

Exhibit No.:

Issues:

Rate Base, Plant in Service,
Depreciation Reserve,
Depreciation Expense,
Amortization Expense,
Materials & Supplies,
Prepayments, Customer
Advances, Customer
Deposits, Interest Expense
on Customer Deposits,
Property Tax Expense,
Injuries & Damages
Expense, Corporate
Overheads, Accounting
Authority Order
Phillip K. Williams
MoPSC Staff
GR-93-172

RECEIVED
JUN 02 1993

ACCOUNTING DEPT.
PUBLIC SERVICE COMMISSION

Witness:

Sponsoring Party:

Case No.:

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

PHILLIP K. WILLIAMS

MISSOURI PUBLIC SERVICE,

A DIVISION OF UTILICORP UNITED, INC.

CASE NO. GR-93-172

Jefferson City, Missouri
May, 1993

FILED

MAY 28 1993

PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

PHILLIP K. WILLIAMS

MISSOURI PUBLIC SERVICE,

A DIVISION OF UTILICORP UNITED, INC.

CASE NO. GR-93-172

Q. Please state your name and business address.

A. Phillip K. Williams, State Office Building, Suite 510, 615 East Thirteenth Street, Kansas City, Missouri 64106.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your education and other qualifications.

A. I graduated from Central Missouri State University (CMSU) at Warrensburg, Missouri, in August, 1976, with a Bachelor of Science degree in Business Administration, with a functional major in Accounting. Upon completion of my undergraduate degree, I entered the Masters Program at CMSU. I graduated from CMSU in February, 1978, with a Master of Business Administration degree with emphasis in Accounting. In May, 1989, I passed the Uniform Certified Public Accountant (CPA) examination. Having completed the two year experience requirement in February, 1989, I am licensed as a CPA in the state of Missouri.

Q. What have been your duties while employed by this Commission?

Direct Testimony of
Phillip K. Williams

1 A. I have, under the direction of the Manager of the Accounting
2 Department, assisted with audits and examinations of books and records of utility
3 companies operating within the state of Missouri.

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

5 A. Yes. Schedule 1 is a list of the cases in which I have filed testimony.

6 Q. With reference to Case No. GR-93-172, have you made an examination
7 of the books and records of Missouri Public Service (MPS or Company), a division
8 of UtiliCorp United, Inc. (UtiliCorp)?

9 A. Yes, with the assistance of other members of the Commission Staff
10 (Staff).

11 Q. Please describe your principal areas of responsibility in this case.

12 A. My principal areas of responsibility are plant in service, accumulated
13 depreciation, depreciation expense, amortization expense, materials and supplies,
14 prepayments, customer advances, customer deposits, interest expense on customer
15 deposits, property tax expense, injuries and damages expense, corporate overhead
16 expense and Accounting Authority Order deferred costs.

17 Q. Please list the Accounting Schedules you are sponsoring.

18 A. I am sponsoring the following Accounting Schedules:

19 Accounting Schedule 2, Rate Base

20 Accounting Schedule 3, Total Plant

21 Accounting Schedule 4, Adjustments to Total Plant

22 Accounting Schedule 5, Depreciation Expense

23 Accounting Schedule 6, Depreciation Reserve

24 Accounting Schedule 7, Adjustments to Depreciation Reserve
25

Direct Testimony of
Phillip K. Williams

1 Q. Please list the accounting adjustments you are sponsoring.

2 A. I am sponsoring the following adjustments:

3 Plant adjustments P-3.1, P-4.1, P-5.1, P-7.1, P-8.1, P-10.1, P-11.1,
4 P-12.1, P-13.1, P-14.1, P-15.1, P-16.1, P-20.1, P-21.1, P-22.1,
5 P-23.1, P-24.1, P-25.1, P-26.1, P-27.1, P-28.1, P-29.1, P-30.1,
6 P-31.1, P-32.1, P-33.1, P-34.1, P-35.1, P-36.1, P-37.1, P-38.1
7 and P-39.1;

8 Reserve adjustments R-2.1, R-3.1, R-4.1 and R-5.1; and

9 Income Statement adjustments S-6.2, S-8.6, S-8.7, S-9.1, S-10.1,
10 S-10.2, S-10.3 and S-11.1.

11 Q. Please explain Accounting Schedule 2, Rate Base.

12 A. Accounting Schedule 2 is the calculation of total gas rate base for MPS.

13 Line 1 is the amount of total plant in service as calculated on Accounting Schedule 3.

14 Line 2 is the amount of depreciation reserve as calculated on Accounting Schedule 6.

15 Line 3, Net Plant in Service, is calculated by subtracting the depreciation reserve from

16 total plant in service. Line 4 is the amount of cash working capital as calculated on

17 Accounting Schedule 8, sponsored by Staff Accounting witness Linda K.

18 Welschmeyer. Line 5 is the Staff's annualized amount of materials and supplies, as

19 discussed later in my direct testimony. Line 6 is the Staff's annualized amount of

20 prepayments, also discussed later in my direct testimony. Line 7 is the Staff's rate

21 base adjustment for manufactured gas plant sponsored by Staff Accounting witness

22 Shirley J. Norman. Line 8 is the amount of deferred safety related costs from Case

Direct Testimony of
Phillip K. Williams

1 No. GR-90-198 to be included in rate base, which I will address later. Line 9 is the
2 amount of new deferred safety related costs from Case No. GO-91-359 to be included
3 in rate base, which I will also discuss later. Line 10 is the amount of the federal tax
4 offset to rate base, sponsored by Staff witness Welschmeyer. Line 11 is the amount
5 of the state tax offset to rate base and line 12 is the amount of the city tax offset to
6 rate base, both of which are sponsored by Staff witness Welschmeyer. Line 13 is the
7 interest expense offset to rate base, also sponsored by Staff witness Welschmeyer.
8 Line 14 is the amount of customer advances for construction used as an offset to rate
9 base, which will be addressed later in my direct testimony. Line 15 is the amount of
10 customer deposits to be used as an offset to rate base, which will also be addressed
11 later in my direct testimony. Line 16 is the amount of the deferred income tax offset
12 to rate base, which is being sponsored by Staff witness Cox. Line 17 is the amount
13 of total gas rate base and is carried forward to Accounting Schedule 1, Revenue
14 Requirement.

15 Q. Please explain Accounting Schedule 3, Total Plant.

16 A. Accounting Schedule 3 shows the calculation of total gas plant in
17 service. Column A provides the plant account descriptions. Column B shows
18 Missouri jurisdictional (total Company) plant balances as of September 30, 1992.
19 Column C presents the total amount of jurisdictional adjustments to each account.
20 Column D is the Missouri adjusted jurisdictional plant in service, derived by adding
21 Column C to Column B.

22 Q. Please explain Accounting Schedule 4, Adjustments to Total Plant.

Direct Testimony of
Phillip K. Williams

1 A. Accounting Schedule 4 is the listing of jurisdictional adjustments
2 proposed by the Staff to the September 30, 1992 plant in service balances.

3 Q. Please explain Accounting Schedule 5, Depreciation Expense.

4 A. Accounting Schedule 5 shows the calculation of annualized depreciation
5 expense. Column A provides the plant account descriptions. Column B is the adjusted
6 jurisdictional plant balances. Column C represents the current authorized depreciation
7 rates for MPS. Column D is the annualized depreciation expense.

8 Q. Please explain Accounting Schedule 6, Depreciation Reserve.

9 A. Accounting Schedule 6 shows the calculation of MPS' gas depreciation
10 reserve. Column A is the depreciation reserve account descriptions. Column B is the
11 Missouri jurisdictional depreciation reserve at September 30, 1992. Column C presents
12 the amount of total jurisdictional adjustments to each type of plant category in the
13 reserve. Column D is the Missouri adjusted gas jurisdictional depreciation reserve.

14 Q. Please explain Accounting Schedule 7, Adjustments to Depreciation
15 Reserve.

16 A. Accounting Schedule 7 is the listing of the Staff's jurisdictional
17 adjustments to the September 30, 1992 depreciation reserve.

18 Q. Please explain the materials and supplies amount added to rate base on
19 Accounting Schedule 2.

20 A. The materials and supplies amount added to rate base is based on a
21 thirteen month average of materials and supplies inventories for the test year ended
22 September 30, 1992.

Direct Testimony of
Phillip K. Williams

1 Q. Please explain the prepayments amount added to rate base.

2 A. The prepayments balance added to rate base is based on a thirteen
3 month average of Company's prepayments, allocated to the gas jurisdiction, for the test
4 year ended September 30, 1992. The prepayments were allocated to gas operations
5 based upon the Company's allocation factors used in its case.

6 Q. Please explain the customer advances for construction amount used as
7 an offset to rate base.

8 A. The customer advances for construction offset to rate base in
9 Accounting Schedule 2 is the Staff's annualized level for customer advances. I
10 annualized customer advances using a thirteen month average for the test year ended
11 September 30, 1992, because the balance fluctuated up and down during the test year.

12 Q. Please explain the customer deposit amount used as an offset to rate
13 base.

14 A. The customer deposits offset to rate base is the Staff's annualized level
15 for customer deposits, utilizing the September 30, 1992 test year ending balance.

16 Q. Please explain Plant adjustments P-3.1, P-4.1, P-5.1, P-7.1, P-8.1, P-
17 10.1, P-11.1, P-12.1, P-13.1, P-14.1, P-15.1, P-16.1, P-20.1, P-21.1, P-22.1, P-23.1, P-
18 24.1, P-25.1, P-26.1, P-27.1, P-28.1, P-29.1, P-30.1, P-31.1, P-32.1, P-33.1, P-34.1, P-
19 35.1, P-36.1, P-37.1, P-38.1 and P-39.1.

20 A. These adjustments were made by the Staff to adjust test year ending
21 plant in service to reflect the net additions to plant through April 30, 1993.

22 Q. Please explain Reserve adjustments R-2.1, R-3.1, R-4.1 and R-5.1.

Direct Testimony of
Phillip K. Williams

1 A. These Reserve adjustments were made to adjust the depreciation reserve
2 to reflect actual reserve through April 30, 1993.

3 Q. Please describe Income Statement adjustment S-6.2.

4 A. Income Statement adjustment S-6.2 was made to include in rates the
5 level of interest associated with the Staff's annualized level of customer deposits. The
6 Staff calculated the amount of interest on customer deposits using the authorized rate
7 of 9% as found in the Company's current tariffs.

8 Q. Please describe adjustment S-8.6.

9 A. Adjustment S-8.6 was made to annualize injuries and damages expense.
10 The Company is currently recording injuries and damages expense on its books on an
11 accrual basis. However, the Staff's annualized level of injuries and damages expense
12 is based on actual injuries and damages payments for the test year ended
13 September 30, 1992, because a historical analysis of the injuries and damages accruals
14 compared to actual cash payouts for the five years ended September 30, 1992, shows
15 that the payments were only equal on average to approximately 89.5% of the accruals
16 for that same time frame. A copy of the Staff's five year analysis of injuries and
17 damages has been attached to my testimony as Schedule 2.

18 The Staff's analysis shows on Schedule 2-2 that if the Company is allowed to
19 recover injuries and damages expense based on accrual amounts rather than actual
20 payments based on past experience, the Company will overcollect from the ratepayers.
21 During the five year period addressed in Schedule 2, MPS' accruals exceeded actual
22 injuries and damages payments by \$28,600 on average. This amount was calculated

Direct Testimony of
Phillip K. Williams

1 by subtracting the average payments of \$244,016 from the average gas retail accruals
2 of \$272,628.

3 Q. Please explain adjustment S-9.1.

4 A. Adjustment S-9.1 was made to annualize depreciation expense. The
5 Staff's annualized depreciation expense was calculated using the Staff's adjusted plant
6 in service and the current authorized depreciation rates.

7 Q. Please explain adjustment S-10.1.

8 A. Adjustment S-10.1 was made to annualize the amortization expense for
9 leased property and leasehold improvements. The Staff reviewed the amortization
10 expense workpapers supplied by the Company and recalculated the amortizations with
11 no discrepancies found. The Staff made the same adjustment as the Company for the
12 amortization expense.

13 Q. Please explain adjustment S-11.1.

14 A. Adjustment S-11.1 was made by the Staff to annualize property tax
15 expense. The Staff's annualized level of property tax expense is based 1992 actual
16 property taxes paid.

17 Q. Please explain adjustment S-8.7.

18 A. Adjustment S-8.7 was made to reflect the elimination of a portion of
19 UtiliCorp corporate overhead costs from Missouri jurisdictional expense. The Staff's
20 adjustment eliminated mergers and acquisition related costs and allocated corporate
21 aircraft costs, which is consistent with the Company's adjustment. The Company's
22 adjustment was accepted by the Staff in this case because of time constraints, and the

Direct Testimony of
Phillip K. Williams

1 Staff reserves the right to challenge in future rate cases the inclusion of some or all
2 of the UtiliCorp overhead costs which are not being proposed for disallowance in this
3 proceeding.

4 Q. Please explain adjustments S-10.2 and S-10.3.

5 A. Adjustments S-10.2 and S-10.3 annualize the amortization of certain
6 safety related expenses that were deferred by MPS pursuant to Case Nos. GO-90-115
7 and GO-91-359. The Company in Case No. GO-90-115 requested from the
8 Commission authorization through an Accounting Authority Order (AAO) to defer
9 certain expenditures and costs incurred in connection with its gas safety project, which
10 was to replace gas mains and services with a deferral of costs to the effective date of
11 its next rate case. The Commission granted the AAO to MPS for gas safety-related
12 expenditures in January, 1990. The Stipulation and Agreement (S&A) in MPS'
13 subsequent gas rate case, No. GR-90-198, effective November 1, 1990, allowed the
14 Company to include in rate base \$818,578 of deferred safety costs to be amortized to
15 cost of service over twenty years. Further, on January 17, 1992, the Commission, in
16 Case No. GO-91-359, approved the Company's request for a new AAO to defer certain
17 expenditures and costs incurred in connection with its continuing gas safety projects,
18 with the deferral covering the period January 1, 1991 to the effective date of its next
19 rate case.

20 Q. Please identify the types of expenses subject to these deferrals.

Direct Testimony of
Phillip K. Williams

1 A. The deferrals were set up to account for depreciation expense and
2 specific finance charges (carrying costs) on additions associated with the Company's
3 ongoing gas safety projects for mains and services.

4 Q. Over what period of time does the Staff propose to amortize these
5 deferred costs?

6 A. The Staff recommends that the Case No. GO-90-115 deferral continue
7 to be treated for ratemaking purposes under the provisions of the Case No. GR-90-198
8 S&A. The Staff is recommending the Case No. GO-91-359 deferral be amortized over
9 twenty years which is also consistent with the S&A in Case No. GR-90-198.

10 Q. How was the depreciation expense and carrying cost deferral associated
11 with GO-91-359 calculated?

12 A. The Staff recalculated the carrying costs based on the allowance for
13 funds used during construction (AFUDC) rates that were included in the Company's
14 calculations. The depreciation expense associated with the AAO as calculated by the
15 Company was adjusted by the Staff to reflect accelerated depreciation through use of
16 deferred taxes to reduce the deferred balance.

17 Q. Does this conclude your direct testimony?

18 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION


OF THE STATE OF MISSOURI

In the matter of Missouri Public Service,)	
a division of UtiliCorp United, Inc.'s)	
proposed tariffs to increase rates for)	Case No. GR-93-172
gas service provided to customers in)	
the Missouri service area of the company.)	

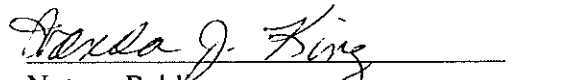
AFFIDAVIT OF PHILLIP K. WILLIAMS

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

Phillip K. Williams, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Direct 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.


Phillip K. Williams

Subscribed and sworn to before me this 27th day of May, 1993.


Notary Public
Cole County Missouri

My Commission Expires: 9/4/95

LIST OF CASES FILED
BY
PHILLIP K. WILLIAMS

<u>COMPANY NAME</u>	<u>CASE NUMBER</u>
Kansas City Power & Light Company	ER-81-42
The Gas Service Company	GR-81-155
United Telephone Company	TR-81-302
Rich Hill-Hume Gas Company	GR-81-332
Missouri Public Service Company	ER-82-39
Missouri Public Service Company	WR-82-50
The Gas Service Company	GR-82-151
Missouri Public Service Company	GR-82-194
Missouri Water - Lexington Division	WR-82-279
Missouri Public Service Company	ER-83-40
The Gas Service Company	GR-83-225
Missouri Water Company - Independence Division	R-83-352
Rich Hill-Hume Gas Company	GR-84-24
Kansas City Power & Light Company	ER-85-128/EO-85-185
KPL Gas Service Company	GR-86-76
General Telephone Company of the Midwest	TC-87-57
Missouri Public Service	GR-88-194
U.S. Water/Lexington, Mo., Inc.	WR-88-255
KPL Gas Service	GR-90-50
UtiliCorp United Inc., Missouri Public Service	ER-90-101
KPL Gas Service	GR-91-291
Raytown Water Company, Inc.	WR-92-85
Missouri Public Service Company	ER-93-37

UTILICORP UNITED, INC.
MISSOURI PUBLIC SERVICE DIVISION
CASE NO. GR-93-172
TEST YEAR ENDED SEPT. 30, 1992
ANALYSIS OF INJURIES AND DAMAGES

W/P NO. INJ&DAMI
PREPARED BY: PKW
DATE PREPARED: 06-May-93
DATE PRINTED: 26-May-93
TIME PRINTED: 11:19 AM
REVIEWED BY:

DATE	ACCRUALS	PAYMENTS	PAYMENTS AS A % OF ACCRUALS
	GAS	GAS	
OCT. 1987	\$21,970	\$18,889	
NOV. 1987	\$21,970	\$32,408	
DEC. 1987	\$21,970	\$37,582	
JAN. 1988	\$22,712	\$13,607	
FEB. 1988	\$13,648	\$20,887	
MAR. 1988	\$18,922	\$20,919	
APR. 1988	\$18,145	\$19,420	
MAY 1988	\$14,427	\$21,884	
JUN. 1988	\$15,134	\$17,379	
JUL. 1988	\$17,389	\$18,814	
AUG. 1988	\$16,663	\$15,837	
SEPT. 1988	\$67,061	\$18,288	
TWELVE MONTHS ENDED SEPT., 1988	\$270,011	\$255,914	94.78%
OCT. 1988	\$18,182	\$18,981	
NOV. 1988	\$16,639	\$22,510	
DEC. 1988	\$18,182	\$22,373	
JAN. 1989	\$60,517	\$14,692	
FEB. 1989	(\$27,739)	\$14,618	
MAR. 1989	(\$46,550)	\$15,012	
APR. 1989	\$15,129	\$46,914	
MAY 1989	\$15,129	(\$16,909)	
JUN. 1989	\$18,912	\$12,754	
JUL. 1989	\$15,129	\$13,066	
AUG. 1989	\$18,912	\$20,830	
SEPT. 1989	\$15,129	\$16,929	
TWELVE MONTHS ENDED SEPT., 1989	\$137,571	\$201,770	146.67%
OCT. 1989	\$15,129	\$34,322	
NOV. 1989	\$15,129	\$35,622	
DEC. 1989	\$18,912	\$15,615	
JAN. 1990	\$17,615	\$23,609	
FEB. 1990	\$14,092	\$12,695	
MAR. 1990	\$14,092	\$16,441	
APR. 1990	\$14,092	\$20,033	
MAY 1990	\$23,172	(\$6,349)	
JUN. 1990	\$78,615	\$15,691	
JUL. 1990	\$40,649	\$22,967	
AUG. 1990	\$38,895	\$12,090	
SEPT. 1990	\$33,102	\$12,780	
TWELVE MONTHS ENDED SEPT., 1990	\$323,494	\$215,516	66.62%
OCT. 1990	\$23,172	\$12,612	
NOV. 1990	\$38,895	\$12,287	
DEC. 1990	(\$66,198)	\$18,412	
JAN. 1991	\$28,965	\$11,641	
FEB. 1991	\$43,032	\$24,312	
MAR. 1991	\$3,312	\$47,818	
APR. 1991	\$23,172	\$27,326	
MAY 1991	\$68,685	\$16,029	
JUN. 1991	\$23,172	\$14,237	
JUL. 1991	\$48,825	\$18,825	
AUG. 1991	\$43,032	\$19,852	
SEPT. 1991	(\$16,548)	\$36,334	
TWELVE MONTHS ENDED SEPT., 1991	\$261,516	\$259,735	99.32%

UTILICORP UNITED, INC.
MISSOURI PUBLIC SERVICE DIVISION
CASE NO. GR-93-172
TEST YEAR ENDED SEPT. 30, 1992
ANALYSIS OF INJURIES AND DAMAGES

W/P NO. INJ&DAM1
PREPARED BY: PKW
DATE PREPARED: 06-May-93
DATE PRINTED: 26-May-93
TIME PRINTED: 11:19 AM
REVIEWED BY:

DATE	ACCRUALS	PAYMENTS	PAYMENTS AS A % OF ACCRUALS
	GAS	GAS	
OCT. 1991	\$62,892	\$43,474	
NOV. 1991	\$88,545	\$16,492	
DEC. 1991	\$43,032	\$10,087	
JAN. 1992	\$28,965	\$6,402	
FEB. 1992	\$23,172	\$22,089	
MAR. 1992	(\$88,623)	\$12,741	
APR. 1992	\$86,112	\$44,819	
MAY 1992	\$37,902	\$62,012	
JUN. 1992	(\$26,478)	\$17,351	
JUL. 1992	\$9,105	\$18,302	
AUG. 1992	\$23,172	\$16,746	
SEPT. 1992	\$82,752	\$16,628	

TWELVE MONTHS ENDED SEPT., 1992	\$370,548	\$287,143	77.49%

TWELVE MONTHS ENDED SEPT., 1988	\$270,011	\$255,914	94.78%
TWELVE MONTHS ENDED SEPT., 1989	\$137,571	\$201,770	146.67%
TWELVE MONTHS ENDED SEPT., 1990	\$323,494	\$215,516	66.62%
TWELVE MONTHS ENDED SEPT., 1991	\$261,516	\$259,735	99.32%
TWELVE MONTHS ENDED SEPT., 1992	\$370,548	\$287,143	77.49%

	\$1,363,140	\$1,220,078	89.50%
	5	5	

	\$272,628	\$244,016	89.50%
=====			
3 YR. AVG			
T.Y. ENDED			
90, 91, & 92	\$318,519	\$254,131	79.79%
=====			

TEST YEAR ENDED SEPT., 1993 PER BOOKS

STAFF'S ANNUALIZED LEVEL OF TEST YEAR EXPENSE

\$370,548

\$287,143

ADJUSTMENT TO INCREASE/(DECREASE) INJURIES AND DAMAGES EXPENSE.

(\$83,405)

=====

ADJ. NO.

STAFF WILL USE TEST YEAR INJURIES AND DAMAGES ACTUAL PAYMENTS AS A
CONSERVATIVE ESTIMATE.

SOURCE: COMPANY RESPONSE TO STAFF DATA REQUEST NO. 122.

THE ALLOCATION FACTOR USED IS COMPANY'S PAYROLL ALLOCATOR.