

Exhibit No.:

- Issues: 1) Overview of Staff Testimony  
2) Disposition Agreement  
3) Differences in Staff Information

Witness: Dale W. Johansen

Sponsoring Party: MoPSC Staff

Case No.: SR-2000-556

**FILED**<sup>3</sup>

FEB 14 2001

Missouri Public  
Service Commission

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**WATER & SEWER DEPARTMENT**

**OSAGE WATER COMPANY**

**CASE NO. SR-2000-556**

**DIRECT TESTIMONY**

**OF**

**DALE W. JOHANSEN**

Jefferson City, Missouri  
February 2001

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TESTIMONY OF DALE W. JOHANSEN**

**CASE NO. SR-2000-556  
OSAGE WATER COMPANY**

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1        Increase Request (Disposition Agreement) entered into by Osage Water Company  
2        (OWC) and the Staff, which was filed in this case on November 14, 2000, and a copy of  
3        which is attached to this testimony as Schedule 2; and (3) a review of the differences  
4        between certain information to be included with the Staff's direct testimony filing and  
5        certain information previously filed in the case papers by the Staff, which was the basis  
6        for certain provisions of the Disposition Agreement.

7        Overview of Staff's Testimony

8            Q.        What other Staff members are filing testimony in this case, what was their  
9        participation in this case and what issues are they covering in their testimony?

10          A.        Set out below is a listing of the other Staff witnesses who are filing  
11        testimony in this case, along with a general description of their participation in this case  
12        and/or an overview of the issues they are covering in their testimony.

13            1)        Amanda C. McMellen – Accounting Department – Ms. McMellen  
14        participated in the Staff's review of OWC's rate increase request and is providing  
15        testimony and accounting schedules pertaining to the areas of her audit responsibilities,  
16        which support the Staff's proposed total cost of service in this case.

17            2)        James M. Russo – Accounting Department – Mr. Russo  
18        participated in the Staff's review of OWC's rate increase request and is providing  
19        testimony and accounting schedules pertaining to the areas of his audit responsibilities,  
20        which support the Staff's proposed total cost of service in this case.

1                   3)     Greg R. Meyer – Accounting Department – Mr. Meyer participated  
2     in the Staff's review of OWC's rate increase request and was the audit supervisor for this  
3     case. Mr. Meyer is providing testimony on certain provisions of the Company/Staff  
4     Disposition Agreement.

5                   4)     Ronald L. Bible – Financial Analysis Department – Mr. Bible  
6     participated in the Staff's review of OWC's rate increase request and is providing  
7     testimony and schedules regarding OWC's capital structure, OWC's cost of capital and  
8     the Staff's recommended return on equity and overall rate of return.

9                   5)     Rosella L. Schad – Engineering & Management Services  
10    Department – Ms. Schad participated in the Staff's review of OWC's rate increase  
11    request and is providing testimony and schedules regarding the depreciation rates that the  
12    Staff believes should be applied to OWC's various plant accounts.

13                  6)     Martin Hummel – W/S Dept – Mr. Hummel participated in the  
14    Staff's review of OWC's rate increase request and is providing testimony regarding  
15    service-related customer complaints, which includes a report on the Staff's investigation  
16    of service-related complaints that the Staff received and/or became aware of since the  
17    time that OWC submitted its rate increase to the Commission.

18                  7)     Wendell R. Hubbs – W/S Dept – Mr. Hubbs participated in the  
19    Staff's review of OWC's rate increase request and is providing testimony regarding how  
20    he designed the Company/Staff agreed-upon customer rates that are pending before the  
21    Commission in this case. Mr. Hubbs is also providing testimony on certain provisions of

1 the Company/Staff Disposition Agreement and a Staff recommendation regarding  
2 OWC's next rate increase proceeding.

3 **The "Disposition Agreement"**

4 Q. Generally speaking, what is a "disposition agreement" such as the one that  
5 OWC and the Staff entered into in this case?

6 A. A "disposition agreement" is essentially a settlement document that sets  
7 forth all agreements between the involved company and the Staff – and possibly the  
8 Office of the Public Counsel (OPC) – regarding a rate increase request submitted by a  
9 qualifying company under the provisions of the Commission's "Small Company Rate  
10 Increase Procedure" (4 CSR 240-2.200). Disposition agreements also normally include a  
11 brief history of the company's rate increase request and the Staff's review of the request.  
12 Under the Commission's Small Company Rate Increase Procedure, such an agreement  
13 must be reached between at least the involved company and the Staff before the involved  
14 company can file proposed tariff revisions that include increased customer rates. As  
15 noted previously in this testimony, OWC and the Staff entered into such an agreement for  
16 this case and that agreement has previously been filed in the case papers.

17 Q. In the instant case, does the Company/Staff Disposition Agreement set  
18 forth all of the agreements between OWC and the Staff regarding OWC's rate increase  
19 request?

20 A. Yes, it does. The subject Disposition Agreement includes nine (9)  
21 numbered Sections that set forth the agreements between OWC and the Staff regarding

1 the subject rate increase request, with those agreements covering all of the issues related  
2 to OWC's rate increase request.

3 Q. You previously mentioned in your testimony that certain other Staff  
4 witnesses are providing testimony on some of the provisions of the Company/Staff  
5 Disposition Agreement. Would you please explain which witnesses cover what  
6 provisions?

7 A. Certainly. Staff Witness Meyer is providing testimony that directly  
8 addresses numbered Sections (6) & (7) of the Disposition Agreement. Staff Witness  
9 Hubbs is providing testimony that directly addresses numbered Sections (3), (4) and (8)  
10 of the Disposition Agreement. Mr. Hubbs' testimony also indirectly addresses numbered  
11 Sections (5) and (6) of the Disposition Agreement. Lastly, Mr. Hubbs' testimony and  
12 schedules regarding "cost of service" and "rate design" inherently address numbered  
13 Sections (1), (2) and (7) of the Disposition Agreement.

14 Q. If I am correct, that leaves only numbered Section (9) of the Disposition  
15 Agreement as not being addressed by another Staff witness. Is that correct?

16 A. Yes, it is.

17 Q. Please briefly describe the provisions of numbered Section (9) and  
18 comment on any actions that have been taken or will be taken regarding its provisions.

19 A. Generally, numbered Section (9) of the Disposition Agreement refers to  
20 the fact that the Staff will provide additional information to the Commission about the  
21 details of its audit of OWC's rate increase request. Normally, the Staff would have  
22 provided that information to the Commission along with its recommendation regarding

1 approval of OWC's proposed tariff sheet revisions. In this case, however, the Staff  
2 provided that information to the Commission through a filing made on January 5, 2001,  
3 due to the fact that the Commission had granted the OPC's request for a local public  
4 hearing. Additionally, many of the schedules that the Staff witnesses are providing along  
5 with their pre-filed direct testimony contain much of the same information that was  
6 included with that January 5 filing.

7 **Differences in Staff Information**

8 Q. Are you aware of any differences between the information that the Staff is  
9 filing with its direct testimony and the information that it has previously used in this case  
10 and filed in the case papers?

11 A. Yes, I am.

12 Q. Please describe those differences and the reasons for them, as you  
13 understand this situation.

14 A. It is my understanding that the total cost of service included on the  
15 accounting schedules the Staff is filing with its direct testimony is different than the total  
16 cost of service that was used in the preparation of the Company/Staff Disposition  
17 Agreement and the design of the Company/Staff agreed-upon customer rates, which was  
18 reflected on the work papers that the Staff filed on January 5.

19 It is my further understanding that the reason for this difference was a  
20 misapplication of the Staff's recommended return on equity in the calculation of the  
21 original total cost of service versus the proper application of the Staff's recommended

1 overall rate of return in the calculation of the total cost of service now reflected in the  
2 Staff's accounting schedules.

3 Q. What is the effect of the difference in the original cost of service  
4 calculation and the current cost of service calculation?

5 A. The subject difference results in the Company/Staff agreed-upon increase  
6 in operating revenues that is reflected in numbered Section (1) of the Company/Staff  
7 Disposition Agreement being understated by approximately \$140. This, in turn, means  
8 that the Company/Staff agreed-upon proposed customer rates, which are pending before  
9 the Commission, could be misstated to a slight degree.

10 Q. Has the Staff discussed this problem with either OWC or the OPC, or has  
11 the Staff calculated new rates reflecting this problem?

12 A. No. This problem was discovered in the final stages of the Staff's  
13 preparation of its accounting schedules and has not yet been discussed with OWC or the  
14 OPC, nor has this problem been incorporated into a re-design of customer rates. The  
15 Staff does, however, hope to have this problem rectified prior to the time that this case  
16 goes to hearing. At a minimum, the Staff will provide the Commission with customer  
17 rates designed with the "new" cost of service as an exhibit at the hearing.

18 Q. Does this conclude your pre-filed direct testimony?

19 A. Yes, it does.



**DALE W. JOHANSEN**

**EDUCATION & WORK EXPERIENCE SUMMARY**

**FORMAL EDUCATION**

Associate of Arts in Pre-Engineering Studies  
State Fair Community College - Sedalia, Missouri

Bachelor of Science in Agricultural Engineering  
School of Engineering - University of Missouri @ Columbia

**REGULATORY/UTILITY WORK EXPERIENCE**

**Missouri Public Service Commission**

Manager - Water & Sewer Department  
Utility Operations Division  
June 1995 to Present

**Johansen Consulting Services**

Utility & Regulatory Consultant  
February 1994 to June 1995

**Missouri One Call System, Inc.**

Executive Director  
January 1992 to February 1994

**Missouri Public Service Commission**

(service prior to current position)

Director - Utility Services Division  
November 1990 to January 1992

Case Coordinator - Utility Division  
November 1987 to November 1990

Assistant Manager - Engineering  
Gas Department - Utility Division  
October 1980 to November 1987

Gas Safety Engineer  
Gas Department - Utility Division  
May 1979 to October 1980

**Agreement Regarding Disposition of  
Small Company Rate Increase Request**

**Osage Water Company**

**Case No. SR-2000-556**

**Tariff File No. 2000 00346**

Osage Water Company (Company) initiated the small company rate increase request (Request) for sewer service that is the subject of the above-referenced Commission case and "file" through its submittal of a letter to the Secretary of the Commission. The Company submitted its Request under the provisions of Commission rule 4 CSR 240-2.200, Small Company Rate Increase Procedure (the informal rate case procedure).

The date the Company's Request was received at the Commission's offices was October 12, 1999. In its Request, the Company represented that it was asking for Commission approval of customer rates intended to generate an increase of \$98,625 in its total annual sewer service operating revenues. The Company provides sewer service to approximately 155 regulated sewer customers.

As a part of its Request, the Company expressly stated its agreement to an extension of the 150-day tariff sheet filing period, which normally applies to the informal rate case procedure. The Company's agreement for such an extension was mainly based upon discussions with the Commission Staff (Staff) regarding the Company's desire to have the Staff's audit based upon a test year of calendar year 1999.

Upon review and acceptance of the Company's Request, the Commission's Records Department assigned Tariff File No. 2000 00346 to the Request for purposes of identification and tracking. The Records Department then forwarded the Request to the Commission's Water & Sewer Department for processing under the informal rate case procedure.

15

Pursuant to the provisions of the informal rate case procedure, the Staff initiated an audit of the Company's books and records and an inspection of the Company's system and the operation thereof. Based upon the results of the Staff's audit and discussions between the Staff and the Company regarding those results, the Staff and the Company hereby state the following agreements.

(1) That an increase of \$3,960 (approximately 8.77%) in the Company's annual sewer operating revenues is reasonable at this time.

(2) That the revised tariff sheets filed contemporaneously with this Disposition Agreement include rates that are intended to generate the above-referenced increase in the Company's annual sewer operating revenues and also properly reflect all other agreements set out herein, where necessary.

(3) That the Company will maintain its books and records in a manner whereby all revenues, expenses and plant balances will be properly assigned to each of the Company's separate certificated service areas.

(4) That the Company will maintain its books and records in a manner whereby all revenues, expenses and plant balances related to services its provides to non-PSC regulated systems under contract management agreements will be kept separate and apart from its books and records for its PSC regulated systems.

(5) That the Company and the Staff do not agree on all aspects of the Company's plant-in-service balances and related depreciation reserve balances. However, for the purpose of completing this case, the Staff's position on this matter has been incorporated into the development of the agreed-upon increase in the Company's operating revenues.

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

(7) That the monthly customer charges included in the revised tariff sheets referenced in paragraph (2) above include \$1.00 that the Company will credit toward recovery of the organization and franchise accounts referenced in paragraph (6) above until such time as the disagreements regarding those accounts are resolved in a future rate proceeding.

(8) That bills for services that the Company provides under contract management agreements in systems not regulated by the Commission will not be rendered under the name "Osage Water Company".

(9) That the Staff will file additional information about the details of its audit along with its recommendation to the Commission regarding approval of the revised tariff sheets referenced in item (2) above. Copies of all documents filed with the Commission shall be provided to the Company.

Only the Company and the Staff are entering into this Disposition Agreement, as the Office of the Public Counsel (OPC) is waiting to decide whether it will request a local public hearing until after it evaluates customer responses to a second customer notice, which the Company is sending to its customers at the OPC's request. In compliance with the informal rate case procedure, the Company's second notice will reflect the terms of this Disposition Agreement and will provide the Company's customers an opportunity to send comments to the OPC and the Staff within twenty (20) days of the date of that notice.

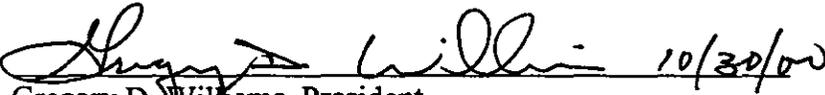
Other than the specific conditions agreed upon by the Staff and the Company, and expressly set out herein, the terms of this Disposition Agreement reflect compromises that have resulted from extensive negotiations between the Staff and the Company, and neither party has agreed to any particular ratemaking principle in arriving at the amount of the annual operating revenue increase specified herein.

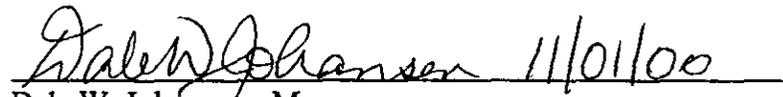
Lastly, the Company and the Staff ask the Commission to note that no action need be taken on the Company's revised tariff sheets until after the Staff files its formal recommendation regarding Commission approval of those sheets. The Staff will make that filing after the second customer notice response period expires and after the Staff is made aware of the OPC's position regarding the Company's Request.

Small Company Rate Case "Disposition Agreement"  
Case No. SR-2000-556; File No. 2000 0346  
Osage Water Company – Page 5 of 5 Pages

This Disposition Agreement shall be considered effective as of the date that it and the requisite revised tariff sheets are filed with the Commission.

Agreement Signed and Dated:

  
Gregory D. Williams, President  
Osage Water Company

  
Dale W. Johansen - Manager  
Water and Sewer Department  
Public Service Commission Staff