

Exhibit No.:

133

Issue:

Accounting Authority Orders for  
Safety Line Replacement Program

Witness:

Joan C. Wandel

Sponsoring Party:

MoPSC Staff

Type of Exhibit:

Direct Testimony

Case No.:

GR-2006-0422

Date Testimony Prepared:

October 13, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**JOAN C. WANDEL**

**FILED<sup>2</sup>**

FEB 07 2007

Missouri Public  
Service Commission

**MISSOURI GAS ENERGY**

**CASE NO. GR-2006-0422**

*Jefferson City, Missouri  
October 2006*

Staff Exhibit No. 133  
Case No(s) GR-2006-0422  
Date 1-17-07 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Missouri Gas Energy's Tariff )  
Sheets Designed to Increase Rates for Gas Service ) Case No. GR-2006-0422  
in the Company's Missouri Service Area. )

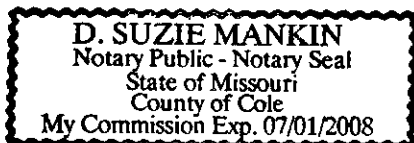
**AFFIDAVIT OF JOAN C. WANDEL**

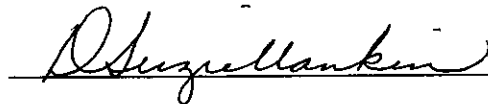
STATE OF MISSOURI       )  
                                  )       ss.  
COUNTY OF COLE       )

Joan C. Wandel of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
Joan C. Wandel

Subscribed and sworn to before me this 11<sup>th</sup> day of October 2006.





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DIRECT TESTIMONY OF  
JOAN C. WANDEL  
MISSOURI GAS ENERGY  
CASE NO. GR-2006-0422**

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1 | for the Affton School District in St. Louis, MO as the Business and Budget Manager.  
2 | Since 1994, I have been employed by the Commission as a Utility Regulatory Manager  
3 | of the Auditing Department.

4 | Q. Have you previously filed testimony before this Commission?

5 | A. Yes. I filed testimony in the St. Louis Water Company rate case, Case No.  
6 | WR-96-263 and the Aquila, Inc. finance case, Case No. EF-2003-0465.

7 | Q. With reference to Case No. GR-2006-0422, have you made an  
8 | examination and analysis of the books, records and workpapers of Missouri Gas Energy  
9 | (MGE or Company) in regard to matters raised in this case?

10 | A. Yes, in conjunction with other members of the Commission's Staff (Staff).  
11 | I have reviewed the books, records and workpapers of MGE in regard to matters raised in  
12 | this case.

13 | Q. What knowledge, skill, experience, training or education did you use to  
14 | arrive at the conclusions expressed in your testimony?

15 | A. I relied upon the education and experience detailed earlier in my  
16 | testimony. I have attended utility regulatory training as part of my employment with this  
17 | Commission and other accounting and auditing training as a CPA. I have been involved  
18 | in the majority of the rate and other cases coming before this Commission in a  
19 | supervisory capacity since my employ with the Commission, participating in meetings,  
20 | hearings and discussions and reviewing workpapers and testimony. I specifically relied  
21 | upon my training and experience as a CPA to conduct my examinations of MGE's filing  
22 | in this case and have discussed my assigned issue with senior auditors. I have reviewed  
23 | the Auditing Department's position paper on accounting authority orders, as well as

1 | workpapers and testimony filed by the Company in this proceeding. I have reviewed  
2 | Staff's workpapers and testimony regarding this subject matter from previous cases.

3 | **EXECUTIVE SUMMARY**

4 | Q. Please describe the purpose of your direct testimony.

5 | A. The purpose of my direct testimony is to provide the Staff's position with  
6 | regard to the treatment of several existing Accounting Authority Orders (AAO) related to  
7 | MGE's Safety Line Replacement Program (SLRP). Specifically, I am proposing an  
8 | adjustment to include the amortization expense resulting from MGE's previous  
9 | Commission approved SLRP deferrals.

10 | Q. Are you sponsoring any Staff adjustments in this proceeding?

11 | A. Yes. I am sponsoring the following Income Statement adjustment:

12 | SLRP Accounting Authority Orders S-59.2

13 | **SLRP DEFERRALS/ACCOUNTING AUTHORITY ORDERS**

14 | Q. Please discuss MGE's SLRP Program.

15 | A. In the late 1980s, the Commission promulgated rules that required natural  
16 | gas utilities to replace substantial portions of their gas plant infrastructures. The  
17 | Commission promulgated these rules for safety reasons, allowing the utilities to  
18 | primarily replace their service lines and mains over a period of time. Since these  
19 | replacements were mandated by the Commission, the natural gas utilities were allowed to  
20 | accumulate the costs associated with the replacements and to request inclusion of these  
21 | costs in rates through the use of Commission approved AAOs. In several AAO and rate  
22 | increase applications, the Commission gave MGE, and its predecessor utility  
23 | Western Resources, Inc., authority to defer certain costs associated with their SLRP.

1 These cases were Case Nos. GO-92-185, GO-94-234, GO-97-301, GR-98-140 and  
2 GR-2001-292.

3 Q. What are AAOs?

4 A. AAOs are applications by a utility to account for an item in a manner that  
5 differs from the Commission's prescribed Uniform Chart of Accounts in some manner.  
6 Most often, AAOs are used to "defer" on the utility's balance sheet a cost that would  
7 otherwise be charged to expense currently on the utility's income statement. This  
8 treatment allows the utility to seek rate recovery of the deferred item in a subsequent rate  
9 case, even if the cost in question was not incurred within the test year ordered for that rate  
10 proceeding. The Commission has usually reserved deferral treatment of expenses for  
11 "extraordinary items." Extraordinary items are defined as costs that are unusual in nature  
12 and infrequent in occurrence.

13 Q. Can capital items be the subject of AAOs?

14 A. Yes. A capital expenditure may be the subject of an AAO if it is in the  
15 nature of an extraordinary item. In that instance, depreciation expense, property tax  
16 expense and carrying charges associated with the extraordinary capital asset may be  
17 given deferral treatment through a Commission authorized AAO.

18 Q. Is the Staff recommending rate recovery of the SLRP deferrals in this rate  
19 case?

20 A. Yes. The Staff is recommending rate recovery of the SLRP deferrals as  
21 calculated under the method set forth by the Commission in Case Nos. GR-98-140 and  
22 GR-2001-292.

1           Q.     Please describe generally the Staff's calculation of the SLRP amortization  
2 amount in this case.

3           A.     For SLRP deferrals authorized in Case Nos. GO-92-185, GO-94-133,  
4 GO-94-234 and GO-97-301, I took the balance of the unamortized deferrals as of  
5 May 31, 1998, and divided that balance by ten to determine the annualized amortization  
6 amount to include in cost of service in this case. The Commission ordered a ten-year  
7 amortization period for the remaining unamortized portion of these SLRP deferrals in  
8 Case No. GR-98-140.

9                     Subsequent to May 31, 1998, MGE filed for and was authorized AAOs in  
10 Case Nos. GR-98-140 and GR-2001-292. I verified that the Company's total deferral  
11 amount resulting from the GR-98-140 AAO was the same as the amount used in the  
12 Staff's adjustment sponsored in Case No. GR-2004-0209 and calculated the annual  
13 amortization to include in cost of service for this case by dividing the gross deferral by  
14 ten. The Commission ordered a ten-year amortization period of the gross deferral of this  
15 AAO according the guidelines set forth in the Commission approved Stipulation And  
16 Agreement in Case No. GR-2001-292. With regard to the GR-2001-292 AAO, I  
17 reviewed the Company's calculation of these deferrals for adherence to the guidelines set  
18 forth in the Stipulation And Agreement in Case No. GR-2001-292, which was approved  
19 by Commission Order. I verified that the deferrals were calculated based on the SLRP  
20 investments made from July 2001 through the end of the deferral period. I then took that  
21 balance and divided by ten to include a ten-year amortization of that amount in cost of  
22 service.

23           Q.     What is adjustment S-59.2?



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Joan C. Wandel

1           A.    This adjustment includes the annual amortization of the SLRP  
2 deferral authorized in Case Nos. GO-92-185, GO-94-133, GO-94-234, GR-97-301 and  
3 GR-2001-292 consistent with the methodology prescribed within the Commission's  
4 Report And Orders in Case Nos. GR-98-140 and GR-2004-0209.

5           Q.    Has the Staff included the unamortized balances of the SLRP deferrals in  
6 rate base?

7           A.    No. Consistent with the Commission's Report And Order in Case No.  
8 GR-98-140, the Staff did not include the unamortized balances of the SLRP deferrals in  
9 rate base.

10          Q.    Does this conclude your direct testimony?

11          A.    Yes, it does.