

Exhibit No.:
Issues: Pro Forma Financial
Statements
Acquisition Adjustment
Witness: Mark L. Oligschlaeger
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GM-2001-585
Date Testimony Prepared: August 13, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

FILED
AUG 13 2001
Missouri Public
Service Commission

GATEWAY PIPELINE COMPANY, INC., et al.

CASE NO. GM-2001-585

Jefferson City, Missouri
August 2001

****Denotes Highly Confidential Information****

NP

1
2
3
4
5
6
7

TABLE OF CONTENTS
REBUTTAL TESTIMONY OF
MARK L. OLIGSCHLAEGER

PRO FORMA FINANCIAL STATEMENTS 3
ACQUISITION ADJUSTMENT 8

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

GATEWAY PIPELINE COMPANY, INC., et al.

CASE NO. GM-2001-585

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, MO, and received a Bachelor of Science degree in Business Administration with a major in Accounting in 1981. I have been employed by the Missouri Public Service Commission (Commission) since September 1981 within the Accounting Department. In November 1981, I passed the Uniform Certified Public Accountant (CPA) examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission is given in Schedule 1, which is attached to this rebuttal testimony.

Q. With reference to Case No. GM-2001-585, the Joint Application of Gateway Pipeline Company, Inc. (Gateway), Missouri Gas Company (MGC) and Missouri Pipeline Company (MPC) for Gateway to acquire the outstanding shares of

Rebuttal Testimony of
Mark L. Oligschlaeger

1 UtiliCorp Pipeline Systems, Inc. (UPL), have you examined the books and records of
2 Gateway, MGC and MPC?

3 A. Yes, with the assistance of other members of the Commission Staff
4 (Staff).

5 Q. What is the purpose of your rebuttal testimony?

6 A. The purpose of this testimony is to address the current level of profitability
7 under UtiliCorp United, Inc.'s (UtiliCorp's) operation of the gas pipeline systems
8 proposed to be acquired by Gateway, Gateway's projected level of profitability of the
9 systems under its operation if the transaction is approved, and the relevance of these
10 amounts to issues of public detriment if the transaction is ultimately approved by the
11 Commission. I will also address the matter of "acquisition adjustments" as they relate to
12 the instant proceeding.

13 Q. Please briefly describe the proposed transaction requested in this
14 proceeding.

15 A. The transaction is described in some detail in the rebuttal testimony of
16 Staff witness Roberta A. McKiddy of the Financial Analysis Department. For purposes
17 of the discussion in this testimony, the key points are that Gateway is seeking
18 authorization to purchase all of the stock of UPL, which is currently 100% owned by
19 UtiliCorp. UPL in turn owns 100% of the stock of MGC and MPC, both of which are
20 currently regulated by this Commission and both of which supply gas to local distribution
21 companies under rates and charges set by this Commission. Gateway is ** _____

22 _____ **

PRO FORMA FINANCIAL STATEMENTS

Q. Under current ownership, are the gas pipelines that are the subject of this transaction profitable to UtiliCorp?

A. No. In its response to Staff Data Request No. 3801, UtiliCorp provided income statements and balance sheets for the MGC and MPC pipelines reflecting actual financial results for calendar year 2000. This data request response indicated that MGC suffered a net loss of approximately \$350,000 in the year 2000, while MPC experienced a net loss of approximately \$27,000.

Q. What are Gateway's expectations of MGC's and MPC's future profitability under its ownership if its Application for purchase of these properties is approved?

A. **

**

Q. Have you prepared a schedule comparing current financial results for MGC and MPC under UtiliCorp ownership to Gateway's projected results for these pipelines?

A. Yes. Highly Confidential Schedule 2 presents in summary form the combined historical financial results for these properties under UtiliCorp ownership in the year 2000, as well as the projected combined results for MGC and MPC for the year 2001. **

Rebuttal Testimony of
Mark L. Oligschlaeger

1

2

3

**

4

Q.

**

5

**

6

A.

**

7

8

9

10

**

11

Q.

Is seeking increased rates for MGC and MPC a feasible approach to improving the profitability of these systems?

12

13

A.

Generally not, in the Staff's opinion. Unlike most situations involving utilities whose rates are regulated by the Commission, the service offered by MGC and MPC is directly subject to price competition from propane suppliers. Seeking to increase rates for MPC and MGC may have the unintended result of inducing current end users of gas service in the pipelines' service territories to change their fuel source from gas to propane. This result would in turn lead to decreased profitability for the gas pipelines, and any further increase in gas rates would potentially result in even further customer losses to propane, ending in a so-called "death spiral."

14

15

16

17

18

19

20

21

For this reason, the Staff believes that Gateway's ability to seek increased rates for these properties in the future will be significantly constrained. **

22

23

Rebuttal Testimony of
Mark L. Oligschlaeger

1 _____

2 _____ **

3 Q. ** _____

4 _____ **

5 A. ** _____

6 _____

7 _____

8 _____

9 _____ **

10 Q. ** _____

11 _____ **

12 A. ** _____ **

13 ** _____

14 _____

15 _____ **

16 ** _____

17 _____

18 _____

19 _____

20 _____

21 _____ **

22 Q. ** _____

23 _____ **

Rebuttal Testimony of
Mark L. Oligschlaeger

1 A. ** _____

2 _____

3 _____

4 _____

5 _____

6 _____ ** This concern is addressed in the rebuttal testimony of Staff
7 witnesses McKiddy, and also the rebuttal testimony of Staff witness Carmen J. Morrissey
8 of the Energy Department.

9 Q. ** _____

10 _____

11 _____ **

12 A. ** _____

13 _____

14 _____

15 _____

16 _____ ** This point is further
17 discussed in the rebuttal testimony of Staff witness McKiddy.

18 Q. What are the Staff's conclusions regarding Gateway's projections of
19 future profitability of the MGC and MPC pipelines?

20 A. ** _____

21 _____

22 _____

23 _____

Rebuttal Testimony of
Mark L. Oligschlaeger

1

2

3

4

5

6

7

8

**

9

For these reasons, among others expressed in the Staff's rebuttal filing, the Staff believes the proposed sale of these properties to Gateway by UtiliCorp would be detrimental to the public interest.

12

Q. What is the basis for the Staff's belief that UtiliCorp would be better able to withstand unfavorable financial results associated with these properties than Gateway?

14

A. UtiliCorp is a large, multi-state and multi-national corporation. Its 2001 10-K405 Report to the Securities and Exchange Commission indicated that it had total assets of \$14.1 billion and total revenues of \$28.975 billion as of the end of the year 2000. **

18

19

20

21

22

** The Staff

23

views that the increased risk of a discontinuance of gas service in the MGC and MPC

Rebuttal Testimony of
Mark L. Oligschlaeger

1 service territories if this transaction were to be approved to be detrimental to the public
2 interest.

3 Q. Are there additional reasons why the Staff believes that UtiliCorp would
4 be less likely to abandon gas service in the MGC and MPC service territories than
5 Gateway?

6 A. Yes. A significant customer of both MGC and MPC is UtiliCorp's
7 division, Missouri Public Service (MPS), an LDC. Any decision by UtiliCorp to abandon
8 gas service in the MGC and MPC service territories would have the result of also
9 abandoning the distribution plant placed in service by UtiliCorp for its MPS division.
10 Therefore, the common ownership of the pipelines and the distribution plant by UtiliCorp
11 means that utility has more at stake in a continuance of gas service by MPC and MGC
12 than stand-alone pipelines owned by Gateway would.

13 Q. Given the evidence reviewed by the Staff so far, would the replacement of
14 UtiliCorp by Gateway as operator of these pipelines be detrimental to the public interest?

15 A. Yes. It is evident that the financial position of Gateway and its parent
16 company is inferior to that of UtiliCorp. This, in turn, indicates that reduced stability,
17 capability and ownership commitment to these Missouri properties may result from the
18 proposed sale.

19

20 **ACQUISITION ADJUSTMENT**

21 Q. What is an "acquisition adjustment?"

22 A. An "acquisition adjustment" is the difference between the net original cost
23 of an asset or assets and the purchase price of the asset or assets to a subsequent owner.

Rebuttal Testimony of
Mark L. Oligschlaeger

1 It has long been the practice in this jurisdiction not to recognize acquisition adjustments,
2 either positive or negative, in setting the value of acquired assets in rate base for
3 ratemaking purposes.

4 Q. Are there amounts related to acquisition adjustments currently on the
5 books and records of MPL and MGC?

6 A. Yes. The Staff submitted a data request to UtiliCorp asking for the origin
7 of these amounts, since UtiliCorp had claimed in the case in which it acquired these
8 properties from their original owner (Case No. GM-94-252) that the systems were being
9 purchased at net book value, with no acquisition adjustment resulting.

10 Q. What was UtiliCorp's explanation?

11 A. In its response to Staff Data Request No. 3813, UtiliCorp stated that the
12 acquisition adjustment related to unregulated properties purchased from the original
13 owner at the same time the MPC and MGC properties were acquired. Further, UtiliCorp
14 stated in its response that it was unclear why UtiliCorp would have allocated an
15 unregulated acquisition adjustment amount to the books and records of regulated
16 properties such as MPC and MGC.

17 Q. Will these acquisition adjustment amounts be transferred to Gateway's
18 books and records if this transaction is approved?

19 A. Yes.

20 Q. Is there an acquisition adjustment associated with the purchase of the UPL
21 assets by Gateway from UtiliCorp?

22 A. Based upon the responses to Staff data requests, it does not appear that
23 there is any acquisition adjustment associated with Gateway's purchase of the UPL

Rebuttal Testimony of
Mark L. Oligschlaeger

1 regulated assets. It is stated that the negotiated purchase price for these assets is equal to
2 the current net book value of the regulated assets on UtiliCorp's books which, in turn, is
3 equal to the depreciated original cost of the assets (Response to Staff Data Request No.
4 3812). However, the Staff believes there is an acquisition adjustment associated with
5 Gateway's concurrent purchase of unregulated properties from UtiliCorp along with
6 MPC and MGC.

7 Q. Does Gateway intend to seek recovery of acquisition adjustment amounts
8 in future Missouri rate proceedings for MPC and MGC?

9 A. ** _____ ** However,
10 Gateway witness David J. Ries makes the following statements regarding this topic in his
11 direct testimony in this proceeding:

12 Q. Is Gateway requesting the Commission make any findings
13 or conclusions regarding what are commonly referred to as an "acquisition
14 adjustment in this case?

15
16 A. No. As stated above, Gateway is not seeking any change to the
17 rates, rules, regulations or other tariff provisions of MGC and MPC in
18 this case.
19 (Ries Direct, p. 3).

20
21 Also, later in his testimony, Mr. Ries states:

22
23 No acquisition adjustment decision is being sought in this proceeding.
24 (Ries Direct, p. 9).

25
26 In light of these ambiguous statements, and the existence of unregulated
27 acquisition adjustments from both the instant and past transactions involving these
28 properties, the Staff recommends that the Commission include as a condition in any
29 Order granting approval for Gateway's purchase of these properties the following:

Rebuttal Testimony of
Mark L. Oligschlaeger

- 1 1. That Gateway agree to not reflect any acquisition adjustments
2 relating to unregulated operations of itself or past owners of these
3 properties on the books and records of MPC and MGC; and
4 2. That Gateway agree not to seek recovery in any future Missouri
5 rate proceeding for either MPC or MGC of any acquisition
6 adjustment associated with this proposed transaction, or past
7 purchase/sale transactions that involved MPC and MGC.

8 Q. Does this conclude your rebuttal testimony?

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Joint Application of)
Gateway Pipeline Company, Inc. Missouri)
Gas Company and Missouri Pipeline)
Company)
Case No. GM-2001-585

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
)
COUNTY OF COLE)
)
 ss.

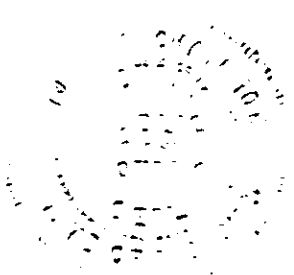
Mark L. Oligschlaeger, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; 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.

Mark L. Oligschlaeger
Mark L. Oligschlaeger

Subscribed and sworn to before me this 10 day of August 2001.

Toni M. Charlton

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004



MARK L. OLIGSCHLAEGER

<u>COMPANY</u>	<u>CASE NO.</u>
Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199
Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14
Western Resources	GR-90-40 & GR-91-149
Missouri-American Water Company	WR-91-211
UtiliCorp United Inc. / Missouri Public Service	EO-91-358 & EO-91-360
Generic: Expanded Calling Scopes	TO-92-306
Generic: Energy Policy Act of 1992	EO-93-218
Western Resources, Inc./Southern Union Company	GM-94-40
St. Louis County Water Company	WR-95-145
Union Electric Company	EM-96-149
St. Louis County Water Company	WR-96-263
Missouri Gas Energy	GR-96-285
The Empire District Electric Company	ER-97-82
UtiliCorp United, Inc./Missouri Public Service	ER-97-394
Western Resources, Inc./Kansas City Power & Light Company	EM-97-515
United Water Missouri, Inc.	WA-98-187
Missouri-American Water Company	WM-2000-222

MARK L. OLIGSCHLAEGER

<u>COMPANY</u>	<u>CASE NO.</u>
UtiliCorp United Inc. / St. Joseph Light & Power Company	EM-2000-292
UtiliCorp United Inc. / The Empire District Electric Company	EM-2000-369
Green Hills Telephone Corporation	TT-2001-115
IAMO Telephone Company	TT-2001-116
Ozark Telephone Company	TT-2001-117
Peace Valley Telephone Company, Inc.	TT-2001-118
Holway Telephone Company	TT-2001-119
KLM Telephone Company	TT-2001-120
Missouri Gas Energy	GR-2001-292
The Empire District Electric Company	ER-2001-299
Oregon Farmers Mutual Telephone Company	TT-2001-328
Ozark Telephone Company	TC-2001-402

SCHEDULE 2

IS

HIGHLY

CONFIDENTIAL

IN ITS ENTIRETY