

1 Q. Explain how payroll tax and municipal taxes are treated in the cost of service  
2 study.

3

4 A. In the 2002 Test Year Cost of Service (COS) Study, payroll and municipal  
5 taxes are included in expense-related overhead. These amounts are  
6 classified based on direct operating expenses. The COS study as filed  
7 contained an error, in that municipal taxes should have been split into  
8 systems based on prior year rural revenues, rather than based on direct  
9 operating expenses. This adjustment will be reflected in a revised cost of  
10 service, when filed.