DIRECT TESTIMONY

OF

DOYLE L. GIBBS

MISSOURI PIPELINE COMPANY

CASE NO. GR-92-314

Q. Please state your name and business address.

A. Doyle L. Gibbs, 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 or PSC) as a regulatory auditor.

Q. Please describe your educational background.

A. I attended the University of Missouri - St. Louis, from which I received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1976. I passed the Uniform Certified Public Accountant examination in May, 1988. I have been licensed as a Certified Public Accountant in the state of Missouri since February, 1989.

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 conducted and assisted with audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously testified before this Commission?

A. Yes, I have. Please refer to Schedule 1, attached to this direct testimony, for a list of cases in which I have previously filed testimony.

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

A. Yes, with the assistance of other members of the Commission Staff (Staff). The results of this investigation are reflected in the Staff's Accounting Schedules 1 through 12.

Q. Please explain the Company's organizational structure.

A MPC is located at the bottom of the multi-layered organizational structure of Edisto Resources Corporation (EDISTO). MPC is 100 percent owned by Omega Pipeline Company (OMEGA) which, in turn, is owned by ESCO Energy (ESCO). A schematic of the corporate organizational structure was provided to the Staff by the Company in response to Staff Data Request No. 6 and is attached to my direct testimony as Schedule 2. As can be seen on Schedule 2, OMEGA also owns Missouri Gas Company (MOGAS). In addition to having common ownership, MPC and MOGAS share employees and non-transmission facilities. Because of this, the Staff had to evaluate the utilization of these common costs and, accordingly, allocate them in the development of the revenue requirement being presented in this proceeding.

Q. With reference to Case No. GR-92-314, what are your principal areas of responsibility?

A. My areas of responsibility are current and deferred income tax expense, the deferred income tax balance in rate base, and the operating expenses for the annual PSC assessment, rate case expense, rent and other miscellaneous expenditures. In addition, I am sponsoring the expense lags for rent, PSC assessment, interest and income taxes contained in

Accounting Schedule 8, Cash Working Capital and the allocation of common costs not addressed by other Staff members.

Q. What test year was utilized by the Staff?

A. The Staff utilized an historical test year ending March 31, 1992, updated through September 30, 1992. This test year and update period was prescribed by the Commission in its Order dated October 13, 1992.

Q. Is the Staff recommending a true-up in this proceeding?

A. No. In the Staff's opinion, a true-up is not necessary because all components of the cost of service have been appropriately addressed to reflect the prospective operations of the Company in this case. The Company has not identified any significant changes to its operations beyond the update period which would merit performing a true-up audit in this proceeding.

Q. What Accounting Schedules are you sponsoring?

A. I am sponsoring Accounting Schedules 1 and 12 which are Revenue Requirement and Income Tax Calculation, respectively.

Q. What Accounting adjustments are you sponsoring?

A. I am sponsoring adjustments P-1-C, P-1-D, P-1-E, P-2-B, P-3-C, P-3-E, P-3-F, P-4-A, P-6-A, P-7-A, P-7-B and P-8-A found on Accounting Schedule 4, Adjustments to Plant in Service. I am sponsoring all the adjustments to the depreciation and amortization reserve found on Accounting Schedule 6, Adjustments to Depreciation Reserve and referenced as adjustments R-1-A, R-1-B, R-1-C, R-1-D, R-2-A, R-3-A, R-3-B, R-4-A and R-4-B. In addition, I am sponsoring the following Income Statement adjustments found on Accounting Schedule 11: S-3-B, S-3-C, S-3-H, S-4-D, S-4-E, S-4-F, S-4-G, S-4-L, S-4-M, S-7-A and S-8-A.

Q. Please describe the Accounting Schedules you are sponsoring.

A. Accounting Schedule 1, Revenue Requirement, presents the calculation of the Staff's revenue requirement recommendation for the Company. The calculation utilizes the Staff's rate base amount from Accounting Schedule 2, Rate Base, which is multiplied by a range of returns sponsored by Staff witness Scott M. Moore of the Financial Analysis Department. The product of this multiplication is compared to the net operating income (NOI) available amount from Accounting Schedule 10, Income Statement, to determine the additional NOI needed to earn the recommended rate of return. This, in turn, is grossed up for income taxes.

Accounting Schedule 12 calculates current federal and state income tax for the Staff's adjusted test year level of revenue and expense and for the additional NOI requirement determined on Accounting Schedule 1. This calculation reflects the use of the current statutory tax rates and takes into consideration that federal income tax is deductible for determining state taxable income and state income tax is deductible for determining federal taxable income.

PLANT ADJUSTMENTS

Q. Please discuss the adjustments to plant in service you are sponsoring.

A. Plant adjustments P-1-C, P-2-B and P-3-C adjusts the portion of plant consisting of capitalized interest, also known as allowance for funds used during construction (AFUDC, associated with plant adjustments P-1-A, P-1-B, P-2-A and P-3-A, P-3-B and P-3-D to transmission plant. These Plant adjustments, which are addressed by other Staff witnesses, reflect direct expenditures by the Company to construct plant and do not include the associated AFUDC. The direct expenditures by the Company are the foundation on which AFUDC is calculated. Therefore, plant adjustments P-1-C, P-2-B and P-3-C must be made to reflect the true value of the other adjustments made to transmission plant by adding an appropriate AFUDC amount.

Q. How were the adjustments to AFUDC calculated?

A. A factor, reflecting actual booked AFUDC as a percent of transmission plant without AFUDC, was applied to the above referenced remaining transmission plant adjustments to quantify the adjustments P-1-C, P-2-B and P-3-C.

Q. Please describe Plant adjustments P-1-D, P-3-E and P-4-A.

A. These adjustments remove from plant in service the recorded costs of city gates, included in the plant additions through September 30, 1992, for which the Company is to be reimbursed. Once the Company is reimbursed, ownership of these city gates will be transferred to the respective cities. It is not appropriate to include the cost of these city gates in the determination of revenue requirement if the Company will have no investment in them.

Q. Please describe Plant adjustments P-1-E and P-3-F.

A. Plant adjustments P-1-E and P-3-F reflect a reduction to plant balances for AFUDC improperly recorded on the Company's books subsequent to the actual date the associated plant was placed in service. The additions to plant in service through September 30, 1992 on Accounting Schedule 3, Plant in Service, reflect the completion of the Company's pipeline expansion project in September, 1992. This expansion project, as described in the testimony of Staff Accounting witness Stephen M. Rackers, extends approximately 58 miles from St. Charles

County to Sullivan, Missouri. At Washington, Missouri, approximately 31 miles downstream from the pipeline origination in St. Charles County, the Company has an interconnection with the Laclede Gas Company. That project was approved by the Commission in the Certificate Case No. GA-90-280. The portion of the expansion project from its origination in St. Charles County to Washington, Missouri was in service months before it was reflected on the books of the Company. The Laclede Gas Company initially received gas from MPC through the interconnection at Washington, Missouri on February 26, 1992. The Federal Energy Regulatory Commission (FERC) Gas Plant Instruction 7 provides, in part:

> When a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation, or ready for service, shall be treated as "Gas Utility Plant" and allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued . . . .

These plant adjustments, P-1-E and P-3-F restate AFUDC to the level that should have been recorded to reflect a February, 1992 in-service date for the cost of that portion of the pipeline expansion project that serves the Washington station.

Q. Please describe the remaining Plant adjustments you are sponsoring.

A. Plant adjustment P-7-A increases plant in service to reflect the reclassification of capital expenditures made during the test year that were charged to expense on the Company's books. Adjustments P-6-A, P-7-B and P-8-A reflect the allocation of general plant, recorded on the books of MPC, to MPC's sister company Missouri Gas Company (MOGAS). General plant recorded on the books of MPC, consisting of furniture, fixtures and equipment and vehicles, is commonly used by both MPC and MOGAS. The composite payroll distribution of the Company personnel who use these common facilities was the basis for the allocation. Please refer to the direct testimony of Staff Accounting witness Susette N. Cassidy for an explanation of how wages were allocated between MPC and MOGAS.

Q. Is it the general opinion of the Staff that payroll should be the basis for allocating common plant?

A. No, not necessarily. The Staff is not proposing that allocating common facilities on the basis of wages set a precedent for other companies or, for that matter, future cases regarding MPC. However, it is the Staff's opinion that payroll is the best basis for the allocation in this proceeding, given the circumstances as they exist. Approximately 85% of all test year operating expenses, exclusive of depreciation and income taxes, are subject to allocation between MPC and MOGAS. Payroll related costs comprise 47% of these allocable costs and 40% of the operating expense overall. Payroll becomes even more significant when directly attributable plant costs, such as property insurance and taxes, are excluded to determine the overall relationship of payroll to total expense. Common plant, such as leasehold improvements, office furniture and vehicles, exists to serve Company personnel. Additionally, because MOGAS did not become operational until near the end of the Staff's update period, there is a lack of historical data to consider the inclusion of other possible allocation bases, such as revenue and expenses.

DEPRECIATION RESERVE ADJUSTMENTS

Q. Please discuss the adjustments to the depreciation reserve you are sponsoring, as shown on Accounting Schedule 6.

A. Adjustment R-1-A adjusts the reserve to reflect a full month of depreciation for the month that MPC's original pipeline, granted certification by the Commission in Case No. EA-89-126, was placed in service. MPC calculated only one day of depreciation when the original certificated pipeline was closed into plant in service late in December, 1989. Since that time, the Company has consistently recorded a full month of depreciation for the month in which plant, constructed or acquired, is placed in service. This adjustment restates the reserve to be consistent with that policy.

Adjustment R-1-B adjusts the depreciation reserve associated with all the Plant adjustments designated as P-1, 2 and 3 on Accounting Schedule 4, Adjustments to Plant in Service, exclusive of Plant adjustments P-1-E and P-3-F.

Adjustment R-1-C reduces the reserve for depreciation for the depreciation taken on right-of-ways, plant in service Account 365, from the first day the plant was closed into service. As discussed in the testimony of Staff Accounting witness Renee M. Cramer and Staff witness Melvin T. Love of the Energy Department, right-of-ways are not depreciable. It would be inappropriate to reduce rate base for a recorded depreciation reserve balance related to plant that the Staff has determined to be non-depreciable.

The purpose of adjustment R-1-D is to reflect in the reserve an earlier in-service date than that recognized by MPC in its books for the Washington station component of plant previously referenced in my testimony. As a result of the Company not reflecting the earlier in-service date, the depreciation reserve is understated by the depreciation that should have been taken prior to the end of the Staff's update period.

Adjustments R-2-A, R-3-B and R-4-B allocate the reserve for depreciation on common plant consistent with the allocation of the common plant, as previously discussed with regards to Plant adjustments P-6-A, P-7-B and P-8-A.

Adjustment R-3-A increases the reserve to reflect the allocated portion of depreciation that would have been recorded had the expenditures related to Plant adjustment P-7-A been capitalized at the time of acquisition.

Adjustment R-4-A adjusts the reserve for depreciation to reflect the additional depreciation on vehicles that should have been recorded on the books. MPC understates depreciation expense on vehicles by reducing the original cost by estimated salvage before application of the authorized depreciation rate. If salvage is to be recognized in the depreciation calculation, it is should be a component of the depreciation rates authorized by the Commission. Staff witness Love discusses the Staff's recommended depreciation rates in his direct testimony.

PSC ASSESSMENT AND RATE CASE EXPENSE

Q. How was the Staff's adjustment for the PSC assessment determined?

A. Adjustment S-4-D adjusts expense for the difference between the actual recorded test year expense for PSC assessment and the Staff's annualization utilizing the latest actual known assessment billed to the Company for the State's fiscal year beginning July 1, 1992. The latest known PSC assessment is also included in the Staff's cash working capital computation on

Accounting Schedule 8. The expense lag for the PSC assessment reflects the average time lapse between the payments and the midpoint of the service period for the four installments based on the due dates as prescribed in the billing from the Commission.

Q. Please explain your adjustment to rate case expense.

A. Adjustment S-4-E adjusts rate case expense to reflect a normalized level of expense for MPC.

Q. How did you determine a normalized level?

A. The Staff utilized the Company's estimate for the cost to be incurred for this proceeding. It is not known when MPC will file its next rate case. However, the Staff believes three years is a reasonable assumption. Therefore, the estimated cost has been divided by three to reflect an annual level of expense.

RENT

Q. Please explain your adjustments to rent expense.

A. Adjustments S-3-H and S-4-F adjust rent expense to reflect the Staff's annualized level. Adjustment S-3-H specifically addresses the rent associated with MPC's field offices located in Missouri. There was no difference between the Staff's annual level of rent for the Missouri offices and that recorded on the Company's books on a total company basis. The Staff's entire adjustment is a reflection of the allocation of the recorded rent expense between MPC and MOGAS. The factor used to allocate this rent was based on the payroll distribution for the employees domiciled at the Missouri offices. These field offices will be used by personnel who operate and perform maintenance on both the MPC and MOGAS pipeline facilities in Missouri.

Adjustment S-4-F adjusts rent expense to reflect the Staff's annualized allocated level of rent expense for the Company's offices located in Tulsa, Oklahoma. This adjustment combines the impact of additional office space acquired during the test year at current contract rates, a change in the capitalization rate and the allocation between MPC and MOGAS.

Q. Why does your adjustment for the offices in Oklahoma reflect a change in the capitalization rate?

A. During the test year, the Company was in the process of completing its pipeline expansion project. As part of the construction costs, a portion of the rent for the Tulsa office was capitalized. With the construction essentially complete, and little or no new construction planned in the immediate future, continuation of the test year capitalization rate would not be reflective of prospective operations. Because there are no plans for future construction, the Staff has used a zero capitalization rate to calculate the annual level of rent expense.

As with the offices located in Missouri, the office rent for the Tulsa offices was allocated on the basis of the payroll distribution of the employees domiciled in Tulsa. The duties of the administrative staff in Tulsa include service to both MPC and MOGAS. The total annualized allocated rent expense for both the Missouri and Tulsa offices is reflected in the Staff's determination of cash working capital on Accounting Schedule 8.

Q. How was the expense lag for rent, included on Accounting Schedule 8, determined?

A. The lease contracts for both the Missouri and Tulsa offices require payment on the first of each month for that month's rent. When the contractual payment dates were measured from the midpoint of the month to which they apply, a negative expense lag of 15.21 days was determined.

OTHER MISCELLANEOUS EXPENDITURES

Q. Please identify the adjustments for miscellaneous expenditures you are sponsoring.

A. The miscellaneous adjustments that I am sponsoring include S-3-B, S-3-C, S-4-G and S-4-L. Adjustments S-3-B and S-4-L reclassify expenditures made for the acquisition of various articles of furniture and equipment. These items, which were charged to current operating expense on MPC's books should have been capitalized and are so reflected in the Staff's filing by Plant adjustment P-7-A, contained on Accounting Schedule 4. Adjustment S-3-C disallows the expense incurred regarding an EDISTO board meeting to discuss the involvement of OMEGA, MPC's parent, in a construction project at Fort Leonard Wood. Adjustment S-4-G disallows recorded expense for dues, donations and promotional expenditures made during the test year. This disallowance is for such expenditures as memberships to private clubs, gifts of flowers, jackets and caps, donations to charitable organizations and season tickets to professional sporting events. These type of expenditures are not required for the provision of safe and adequate service and should not be included in the determination of rates.

COMMON COST ALLOCATION

Q. What adjustments have you made regarding the allocation of common costs?

A. Adjustments have been made to plant in service, depreciation reserve and operating expenses to allocate common costs from MPC to MOGAS. Plant adjustments P-6-A, P-7-B and P-8-A and Reserve adjustments R-2-A, R-3-B and R-4-B have been previously discussed in my testimony. Adjustment S-4-M allocates the common administrative and general (A&G) expenses between MPC and MOGAS that have not been specifically addressed elsewhere by the Staff.

Q. What type of costs are included in the common A&G expenses which are being allocated?

A. All A&G expenses, with the exception of the PSC assessment, are common costs that require allocation. The majority of these A&G expenses, approximately 74%, are made up of wages and wage related benefits and taxes, parent company administrative costs, rent and the PSC assessment, which have already been addressed in testimony by myself or by other members of the Staff. Adjustment S-4-M allocates the remaining 24% of A&G expenses between MPC and MOGAS based on MPC's composite percentage of payroll.

INCOME TAXES

Q. How was taxable income determined for MPC in this case?

A. The Internal Revenue Service (IRS) rules and regulations dictate what is and is not deductible for the determination of taxable income. As a result of these IRS rules and regulations, a difference often exists between revenue and expense recorded on the books and that allowed for tax purposes. The applicable book/tax differences have been used to adjust NOI before income taxes to determine taxable income. NOI before taxable income is calculated on

Accounting Schedule 12 by adding back to the Staff's NOI the current and deferred income tax expenses from Accounting Schedule 10.

Q. What are the book/tax differences used to adjust NOI before income taxes to arrive at taxable income?

A. The adjustments made to NOI before income taxes to arrive at taxable income are miscellaneous non-deductible expense, annualized book depreciation, tax straight-line depreciation, tax depreciation in excess of tax straight-line depreciation, and interest expense. With the exception of tax depreciation in excess of tax straight-line depreciation, these adjustments are provided flow-through treatment by the Staff. Excess tax depreciation is required to be normalized per the IRS Code.

Q. With regards to these book/tax differences, what is meant by the terms flow-through and normalized?

A. When a book/tax difference is provided normalization treatment, deferred taxes are created that offsets the increase (or decrease) in current income tax expense, arising from the book/tax differences, thereby having no impact on NOI. On the other hand, flow-through treatment has an immediate impact on NOI. Because there is no deferred income tax expense generated for a book/tax difference that is provided flow-through treatment, there is no offset to current income tax and an immediate effect is realized by the ratepayer, i.e., "flowed through" to them.

Q. Please discuss the book/tax differences that have been used by the Staff to calculate taxable income.

A. <u>Miscellaneous Non-deductible Items:</u>

Amounts recorded on the books for certain travel and entertainment expenses have a twenty percent exclusion that is not deductible per the IRS Code. The level included by the Staff consists primarily of the cost of meals for employees while traveling away from home and reflects the actual test year amount of the exclusion, as allocated between MPC and MOGAS, reduced by the impact of the Staff's disallowance of certain miscellaneous employee expenses reflected in adjustments S-4-G and S-4-H on Accounting Schedule 11, Adjustments to Income Statement.

<u>Straight-line and Accelerated Tax Depreciation:</u>

The tax basis of the plant in service included in the Staff's rate base on Accounting Schedule 2, Rate Base, and detailed on Accounting Schedule 3, Plant in Service, was used to calculate both the tax straight-line and accelerated tax depreciation amounts. The depreciation rates proposed by the Company, and determined reasonable by Staff witness Love, were used to calculate tax straight-line depreciation. The accelerated tax depreciation that is subject to normalization was calculated by multiplying the tax basis of the plant by the tax depreciation rate (based on vintage and class life) as prescribed by the IRS, and subtracting tax straight-line depreciation.

<u>Interest:</u>

The deduction for interest is calculated by multiplying the Staff's rate base on Accounting Schedule 2 by the weighted cost of debt included in the overall capital structure, as calculated by Staff witness Moore. This method of calculating interest expense synchronizes the deduction for tax purposes with the interest the ratepayer is required to provide through rates.

The Staff's calculation of current income tax expense is reflected on Accounting Schedule 11, Adjustments to Income Statement, as adjustment S-7-A.

Q. On Accounting Schedule 12, the annualized book depreciation and tax straight-line depreciation amounts are the same. Why?

A. A difference between book and tax straight-line depreciation exists if there is a book/tax basis difference (related to the plant) or the book depreciation rate includes a component for cost of removal or salvage. It is clear, with regards to a book/tax basis difference, that if the same rate is applied to different bases, the depreciation result will not be the same. As for the depreciation rate, the IRS allows only the life component of the rate to be used to compute tax straight-line depreciation, not cost of removal or salvage. As can be seen on Schedule 1, attached to Staff witness Love's testimony, the book depreciation rates listed (which agree to the rates proposed by the Company) contain no provision for a cost of removal or salvage component. It is the Staff's opinion that neither of those conditions exist.

Q. Why is there no book/tax basis difference with regards to MPC's plant in service?

A. Based on MPC's response to Staff data requests, the only book/tax basis difference that exists is the difference between interest capitalized on the books in the form of AFUDC and actual interest capitalized for tax purposes. However, it is the opinion of the Staff that the AFUDC capitalized on the books should be equal to the interest capitalized for tax purposes.

Q. Why, in your opinion, should the AFUDC capitalized on the books be equal to the interest capitalized for tax?

A. Interest capitalized on the books, AFUDC, is calculated based on the formula prescribed by the FERC in Gas Plant Instruction 7, which dictates that short term debt costs are first assigned to construction work in progress (CWIP), and the interest computed on any remaining CWIP balance not supported by short term debt receive the overall cost of capital. Interest is capitalized for income taxes if there is a direct relationship between the debt acquired and the construction. The Staff contends that all of MPC's CWIP was supported by debt and properly capitalized for both book and tax purposes, thus, no book/tax basis difference exists.

Q. How was it determined that the Company's CWIP was totally supported by debt?

A. Review of MPC's financial statements since its inception revealed that insufficient funds are generated internally to fund its construction program. Therefore, the funding must come from external sources, either from affiliated companies or lending institutions. **

** The capital structure, as recorded on the books of MPC, was also examined since MPC's inception. Significant increases have been reflected in MPC's capital structure during this time span in debt as well as paid in capital. **

** Based on this review, the Staff has concluded that CWIP had to be totally supported by debt rather than the overall cost of capital reflected by MPC's capital structure.

Q. Did the Company calculate the AFUDC it capitalized based on its weighted cost of capital?

A. Yes, it did.

Q. Under the Staff's position that CWIP was totally supported by debt, hasn't MPC overstated its plant balance related to AFUDC if the overall cost of capital was used to calculate AFUDC?

A. That would be a fair assumption. However, after recalculating AFUDC, based on the Staff's position that CWIP was totally supported by debt, and comparing that calculation to the AFUDC booked by the Company, the difference was found to be insignificant. Upon additional examination of the Company's AFUDC calculations, it was discovered that the reason the difference was insignificant was due to misapplication on the part of the Company of the AFUDC rates it had calculated. While I disagree with the Company's calculations of AFUDC, an adjustment to plant, related to the capital structure cost components of the Company's AFUDC rates, is not required because the level of AFUDC calculated by the Staff, as indicated above, is not significantly different from that actually booked. As previously stated, the significance of this is that for purposes of computing accelerated and straight-line tax depreciation, no book/tax basis difference exists. However, as previously referenced in my testimony regarding Plant adjustments P-1-E and P-3-F, the Staff has proposed an adjustment to AFUDC related to the plant in service date for the Washington station component of the Franklin County pipeline.

Q. Please discuss the cash working capital expense lags you are sponsoring regarding current income tax and interest expense.

A. The expense lag for current income tax expense is a lag that reflects the federal and state statutory payments dates. The individual lags for both federal and state were each weighted by their respective income tax amounts calculated on Accounting Schedule 12 to arrive at the weighted expense lag for income taxes on Accounting Schedule 8.

The interest expense lag, as with the other expense lags contained in Accounting Schedule 8, reflects the required interest payment due dates.

Q. What is the other income tax adjustment you are sponsoring?

A. Adjustment S-8-A adjusts deferred income tax expense to reflect the normalization of accelerated tax depreciation in excess of tax straight-line depreciation, as reflected on Accounting Schedule 12, at the current composite effective tax rate.

Q. Please explain the rate base deduction for deferred income taxes shown on Accounting Schedule 2.

A. Deferred income taxes are a customer supplied source of capital to the Company and must be offset against rate base to prevent the Company from earning a return on these funds. The deferred income taxes included in the determination of rate base reflects the balance at September 30, 1992 as calculated by the Staff, based on the Staff's adjusted level of plant.

Q. Why was it necessary for the Staff to calculate the balance of deferred income taxes as of the end of the update period?

A. The reason is twofold. First of all, the Company only records deferred income taxes at calendar year end. Because the test year and the update period in this case does not coincide with the Company's fiscal year end, the balance recorded on the books was not up to date. Secondly, the recorded balance of deferred income taxes reflects a normalization based on a different tax basis than that proposed by the Staff.

Q. Please describe how the Staff calculated the balance of deferred income taxes shown on Accounting Schedule 2.

A. Tax and tax straight-line depreciation was recalculated for each of the years 1989 through 1992 in the same manner as previously discussed regarding tax depreciation. The difference between tax and tax straight-line depreciation for each of those years was multiplied by the then currently effective tax rate. The deferred income tax balance contained in the Staff's rate base, Accounting Schedule 2, represents: 1) the sum of the deferral for the years 1989 through 1991; 2) nine/twelfths of the 1992 deferral for the 1989 through 1991 vintages; and 3) a proration, based on the time frame the plant was in service, for the 1992 deferrals related to the 1992 vintage additions through September 30, 1992.

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 DOYLE L. GIBBS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Doyle L. Gibbs, 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 21 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.

Doyle L. Gibbs
Doyle L. Gibbs

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

Vanda J. King
Notary Public

My Commission Expires: 9/4/95

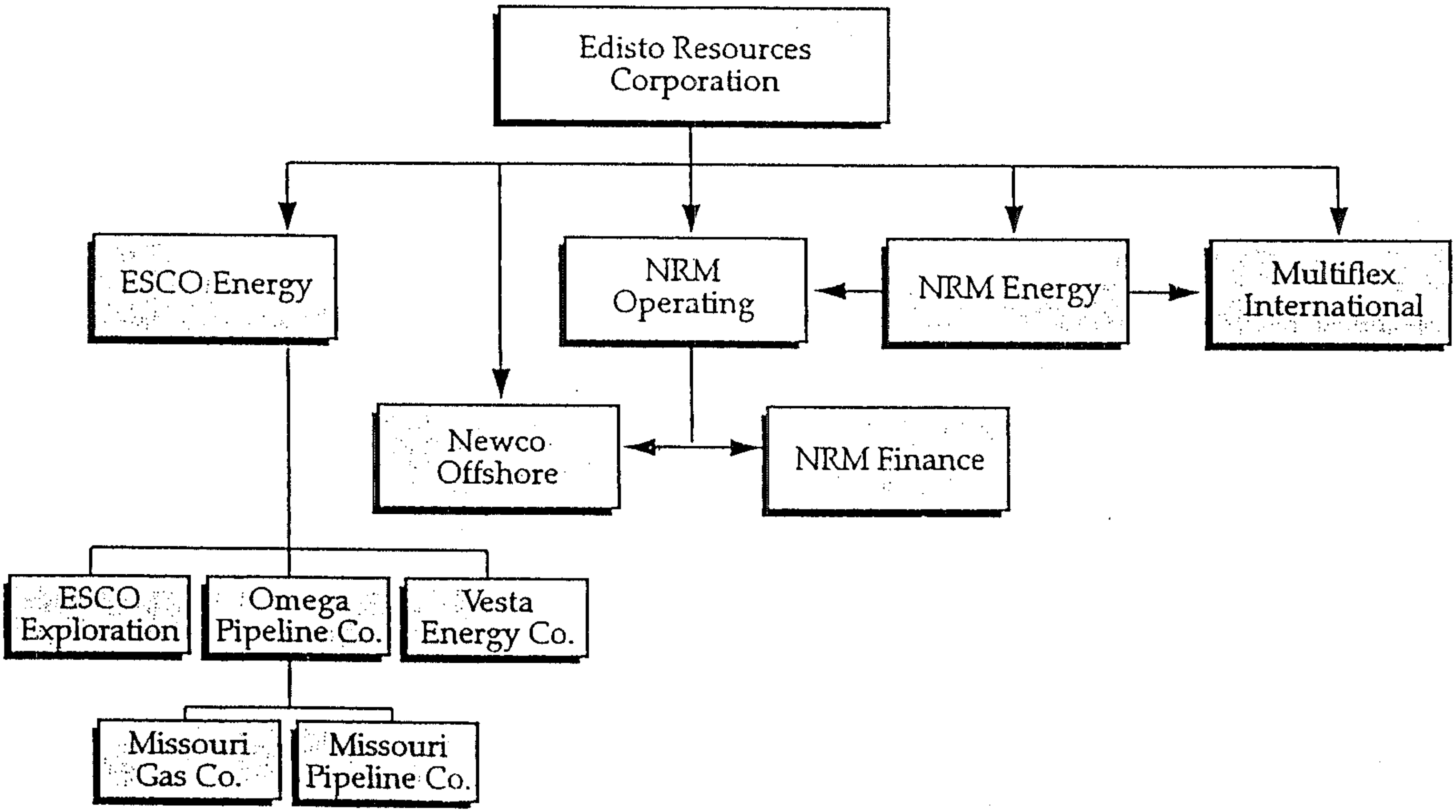
OFFICIAL NOTARY SEAL
WANDA J. KING
Notary Public State of Missouri
COLE COUNTY
My Commission Expires SEP 04,1995

RATE CASE PROCEEDINGS

DOYLE L. GIBBS

COMPANY	CASE NUMBER
Arkansas Power & Light Company	ER-85-20
Arkansas Power & Light Company	ER-85-265
Associated Natural Gas Company	GR-79-126
Capital City Water Company	WR-82-117
Citizens Electric Cooperative	ER-79-102
Citizens Electric Cooperative	ER-81-79
Laclede Gas Company	GR-77-33
Laclede Gas Company	GR-78-148
Laclede Gas Company	GR-80-210
Laclede Gas Company	GR-81-245
Laclede Gas Company	GR-82-200
Laclede Gas Company	GR-92-165
Lake St. Louis Sewer Company	SR-80-189
Missouri-American Water Company	WR-89-265
Missouri Cities Water Company	WR-78-107
Missouri Cities Water Company	SR-78-108
Missouri Cities Water Company	WR-83-14
Missouri Cities Water Company	SR-83-15
Missouri Cities Water Company	WR-85-157
Missouri Cities Water Company	SR-85-158
Missouri Cities Water Company	WR-86-111
Missouri Cities Water Company	SR-86-112
Missouri Cities Water Company	WR-89-178
Missouri Cities Water Company	SR-89-179
Missouri Cities Water Company	WR-90-236
Missouri Cities Water Company	WR-91-172
Missouri Cities Water Company	WR-91-174
St. Joseph Water Company	WR-77-226
St. Louis County Water Company	WR-78-276
St. Louis County Water Company	WR-83-264
St. Louis County Water Company	WR-87-2
St. Louis County Water Company	WR-88-5
St. Louis County Water Company	WR-91-361
Southwestern Bell Telephone Company	TR-79-213
Southwestern Bell Telephone Company	TR-80-256
Southwestern Bell Telephone Company	TR-86-84
Union Electric Company	ER-77-154
Union Electric Company	ER-80-17
Union Electric Company	ER-81-180
Union Electric Company	HR-81-259
Union Electric Company	ER-82-52
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168

CURRENT ORGANIZATION STRUCTURE



SCHEDULE 2