

DIRECT TESTIMONY

of

Thomas Q. Smith

Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission

Request for Approval of Revisions to Delivery  
Services Tariffs and for Approval of Delivery Services  
Implementation Plan for Residential Customers

Mount Carmel Public Utility Company

Docket Nos. 01-0525/01-0625

November 30, 2001

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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Thomas Q. Smith. My business address is 527 East Capitol Avenue,  
4 Springfield, Illinois 62701.

5

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

7 A. I am an Accountant in the Accounting Department of the Financial Analysis  
8 Division of the Illinois Commerce Commission.

9

10 Q. Please describe your background and professional affiliation.

11 A. In 1974 I received a Bachelor of Arts Degree in Accounting from Michigan State  
12 University. I am a Certified Public Accountant licensed to practice in Illinois,  
13 Michigan, and Wisconsin. My prior accounting experience includes seven years  
14 as an auditor with the Michigan Public Service Commission. Subsequently, I was  
15 employed for three years by Wisconsin Southern Gas Company in the initial  
16 capacity of Senior Accountant - Rate specialist and later as Controller. I am a  
17 member of the American Institute of Certified Public Accountants.

18

19 Q. Have you previously testified before regulatory bodies?

20 A. Yes, I have testified on several occasions before the Illinois Commerce  
21 Commission, the Michigan Public Service Commission, and the Public Service  
22 Commission of Wisconsin.

23

24 Q. What is the function of the Accounting Department of the Illinois Commerce  
25 Commission (“Commission”)?

26 A. The Department’s function is to monitor the financial condition of public utilities  
27 as part of the Commission’s responsibilities under Article IV of the Public Utilities  
28 Act and to provide accounting expertise on matters before the Commission.

29

30 Q. What are your responsibilities in this case?

31 A. I have been assigned to this case by the Manager of the Accounting Department  
32 of the Illinois Commerce Commission. I am to review Mount Carmel Public Utility  
33 Company’s (“Mt. Carmel” or “Company”) filing, analyze the underlying data and  
34 propose adjustments when appropriate.

35

36 Purpose of Testimony

37 Q. What is the purpose of your testimony in this proceeding?

38 A. The purpose of my testimony is as follows:

39 1. to present the Staff adjusted operating statements and rate base of the  
40 Company;

41 2. to propose adjustments to the Company’s operating statement  
42 concerning income taxes and wages.

43

44 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 2.0?

45 A. Yes. I prepared the following schedules for the Company, which show data as  
46 of, or for the test year ending, December 31, 2000:

47

48 Revenue Requirement Schedules

49 Schedule 2.1 - Statement of Operating Income with Adjustments

50 Schedule 2.2 - Adjustments to Operating Income

51 Schedule 2.3 - Rate Base

52

53 Adjustment Schedules

54 Schedule 2.4 - Interest Synchronization Adjustment

55 Schedule 2.5 - Gross Revenue Conversion Factor

56 Schedule 2.6- Income Tax Adjustment

57 Schedule 2.7- Wage Allocation Adjustment

58

59 Revenue Requirement Schedules

60 Q. Please describe ICC Staff Exhibit 2.0, Schedule 2.1, Statement of Operating  
61 Income with Adjustments.

62 A. ICC Staff Exhibit 2.0, Schedule 2.1 derives the required revenue at the Staff  
63 proposed rate of return. Column (B) presents the Company's pro forma  
64 operating statement for the test year as reflected on MCPUC Exhibit 1, Schedule  
65 C-1. Column (C) reflects the total of all Staff adjustments shown on ICC Staff  
66 Exhibit 2.0, Schedule 2.2. Column (D) reflects the Company's operating  
67 statement after Staff's adjustments. Column (E) presents the necessary change  
68 to the Company's proposed revenues to arrive at Staff's proposed revenue  
69 requirement as reflected in Column (F). Net Operating Income in Column (F),

70 line 21, is the product of Rate Base, line 22, and Rate of Return, line 23. Column  
71 (F), line 25, presents this difference as a percentage of the Company's proposed  
72 revenue requirement presented in Column (B), line 3.

73

74 Q. Please describe ICC Staff Exhibit 2.0, Schedule 2.2, Adjustments to Operating  
75 Income.

76 A. Schedule 2.2 identifies Staff's adjustment to Operating Income. The source of  
77 each adjustment is shown in the heading of each column. Column (I) from page  
78 3 of 3 is carried forward to ICC Staff Exhibit 2.0, Schedule 2.1, Column (C).

79

80 Q. Please describe ICC Staff Exhibit 2.0, Schedule 2.3, Rate Base.

81 A. Schedule 2.3 compiles Staff's rate base. Column (B) reflects the Company's  
82 proposed rate base. Column (C) is provided to summarize Staff's adjustments to  
83 rate base; in this Docket Staff is proposing no rate base adjustments. Column  
84 (D) is the net of Columns (B) and (C), and reflects Staff's computed rate base.

85

86 Interest Synchronization

87 Q. Please explain ICC Staff Exhibit 2.0, Schedule 2.4, Interest Synchronization  
88 Adjustment.

89 A. Schedule 2.4 computes the interest component of the revenue requirement. The  
90 interest expense (component) is computed by multiplying the rate base by  
91 weighted cost of debt. The calculated interest expense is then compared against  
92 the interest expense used by the Company in its computation of test year income

93 tax expense. The tax effect of the difference in interest expense is the  
94 adjustment for interest synchronization. The effect of this adjustment is to ensure  
95 that the revenue requirement reflects the tax savings generated by the interest  
96 component of the revenue requirement.

97  
98 In this Docket I have calculated income tax expense on Schedule 2.6 using the  
99 interest expense contained in the Company's ratemaking formula. Because Staff  
100 is using the same rate base and cost of capital which is being used by the  
101 Company, the calculated interest synchronization adjustment is zero. The  
102 schedule has been provided in the event that some party to the Docket, the  
103 Administrative Law Judge, or the Commission changes rate base or the cost of  
104 debt. If this were to occur, then Schedule 2.4 can be used to calculate the  
105 income tax effect of such a change.

106

107 Gross Revenue Conversion Factor

108 Q. What is the purpose of ICC Staff Exhibit 2.0, Schedule 2.5, Gross Revenue  
109 Conversion Factor?

110 A. Schedule 2.5 presents my proposed adjustment to the gross revenue conversion  
111 factor ("GRCF") to reflect a more appropriate rate for uncollectibles. I calculated  
112 the uncollectible rate of 0.0041 by dividing the Company's proposed uncollectible  
113 expense amount by its proposed revenues. The GRCF is multiplied by the  
114 income deficiency to determine the total amount of revenue required for the  
115 income deficiency and the associated increase in income tax expense and

116 uncollectible expense. It is based upon the applicable federal tax rate, state  
117 income tax rate, and uncollectible rate.

118

119 Income Tax Adjustment

120 Q. What is the purpose of ICC Staff Ex 2.0, Schedule 2.6, Income Tax Adjustment?

121 A. Because income tax expense derives directly from the multiplication of taxable  
122 income by the applicable tax rate, and because Mt. Carmel's taxable income for  
123 delivery services is equal to its operating income less interest expense, it is  
124 reasonable to calculate the Company's income tax expense by starting with  
125 operating income as identified by the Company on MCPU Exhibit 1, Schedule C-  
126 3, deducting interest expense, and multiplying by the appropriate tax rates.  
127 Schedule 2.6, page 1, performs this function.

128

129 Q. Does the Company include the same amount of tax expense in its revenue  
130 requirement which you have calculated on Schedule 2.6?

131 A. No, it does not. The Company's tax expense is taken from its year 2000 actual  
132 expense. The actual expense reflects items other than test year operating  
133 income. The method which I am using reflects only test year delivery services  
134 operating income. Page 1, line 13 of Schedule 2.6 identifies the proper  
135 adjustment to restate the Company's tax expense based on its calculated test  
136 year operating income.

137

138 Page 2 of Schedule 2.6 calculates the interest expense which the Company has  
139 built into its calculated revenue requirement. This interest expense is deducted  
140 from operating income to arrive at taxable income on page 1 of Schedule 2.6.

141 Wage Allocation Adjustment

142 Q. What is the purpose of Schedule 7.0?

143 A. The Company's wage records are maintained in a way which allocates too much  
144 wage expense to electric versus gas operations. As an example, the wages of  
145 supervisors at the service center are allocated entirely to electric operations even  
146 though supervision is also provided to gas operations. The Adjustment on  
147 Schedule 7.7, page 1, and supported by information on page 2, restates delivery  
148 services operating income to reflect the proper level of wage expense.

149

150 Q. Does this conclude your prepared direct testimony?

151 A. Yes, it does.

**Mt. Carmel Public Utilities Company**  
**Statement of Operating Income with Adjustments**  
 For the Test Year Ending December 31, 2000

Line No.	Description	Company Pro Forma (MCPU Ex 1, Sch. C-1)	Staff Adjustments (ICC St. Ex. 2.0 Sch. 2.2)	Staff-Adjusted Company Pro Forma (Cols. b+c)	Staff's Adjustment To Company's Proposed Revenue	Staff Pro Forma Proposed (Cols. d+e)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Tariffed Revenue	\$ 4,934,344	\$ -	\$ 4,934,344	\$ (263,476)	\$ 4,670,868
2	Other Revenue	-	-	-	-	-
3	Total Operating Revenue	4,934,344	-	4,934,344	(263,476)	4,670,868
4	Uncollectible Expense			-	-	-
5	Operating and Maintenance Expense	2,470,548	(63,551)	2,406,997	-	2,406,997
6	Customer Accounts		-	-	-	-
7	Customer Service		-	-	-	-
8	Sales Expense		-	-	-	-
9	Administrative and General		-	-	-	-
10	Depreciation	570,740	-	570,740	-	570,740
11	Taxes Other than Income Tax	285,544	-	285,544	-	285,544
12		-	-	-	-	-
13		-	-	-	-	-
14		-	-	-	-	-
15	Total Operating Expenses					
16	Before Income Taxes	3,326,832	(63,551)	3,263,281	-	3,263,281
17	State Income Tax		4,563	4,563	(18,918)	(14,355)
18	Federal Income Tax	626,336	(99,978)	526,358	(85,595)	440,763
19	Deferred Taxes and ITCs Net	(9,306)	-	(9,306)	-	(9,306)
20	Total Operating Expenses	3,943,862	(158,966)	3,784,896	(104,513)	3,680,383
21	NET OPERATING INCOME	\$ 990,482	\$ 158,966	\$ 1,149,448	\$ (158,963)	\$ 990,485
22	Staff Rate Base (ICC Staff Ex 2.0, Schedule 2.3, Column (d))					\$ 9,213,814
23	Staff Overall Rate of Return (ICC Staff Exhibit 1.0, Schedule 1.01)					10.75%
24	Revenue Change (Col. (f) Line 3 minus Col. (b), Line 3)				\$ (263,476)	
25	Percentage Revenue Change (Col. (f), Line 24 divided by Col. (b), Line 3)				-5.34%	

**Mt. Carmel Public Utilities Company**  
**Adjustments to Operating Income**  
 For the Test Year Ending December 31, 2000

Line No.	Description	Interest Synchronization (ICC St. Ex. 2.0 Sch. 1.4)	Wage Allocation (ICC St. Ex. 2.0 Schedule 1.7)	Tax Expense (ICC St. Ex. 2.0 Schedule 1.6)	(Source)	(Source)	(Source)	(Source)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Tariffed Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Expense	-	-	-	-	-	-	-	-
5	Operating and Maintenance Expenses	-	(63,551)	-	-	-	-	-	(63,551)
6	Customer Accounts	-	-	-	-	-	-	-	-
7	Customer Service	-	-	-	-	-	-	-	-
8	Sales Expense	-	-	-	-	-	-	-	-
9	Administrative and General	-	-	-	-	-	-	-	-
10	Depreciation	-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(63,551)	-	-	-	-	-	(63,551)
16	Before Income Taxes	-	(63,551)	-	-	-	-	-	(63,551)
17	State Income Tax	-	4,563	-	-	-	-	-	4,563
18	Federal Income Tax	-	20,646	(120,624)	-	-	-	-	(99,978)
19	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
20	Total Operating Expenses	-	(38,342)	(120,624)	-	-	-	-	(158,966)
21	NET OPERATING INCOME	\$ -	\$ 38,342	\$ 120,624	\$ -	\$ -	\$ -	\$ -	\$ 158,966

**Mt. Carmel Public Utilities Company**  
**Rate Base**  
 For the Test Year Ending December 31, 2000

Line No.	Description	Company Pro Forma (MCPU Ex 1, Sch. B-1)	Staff Adjustments	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Plant in Service	\$ 19,015,608	\$ -	\$ 19,015,608
2	Accumulated Depreciation and Amortization	(10,094,382)	-	(10,094,382)
3		-	-	-
4	Net Plant	8,921,226	-	8,921,226
5	Additions to Rate Base			
6	Working Capital	690,733	-	690,733
7		-	-	-
8		-	-	-
9		-	-	-
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	Customer Deposits	(131,630)	-	(131,630)
18	Pre-71 ITC	(176)	-	(176)
19	Accumulated Deferred Income Tax	(266,339)	-	(266,339)
20		-	-	-
21		-	-	-
22		-	-	-
23	Rate Base	<u>\$ 9,213,814</u>	<u>\$ -</u>	<u>\$ 9,213,814</u>

**Mt. Carmel Public Utilities Company**  
**Interest Synchronization Adjustment**  
 For the Test Year Ending December 31, 2000

Line No.	Description (a)	Amount (b)
1	Plant in Service	\$ 9,213,814 (1)
2	Weighted Cost of Debt	3.61% (2)
3	Synchronized Interest Per Staff	332,619 (3)
4	Company Interest Expense	<u>332,619</u> (4)
5	Increase (Decrease) in Interest Expense	<u>-</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.180%	\$ -
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	\$ -

(1) Source: ICC Staff Ex. 2.0, Schedule 2.3, Column (D).  
 (2) Source: ICC Staff Ex 1.0, Schedule 1.01  
 (3) Line 1 \* Line 2  
 (4) Source: Company Data Request Response AD-035

**Mt. Carmel Public Utilities Company**  
**Gross Revenue Conversion Factor**  
 For the Test Year Ending December 31, 2000

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.0000%	<u>0.000000</u>	
3	State Taxable Income		1.000000	1.000000
4	State Income Tax	7.1800%	<u>0.071800</u>	<u>0.071800</u>
5	Federal Taxable Income		<u>0.928200</u>	<u>0.928200</u>
6	Federal Income Tax	35.0000%	<u>0.324870</u>	<u>0.324870</u>
7	Operating Income		<u>0.603330</u>	<u>0.603330</u>
8	Gross Revenue Conversion Factor Per Staf		<u>1.657468</u>	<u>1.657468</u>

Mt. Carmel Public Utilities Company  
 Income Tax Adjustment  
 For the Test Year Ended December 31, 2001

<u>line</u> <u>No.</u> A	<u>Description</u> B	<u>Amount</u> C	<u>Source</u> D
1	Net Operating Income	\$ 990,482	MCPU Exhibit 1.0, Schedule C-3, col I, ln 10
2	Interest Expense	(332,619)	ICC Staff Ex 1.0, Schedule 6.0, Pg 2 MCPU Exhibit 1.0, Schedule C-3, col I, ln 7
3	Income Tax Expense	626,336	
4	ITC Amortization	<u>(9,306)</u>	Ibid, ln 8
5	Taxable income	1,274,893	
6	State Tax Rat	<u>7.18%</u>	
7	State Income Tax	<u>91,537</u>	
8	Federal Taxable Income	1,183,356	
9	Federal Tax Rate	<u>35.00%</u>	
10	Federal Income Tax	<u>414,174</u>	
11	Total Income Tax Per Staff	505,712	
12	Total Income Tax Per Company	<u>626,336</u>	Ibid, ln 7
13	Adjustment	<u><u>\$(120,624)</u></u>	

Mt. Carmel Public Utilities Company  
 Income Tax Adjustment  
 For the Test Year Ended December 31, 2001

<u>line</u> <u>No.</u> A	<u>Description</u> B	<u>Amount</u> C	<u>Source</u> D
1	Rate Base Per Company	\$9,213,814	MCPU Exhibit 1.0, Schedule C 1, col b, ln 8
2	Weighted Cost of Debt per Company	<u>3.61%</u>	Ibid, Schedule D-1, col e, ln 1
4	Interest Expense per Company	<u>\$ 332,619</u>	

Mt. Carmel Public Utilities Company  
 Wage Allocation Adjustment  
 For the Test Year Ended December 31, 2001

line No.	Description	Amount	Source
A	B	C	D
Electric A & G Wages			
1	Customer Accounts	\$ 131,726	FERC Form 1, pg 354, ln 21
2	Customer Service	203	Ibid, ln 22
3	Administrative	<u>378,726</u>	Ibid, ln 24
	Total Electric A & G		
4	Wages as Recorded	<u>510,655</u>	
Gas A & G Wages			
5	Customer Accounts	34,955	FERC Form 1, pg 355, ln 55
6	Customer Service	12,916	Ibid, ln 56
7	Administrative	<u>86,366</u>	Ibid, ln 58
	Total Gas A & G Wages		
8	as Recorded	<u>134,237</u>	
9	Total Utility A & G Wages	644,892	
Portion of Electric Operating Wages to			
10	Total Operating Wages	<u>69.33%</u>	ICC Staff Ex 1.0, Schedule 7.0, p 2, ln 9
Electric A & G Wages			
11	Per Staff	447,104	
Electric A & G Wages			
12	Per Company	<u>510,655</u>	ICC Staff Ex 1.0, Schedule 7.0, p 1, ln 4
13	Adjustment	<u>\$ (63,551)</u>	

Mt. Carmel Public Utilities Company  
 Wage Allocation Adjustment  
 For the Test Year Ended December 31, 2001

<u>line</u> <u>No.</u> A	<u>Description</u> B	<u>Amount</u> C	<u>Source</u> D
	Electric Wages		
1	Transmission	\$ 7,464	FERC Form 1, pg 354, ln 19
2	Distribution	604,988	Ibid, ln 20
3	Total Electric Operating Wages	<u>612,452</u>	
	Gas		
4	Production	5,503	Ibid, p 355, ln 49
5	Transmission	11,651	Ibid, ln 53
6	Distribution	253,843	Ibid, ln 54
7	Total Gas Operating Wages	<u>270,997</u>	
8	Total Electric/Gas Operating	<u>883,449</u>	
9	Portion of Electric Operating Wages to Total Operating Wages	69.33%	Line 3 divided by Line 8