DIRECT TESTIMONY

OF

RENEE M. CRAMER

MISSOURI PIPELINE COMPANY

CASE NO. GR-92-314

Q. Please state your name and business address.

A. Renee M. Cramer, 906 Olive Street, Suite 330, St. Louis, Missouri 63101.

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

A. I am employed by the Missouri Public Service Commission (Commission) as a Regulatory Auditor.

Q. Please describe your educational background and other qualifications.

A. I graduated from Northeast Missouri State University in Kirksville, Missouri in August of 1990 with a Bachelor of Science degree, with a major in Accounting. In November, 1991, I passed the Uniform Certified Public Accountant examination in Illinois. I was employed with the State of Illinois Office of the Auditor General as a Performance Auditor from November, 1991 to May, 1992.

Q. What has been the nature of your duties while in the employ of this Commission?

A. Under the direction of the Manager of the Accounting Department, I have participated in the audits and examination of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. I filed testimony in Case Nos. WR-92-207 and SR-92-208, Missouri Cities Water Company.

Q. In reference to Case No. GR-92-314, have you examined the books and records of Missouri Pipeline Company (MPC or Company)?

A. Yes, I have, with the assistance of other members of the Commission Staff (Staff).

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

A. My principal areas of responsibility are plant in service, depreciation reserve, prepayments, property insurance, and the cash working capital expense lags for cash vouchers, property taxes and franchise taxes. I am sponsoring the following Accounting Schedules:

Accounting Schedule 2 - Rate Base
Accounting Schedule 3 - Total Plant in Service
Accounting Schedule 4 - Adjustments to Plant in Service
Accounting Schedule 5 - Depreciation & Amortization Reserve
Accounting Schedule 6 - Adjustments to Depreciation Reserve
Accounting Schedule 7 - Depreciation Expense
Accounting Schedule 8 - Cash Working Capital
Accounting Schedule 9 - Prepayments

Q. Please identify the Income Statement adjustments that you are sponsoring.

A. I am sponsoring adjustment S-6-B, which increases the franchise tax expense recorded on the Company's books to reflect the annualized level computed by the Staff and adjustment S-6-C, which annualizes property tax expense. In addition, I am sponsoring Plant adjustments P-2-A and P-3-D which remove the cost of rights-of-way from the Structures and Improvements Account and the Mains Account, respectively. The final adjustment I am sponsoring is Plant adjustment P-1-A which reclassifies the total of the two previous adjustments to the Rights-of-Way Account.

Q. Please explain Accounting Schedule 2, Rate Base.

A. The components of the Rate Base Accounting Schedule are plant in service, depreciation reserve, cash working capital, prepayments, and deferred taxes. I am sponsoring all of these with the exception of deferred taxes, which is being sponsored by Staff Accounting witness Doyle L. Gibbs. Plant in service, depreciation reserve, prepayments and cash working capital are supported by separate Accounting Schedules.

Q. What is the basis for the amount of plant in service shown on Accounting Schedule 2?

A. This number, as shown on Accounting Schedule 3, represents the test year ending March 31, 1992 balance of plant in service as adjusted to include additions through September 30, 1992, and other adjustments to plant as detailed on Accounting Schedule 4. The Staff included in the September 30, 1992 additions the cost of the Franklin County Delivery Spur (FCDS) project. As explained in the direct testimony of Staff Accounting witness Stephen M. Rackers, although this plant was completed and in service by the end of the test year update period, it was not yet transferred to plant in service on the Company's books.

Q. Please describe how the amount associated with accumulated depreciation shown on Accounting Schedule 2 was derived.

A. As shown on Accounting Schedule 5, Depreciation and Amortization Reserve, this amount is simply the September 30, 1992 balance, as adjusted by the Staff, recorded in the

Company's depreciation reserve account. The adjustments to the depreciation reserve are detailed on Accounting Schedule 6.

Q. Would you please explain how the rate base component of prepayments was calculated?

A. Yes. As shown on Accounting Schedule 9, a thirteen month average of prepayments for the period ending March 31, 1992, exclusive of "prepaid property tax" recorded by the Company, was used to arrive at the prepayments balance included on Accounting Schedule 2. The March 31, 1992 date represents the end of the test year period for this case.

Q. Why was prepaid property tax not included in the thirteen-month average?

A. Property taxes are not prepaid, but paid in arrears. The inclusion of property tax in prepayments on the Company's books was due to the erroneous recording of the 1991 tax assessment as a prepayment of 1992 taxes.

Q. Why was a thirteen month average selected for prepayments rather than a year-end or last known balance?

A. A year-end or last known balance would have been used if the Staff's analysis had determined that there was a definite trend either upward or downward in the balances during the test year period. The balance of the monthly prepayments account demonstrated no such trend. The monthly balances fluctuated throughout the period and, accordingly, a thirteen month average is considered most representative of the ongoing level.

Q. Materials and supplies is usually a rate base component. Why is materials and supplies not shown on the Rate Base Accounting Schedule in this case?

A. The Company does not currently maintain an inventory of materials and supplies.

Q. Please explain Accounting Schedule 3.

A. Accounting Schedule 3, Total Plant in Service, is comprised of amounts that represent MPC's plant in service as of September 30, 1992, as adjusted by the Staff.

Q. Please explain Accounting Schedule 4.

A. Accounting Schedule 4, Adjustments to Total Plant, lists adjustments made by the Staff to the September 30, 1992 book plant in service balances.

Q. Please explain Accounting Schedule 5.

A. Accounting Schedule 5, Depreciation Reserve, represents the Company's adjusted depreciation reserve as of September 30, 1992.

Q. Please explain Accounting Schedule 6.

A. Accounting Schedule 6, Adjustments to Depreciation Reserve, lists adjustments made by the Staff to the September 30, 1992 balance of depreciation reserve.

Q. Please explain Accounting Schedule 7, Depreciation Expense.

A. Accounting Schedule 7 calculates annualized depreciation expense based upon the Staff's adjusted level of plant in service as shown on Accounting Schedule 3 and the depreciation rates proposed by Company witness Michael N. Trusty. These rates were determined to be reasonable by Staff witness Melvin T. Love of the Energy Department.

Q. Please describe Accounting Schedule 8.

A. Accounting Schedule 8, Cash Working Capital, is the Staff's calculation of the cash working capital requirement of the Company.

Q. Is the method that the Staff used to calculate the Company's cash working capital requirement consistent with that used in previous rate cases?

A. Yes. This method has been used by the Staff and adopted by the Commission in numerous rate cases.

Q. Please explain the components of the Staff's calculation of cash working capital appearing on Accounting Schedule 8.

A. The Description Column lists various categories of expenses that the Company pays on a regular basis. Column (A), Adjusted Expenses, shows the annualized amounts associated with the items in the Description Column. Column (B), Revenue Lag, states the amount of time, expressed in days, between the midpoint of the period of the provision of service by the Company to the ratepayer and the payment by the ratepayer for that service. Column (C), Expense Lag, states the amount of time, expressed in days, between the receipt of, and payment for, the goods and services (i.e., cash expenditures) that are used by the Company to provide service to the ratepayer. Column (D), Net Lag, results from the subtraction of the Expense Lag from the Revenue Lag. Column (E), Cash Working Capital Factor, expresses the cash working capital lag in days as a fraction of the total days in the year. This is accomplished by dividing the net lags in Column (D) by 365 days. Finally, Column (F), Cash Working Capital Requirement, represents the amount of cash necessary to provide service to the ratepayer. This amount is computed by multiplying the normalized test year expense in Column (A) by the Cash Working Capital Factor in Column (E).

Q. What is cash working capital?

A. As calculated, cash working capital represents the amount of cash necessary for a utility company to fund the payment of day-to-day expenses incurred to provide service to the ratepayers.

Q. What are the sources of cash working capital?

A. Cash working capital is either provided by the shareholders (investors) or the ratepayers.

Q. How do the investors supply cash working capital?

A. The investors supply cash working capital in those situations where the Company spends cash for an expense before the cash is provided by the ratepayers. This cash represents a portion of the shareholders' total investment in the Company.

Q. How are the investors compensated for the cash working capital they provide?

A. The cash working capital funds are included in the Company's rate base, on which the Company is authorized to earn a reasonable return. By earning a return on their investment, the shareholders are compensated for the cash working capital they provide.

Q. How do the ratepayers supply cash working capital?

A. The ratepayers supply cash working capital in those situations where they pay for services received from the Company before the Company pays for the costs incurred to provide those services.

Q. How are the ratepayers compensated for the cash working capital they provide?

A. Ratepayers are compensated for the cash working capital they provide through a reduction to rate base by the amount of cash working capital provided.

Q. How has the Staff determined the amount of cash working capital provided by the investors and the amount provided by the ratepayers?

A. A lead/lag study determines the amount of cash necessary for a utility to provide service to the ratepayers. A lead/lag study also determines who supplies the cash.

A negative cash working capital requirement indicates that the ratepayers have provided the cash working capital in the aggregate during the test period. This means that the ratepayers have provided the necessary cash, on average, before the Company must pay for the expenses.

A positive cash working capital requirement indicates that the investors have provided the cash working capital in aggregate during the test period. This means that the Company must pay, on average, for the expenses before cash is provided by the ratepayer.

Q. Does the Staff use the actual results of its lead/lag study analysis in determining the appropriate cash working capital requirement?

A. Yes, the Staff uses the actual results of its lead/lag study analysis if those results indicate reasonably good cash management practices. In general terms, good cash management practices consist of taking measures to collect amounts due the utility (revenues) as quickly as possible, while deferring payment of amounts owed by the utility (cash expenses) to the due date or statutory date of payment. Good cash management practices benefit the Company's customers by minimizing the utility's need to obtain cash from shareholders for daily cash needs, and therefore also minimize any return to shareholders implicit in the cash working capital requirement calculation.

Q. Are there any component lags that comprise the revenue lag?

A. Yes, the revenue lag is comprised of the usage, billing, and collection lag. The calculation of the revenue lag and its components are sponsored by and further discussed in the testimony of Staff Accounting witness Arlene S. Pfleeger.

Q. Please define the term "expense lag".

A. An expense lag describes the amount of time between the receipt of goods or services by the Company and the subsequent payment for those goods and services. Staff Accounting witnesses Gibbs and Susette N. Cassidy discuss their development of the expense lags for base payroll, tax withholding, 401K - matching, FICA - employer portion, unemployment, rent, PSC assessment, interest and income tax in their direct testimony.

Q. Please explain the expense lag associated with cash vouchers.

A. All items that comprise operating and maintenance expenses that were not specifically analyzed by the Staff in other line items in the lead/lag study are included in the category known as cash vouchers. A sample of cash invoices is the basis for the cash voucher lag. The lags associated with the sample were dollar weighted to obtain an overall cash voucher lag.

Q. How was the cash voucher sample developed?

A. The Staff obtained the cash voucher sample by examining the Company's General Ledger History Detail for the test year period. All vouchers greater than $1,000 included in the test year ending March 31, 1992 were analyzed. Seventy vouchers met this criteria and were analyzed by comparing the date that goods and services were received and the date that the bill was paid. A cash voucher lag of 33.01 days resulted.

Q. Please explain the expense lag associated with property taxes on line 10 of Accounting Schedule 8.

A. Property tax for the year was due and payable on the last day of the year. This due date, when compared with the midpoint of the calendar year, yields a property tax lag of 182.5 days.

Q. How was the dollar amount associated with property tax computed?

A. The figure shown in Column (A), line 10, of Accounting Schedule 8 represents an annualized level of property tax expense which results from the application of the current ad valorem tax rate to the adjusted balance of plant in service shown on Accounting Schedule 3. This annualized level of property tax is also used to calculate Adjustment S-6-C, included on Accounting Schedule 11.

Q. Please describe the expense lag on line 11 of Accounting Schedule 8 associated with corporate franchise tax.

A. In Missouri, corporate franchise tax is due on or before April 15 for the preceding year. This statutory payment date was used in computing the 288.5 day lag shown on line 11. Column (C) of Accounting Schedule 8.

Q. How was the dollar amount associated with corporate franchise tax expense computed?

A. The figure shown in Column (A), line 11, of Accounting Schedule 8 represents an annualized level of corporate franchise tax calculated by applying the statutory rate to the total of Accounts Receivable and Adjusted Land and Fixed Assets at September 30, 1992. The annualized level of corporate franchise tax in Column (A) on Accounting Schedule 8, when compared to test year actual expense, results in Adjustment S-6-B, found on Accounting Schedule 11.

Q. Please explain Plant adjustments P-1-A, P-2-A and P-3-D on Accounting Schedule 4.

A. These adjustments reclassify to Account 365, Rights-of-Way, amounts which were originally included in Account 366, Structures and Improvements, and Account 367, Mains.

Q. Why should this amount be included in Rights-of-Way?

A. According to the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts for Natural Gas Companies:

> The accounts for land and land rights shall include the cost of land owned in fee by the utility and right, interests, and privileges held by the utility in land owned by others, such as leaseholds, easements, rights-of-way, natural gas rights, and other like interests in land.

Some of the costs to be allocated to land and land rights listed by FERC include: bulkheads, mortgages, liens, condemnation proceeding costs, damages, notaries' fees, costs associated with brokers and agents, costs to remove, relocate, or reconstruct the property of others, surveys, appraisals prior to closing title, the cost of defending against prior period claims, and employee labor costs.

The Company's responses to Staff Data Request Nos. 135 and 136 indicated that some of the above costs that were related to acquiring land rights associated with the FCOS project were charged to various other plant accounts.

Q. How were the dollar amounts of the adjustments calculated?

A. As I stated before, the Company's responses to Staff Data Request Nos. 135 and 136 indicated that some amounts which were included in various Plant in Service and Construction Work in Progress accounts are related to the acquisition of land rights. The Staff used the percentages provided by the Company to determine what portion of these accounts should be reallocated to the Rights-of-Way account.

Q. Are land rights depreciable?

A. Generally, no. Only limited term land rights are subject to depreciation. According to the easement contracts associated with the FCDS supplied by the Company in response to Staff Data Request No. 134, the rights-of-way granted by the contracts are not of a limited nature: ". . . the undersigned . . . hereby grants to MISSOURI PIPELINE COMPANY, a Missouri corporation, its successors and assigns . . . a perpetual easement . . . ."

Since these rights are perpetual and as such do not expire and are not consumed, depleted, or subject to wear and tear, it follows that they should not be depreciated. Additional discussion regarding depreciation appears in Staff witness Love's direct testimony.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Missouri Pipeline Company for authority to file tariffs increasing rates for gas transportation services to customers within its service area.	)))))	Case No. GR-92-314

AFFIDAVIT OF RENEE M. CRAMER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Renee M. Cramer, 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 12 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.

Renee M. Cramer
Renee M. Cramer

Subscribed and sworn to before me this 10th day of December, 1992.

Judy Fritsch
Notary Public

JUDY FRITSCH
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. AUG. 15,1993

My Commission Expires: