

Exhibit No.:  
Witness: Hubbs, Wendell R.  
Issues: Service Today  
PGA Clause  
Tariff Sheets  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Direct Testimony  
Case Nos.: GR-93-172

MISSOURI PUBLIC SERVICE COMMISSION  
UTILITY OPERATIONS DIVISION

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MISSOURI PUBLIC SERVICE  
CASE NO. GR-93-172

ACCOUNTING DEPT.  
PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY  
OF  
WENDELL R. HUBBS

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Jefferson City, Missouri  
May, 1993

DIRECT TESTIMONY  
OF  
WENDELL R. HUBBS  
MISSOURI PUBLIC SERVICE  
CASE NO. GR-93-172

Q. Please state your name and business address.

A. My name is Wendell R. Hubbs and my business address is 301 West High Street, Jefferson City, Missouri, 65101.

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

A. I am employed by the Missouri Public Service Commission (MoPSC or Commission) as Assistant Manager-Rates in the Energy Department.

Q. How long have you been employed by the Commission?

A. Since July of 1979.

Q. What are your educational and experience qualifications?

A. In May, 1979, I received a Bachelor of Science degree in Accounting from Lincoln University of Jefferson City, Missouri. From July of 1979 to October, 1981, I worked in the Accounting Department of the Commission, where my duties were to assist with the audits and examinations of the books and records of public utility companies operating within the State of Missouri with regard to proposed rate increases and to determine whether such books and records were maintained in compliance with the Uniform System of Accounts. From October, 1981, to September, 1983, I held the position of Rate Economist II in the Gas Department of the Commission, where my duties consisted of tariff review, allocations and rate design. From September, 1983, to November 1990, I held the position of Assistant Manager-Rates in the Gas Department where my duties consisted of tariff review, rate design, cost of service, accounting and administrative functions. Since November, 1990, I have held my current position of Assistant Manager-Rates in the

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1 Energy Department where my duties have been expanded to include  
2 electric and steam operations.

3 Q. What is the purpose of your testimony?

4 A. This testimony will address services which are  
5 being offered, using utility personnel and property, to a Missouri  
6 Public Service (MPS or Company) affiliate named "Service Today".  
7 Additionally this testimony will propose changes to the Company's PGA  
8 tariff sheets as well as one other tariff change.

9  
10 AFFILIATED SERVICES: SERVICE TODAY

11 Q. What is "Service Today"?

12 A. My understanding of "Service Today" is that it is  
13 an appliance repair business, and is a non-regulated affiliate of  
14 MPS.

15 Q. Does "Service Today" have a contract or agreement  
16 with MPS that allows it to use MPS utility billings for its billings  
17 and mailing of advertising material?

18 A. No, it does not. "Service Today" is using utility  
19 billings pursuant to an "Administrative Services Agreement" with  
20 another MPS affiliated entity named "MPS Systems, Inc." (MPS Systems).

21 Q. Does "MPS Systems" have a contract or an agreement  
22 with MPS which allows it to use utility billings?

23 A. Yes, it does. Attached as Schedule 1 is the  
24 agreement MPS represents as giving "MPS Systems" the use of regulated  
25 utility billings.

26 Q. In the current rate case has MPS included in its  
27 annualized and normalized revenues for the test year, as adjusted,  
28 any level of compensation for the use of MPS's utility billing  
29 system?

30 A. According to the Company, no amounts related to  
31 Service Today were received or included in test year revenues and no

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1 adjustments to revenues representing "Service Today's" use were made.

2 Q. If MPS is allowed by the Commission to provide its  
3 utility billings to bill and advertise for "Service Today", should  
4 there be a revenue adjustment related to such service.

5 A. Yes, there should. I will attempt to quantify an  
6 appropriate level of revenue adjustment associated with providing of  
7 these services by the prehearing date in this proceeding, in case the  
8 Commission allows such services.

9 Q. Are you proposing that the Commission order MPS to  
10 stop including billing for affiliates such as "Service Today" with or  
11 on public utility bills, and to further stop any and all types of  
12 affiliate advertising service with utility billings, including  
13 advertising stuffers for "Service Today", until it first obtains  
14 Commission authority to use utility resources to provide such billing  
15 and advertising services?

16 A. Yes, I am.

17 Q. In your opinion should MPS be allowed to enter into  
18 any agreement to use the regulated utility billing system with a non-  
19 regulated affiliate?

20 A. My preference would be that no such use be allowed.  
21 I am of the opinion that the owning, operating, managing or control  
22 of utility operations should be kept separate and apart from other  
23 businesses not regulated by the Commission. Such separation is not  
24 the case in MPS's dealings with "MPS Systems" and "Service Today".  
25 Additionally, without Commission oversight there would be no  
26 assurance that the non-discriminatory use of this public utility  
27 property would be maintained, this with the partial use of the system  
28 by a non-regulated entity, especially an affiliate with a profit  
29 motive.

30 Q. Is MPS's billing system an essential part of the  
31 provision of its regulated electric and gas businesses?

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1                   A.     Yes, it is.

2                   Q.     Please discuss your concerns regarding the manner  
3     in which MPS is handling services performed on and with its utility  
4     bills.

5                   A.     The Commission's Staff has received numerous  
6     complaints from Heating, Ventilation and Air Conditioner (HVAC)  
7     contractors about MPS's part in advertising and billing for "Service  
8     Today". These contractors have stated that they consider the  
9     "Service Today" services of questionable value and object to the use  
10    of the public utility billing system to give MPS's affiliate a  
11    competitive cost advantage and an unfair access to customers for the  
12    appliance repair business. Regardless of what these contractors  
13    believe is the value of the services provided by MPS's appliance  
14    repair affiliate, I am of the opinion that if MPS wants to use part  
15    of its system to offer an affiliate the partial use of its billing  
16    system, it should seek authority to do so by filing with this  
17    Commission to provide such services on a non-discriminatory basis.

18                  Q.     Why are you of the opinion that MPS should seek  
19    Commission approval for the billing and advertising transactions  
20    being provided to "Service Today"?

21                  A.     It is my understanding that any rate or service  
22    provided by a public utility through the use of utility resources  
23    should be approved by the Commission. I am of the opinion that any  
24    rates and provisions for such services should be provided for in the  
25    Company's Commission approved tariff.

26                  Q.     Has the Commission approved billing and collection  
27    tariffs for other utilities it regulates?

28                  A.     Yes, it has. Currently there are approved tariffs  
29    with rates for regulated local exchange telephone companies.

30                  Q.     Why do you believe these services being performed  
31    by MPS should be tarified if authorized by the Commission?

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1           A.     "Service Today's" billings are being included on  
2     MPS's utility bills. The monies related to "Service Today's"  
3     services are collected along with utility gas and electric service  
4     amounts. Advertising stuffers for "Service Today" have been  
5     distributed to utility customers using the utility billing envelopes.  
6     These are types of activities for which some non-regulated companies  
7     receive consideration (including profit) in their business dealings  
8     with the general public. This use of non-regulated companies'  
9     resources to perform these activities are what I consider to be  
10    billing and advertising services. Billing and advertising services  
11    are performed by the utility in the provision of electric and gas  
12    service, and the cost of such services are embedded in the rates for  
13    electric and gas for recovery from customers.

14                "Service Today", through "MPS Systems", is using public  
15    utility plant and utility personnel (Company's billing system) to  
16    distribute its advertising and also to bill for and to collect monies  
17    related to services it performs. Since MPS is affording Service  
18    Today the use and accommodation of utility resources to advertise and  
19    bill customers, I am of the opinion that such should be tarified.

20           Q.     In your opinion if MPS wants to provide these  
21    services what is the most appropriate way for it to accomplish this?

22           A.     Because utility resources (plant and personnel  
23    etc.) would be used to provide billing or advertising services, then  
24    MPS should seek to offer these services itself by applying to the  
25    Commission for tarified services with approved rates for billing and  
26    advertising. In this manner the Commission could ensure that all  
27    entities would have access to these services on a non-discriminatory  
28    basis, not just MPS's non-regulated affiliates. This would help  
29    remove some of the perception that MPS is providing an unfair  
30    competitive advantage to its affiliate through a discriminatory use  
31    of utility property and personnel, and would extend to any person the

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1 same privileges and facilities that it is currently extending to  
2 "Service Today". I am of the opinion that the easiest way for MPS to  
3 eliminate the problem is to require "Service Today" to advertise and  
4 bill its customers on its own without using the public utility plant  
5 or services of MPS.

6 Q. If MPS decides it wants to use a of part of its  
7 billing system for a non-regulated affiliate, is this the appropriate  
8 docket to address such action?

9 A. In my opinion it is not. MPS should make a  
10 subsequent filing to allow unregulated entities the use its billing  
11 system whereby any and all interested parties of the general public  
12 would be notified and given the opportunity to address the proposals.  
13

14 PURCHASED GAS ADJUSTMENT (PGA) CLAUSE

15 Q. Please briefly explain the PGA Clause.

16 A. The PGA Clause is the tariffed recovery mechanism  
17 which allows the Company to recover costs of the gas it purchases for  
18 its system supply. A current estimated gas cost rate is computed and  
19 charged customers. The PGA Clause also provides for the annual  
20 reconciliation of the gas costs recovered from the above estimate to  
21 the actual costs incurred. This reconciliation is done pursuant to  
22 the Actual Cost Adjustment (ACA) provisions of the PGA Clause.  
23 Provisions for the recovery of Take-Or-Pay (TOP) costs incurred are  
24 separately billed by estimated factor development. Additionally,  
25 refunds received from the Company's traditional  
26 suppliers/transporters are refunded through an additional separate  
27 refund factor provision in the PGA Clause.

28 Q. Mr. Hubbs, please summarize the PGA Clause changes  
29 you are proposing.

30 A. I am proposing the following:

31 (1) that a provision be added to the PGA Clause

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1 that would require the Company to add interest to the ACA account  
2 balance in certain circumstances;

3 (2) that a provision be added to the PGA Clause  
4 that would extend the filing time for PGA factor changes from 10 days  
5 to 20 days before the effective date of the tariff sheet;

6 (3) that a provision be added to the PGA Clause  
7 that will require reconciliation of TOP rates and the Refund  
8 Adjustment factor to occur simultaneously with the ACA  
9 reconciliation;

10 (4) to remove the gas cost rate embedded into the  
11 rate classification margin tariff sheets and shift all gas cost to  
12 the PGA factor tariff sheets; and,

13 (5) to add a provision to the PGA Clause that will  
14 create firm and interruptible gas cost class allocations for both of  
15 the Southern and Northern Districts.

16 Q. Please explain your item (1), which would require  
17 the Company to add non-recoverable interest to the ACA balance in  
18 certain circumstances.

19 A. I am proposing to add language that will have the  
20 Company pay interest of 6% on the over-recovered gas cost balance  
21 when such balance is in excess of 5% of the total ACA period cost of  
22 gas. This amount is not recoverable by the Company as it represents  
23 compensation for some level of the time value of money related to the  
24 ACA overcollections. This should add incentive to help ensure that  
25 the Company adequately monitors its recovery and cost levels. It  
26 will help prevent the situation where the Company may be tempted to  
27 over collect gas costs to obtain the time value of the over  
28 collection for an average of a year.

29 Q. Please explain your item (2) regarding extending  
30 the filing requirement timing from 10 days to 20 days.

31 A. Currently the Company must file a PGA change 10



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1 days before its proposed effective date. I propose to increase this  
2 time period between the filing date and the effective date to 20 days  
3 from the currently effective 10 days. This change will help  
4 alleviate some of the filing timing problems (administrative in  
5 nature) occurring at the Commission. Review and corrections of the  
6 many PGA filings all due in a 10 day period at the end of the month  
7 (especially with weekends and holidays occurring at the same time)  
8 make it extremely difficult to process the filings in a timely  
9 manner. Similar changes have recently been made to tariffs of other  
10 gas utility companies.

11 Q. Please explain your proposed item (3) to have the  
12 reconciliation of all separate PGA factors occur at the same time as  
13 the ACA reconciliation.

14 A. I am proposing to have the reconciliation of the  
15 TOP and Refund PGA factors occur at the same time as the ACA filing  
16 for administrative and audit efficiency. Such review requirement is  
17 not currently stated in the PGA Clause, and to ensure that the  
18 dollars are properly accounted for in a timely manner, Staff is  
19 recommending the formalization of this review by inclusion in  
20 tariffs.

21 Q. You mentioned in item (4) above that you are  
22 proposing to eliminate the embedded cost of gas from the margin  
23 recovery tariff sheets and move all gas cost recovery to the PGA  
24 Clause?

25 A. Yes, I am. This proposal will shift the total gas  
26 cost recovery to the PGA tariff sheets. This shift will make it  
27 easier for users of tariffs to see exactly what the company pays for  
28 city gate purchases and will be easier to administer. Additionally,  
29 on the face of the bill the PGA factor will represent the total cost  
30 of gas purchased and not some arbitrary adjustment. This new figure  
31 will be much easier to explain and much more understandable to

customers.

Q. Please explain why you are proposing the creation of interruptible and firm PGA classes?

A. Pursuant to the rate design of Staff's Economic Analysis Department, there is the need to appropriately allocate fixed costs incurred by the Company to the new rate classifications based on the nature of service they request.

OTHER TARIFF CHANGES

Q. Mr. Hubbs is there another proposed change to the tariff sheets for rates you are proposing?

A. Yes, there is. I am proposing that the separate northern and southern system margin rates (rates for costs other than gas) be consolidated for each rate class except for the transportation classes. The service requirements and margin rates are the same for these classes leaving no reason to separate them. Transportation service tariffs should remain separate until such time that the Federal Energy Regulatory Commission (FERC) approved transportation provisions of the Company's suppliers/transporters are similar.

SUMMARY OF PROPOSALS

Q. Please summarize the proposals you have included in this testimony.

A. First, I have proposed that the Commission order MPS to cease including with or in its utility billings any billings or advertising for services for its affiliates.

Next I am proposing five changes to the PGA Clause. These changes are: (1) to add interest of 6% to be paid by the Company on ACA balances that exceed 5% of the total gas costs for the related ACA period; (2) to change the minimum ACA filing period from

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1 10 to 20 days; (3) to change the PGA clause to require the  
2 reconciliation of TOP and Refund accounts at the same time as the ACA  
3 reviews; (4) to add gas costs currently embedded to the PGA factor  
4 sheets; and, (5) to create firm and interruptible PGA class factors  
5 for the Staff proposed rate design.

6 Another proposal is the consolidation of margin (cost  
7 other than gas) rate tariff sheets for all classes except for the  
8 transportation classes.

9 Q. Does this conclude your prepared direct testimony?

10 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the matter of Missouri Public Service tariff )  
sheets designed to increase rates for gas )  
service provided to customers in the Missouri ) CASE No. GR-93-172  
service area of the Company. )

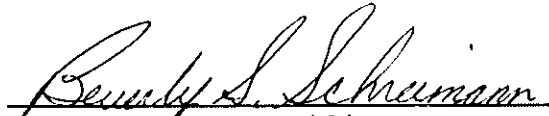
AFFIDAVIT OF WENDELL R. HUBBS

STATE OF MISSOURI )  
 ) ss  
COUNTY OF COLE )

Wendell R. Hubbs, of lawful age, on his oath states: that he has participated in the preparation of the foregoing written testimony in question and answer form; consisting of 10 pages to be presented in this case; that the answers in the foregoing 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.

  
Wendell R. Hubbs

Subscribed and sworn to before me this 28th day of May, 1993.

  
Notary Public

My commission expires March 8, 1994