1997-1998 timeframe, the Staff discovered that substantial
32 amounts of dollars were being charged by OWC to the above plant-in-service accounts. Due
33 to the large balances, the Staff performed an audit on the charges to these accounts. As a
34 result of the Staff's audit, several improper charges to these accounts were discovered.

1 On October 12, 1999, the Company filed a rate case and the Staff updated its analysis
2 of these accounts through 1999. The Staff's final audit of the amounts booked by the
3 Company to these accounts identified significant inappropriate charges. However, for
4 purposes of settlement in the Company's last rate case, the Sections 7-8 of the Disposition
5 Agreement contained the following language:

6 (7) That the Company and the Staff do not agree on the amounts
7 that should be included in the Company's Account 301, Organization
8 and Account 302, Franchises and Consents, nor on the ratemaking
9 treatment that should be accorded such amounts. However, for the
10 purpose of completing this case, the Staff's position on these matters
11 has been incorporated into the development of the agreed-upon
12 increase in the Company's operating revenues.

13 (8) That the monthly customer charges included in the revised
14 tariff sheets referenced in paragraph (2) above include \$1.00 that the
15 Company will credit toward recovery of the organization and franchise
16 accounts referenced in paragraph (7) above until such time as the
17 disagreements regarding those accounts are resolved in a future rate
18 increase proceeding.

19 Q. What is the Staff proposing for purposes of these rate cases?

20 A. The Staff continues to support the position that is currently a component of
21 OWC's customer rates. Specifically, the Staff would support that an additional dollar be
22 added to each customer's bill for both water and sewer service.

23 Q. Have you reviewed the testimony of Mr. Pat Mitchell of OWC?

24 A. Yes, I have.

25 Q. Please comment on this testimony.

26 A. OWC, through the testimony of Mr. Mitchell, has proposed ratemaking
27 adjustments that have not been offered by other utility companies operating in the State.
28 Much of OWC's request relates to matters that this Commission has not included in prior rate
29 cases of any water/sewer utility. The Staff will provide more detailed testimony regarding

1 these matters in rebuttal testimony. However, at this time, the Staff advises the Commission
2 that a reconciliation between the Company's and Staff's rate cases may not be possible.

3 Q. Does this conclude your direct testimony?

4 A. Yes, it does.

SUMMARY OF RATE CASE INVOLVEMENT

Greg R. Meyer

<u>COMPANY</u>	<u>CASE NO.</u>
Missouri Utilities Company	GR-79-270
Missouri Public Service Company	GR-80-117
Missouri Public Service Company	ER-80-118
Missouri Utilities Company	ER-80-215
General Telephone Company of the Midwest	TR-81-47
Capital City Water Company	WR-81-193
Missouri Utilities Company	GR-81-244
Missouri Utilities Company	WR-81-248
Missouri Utilities Company	ER-81-346
Associated Natural Gas Company	GR-82-108
Southwestern Bell Telephone Company	TR-82-199
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	ER-85-128/ EO-85-185
Arkansas Power and Light Company	ER-85-265
Southwestern Bell Telephone Company	TR-86-84
General Telephone Company of the Midwest	TC-87-57
Union Electric Company	EC-87-114
Southwestern Bell Telephone Company	TC-89-14
GTE North Incorporated	TR-89-182
Arkansas Power and Light Company	EM-90-12
Southwestern Bell Telephone Company	TC-93-224
Laclede Gas Company	GR-94-220
Union Electric Company	EM-96-149
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Union Electric Company	GR-97-393

Laclede Gas Company

GR-98-374

Union Electric

GR-2000-512

AmerenUE d/b/a Union Electric

EC-2002-1