DIRECT TESTIMONY

OF

ARLENE S. PFLEEGER

MISSOURI PIPELINE COMPANY

CASE NO. GR-92-314

Q. Please state your name and business address.

A. Arlene S. Pfleeger, Suite 330, 906 Olive Street, St. Louis, Missouri 63101.

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 educational background.

A. I graduated from the University of Missouri at St. Louis in August, 1978, at which time I received a Bachelor of Science Degree in Business Administration, with a major in Accounting.

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

A. I have, under the direction of the Manager of Accounting, conducted and assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. The audits I have previously participated in are listed on Schedule 1, attached to this direct testimony.

Q. Have you made an examination of the books and records of Missouri Pipeline Company (MPC or Company) with regard to Case No. GR-92-314?

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

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

A. My principal areas of responsibility are revenues and intercompany expenses. I am also responsible for the revenue lag component of the Accounting Schedule 8, Cash Working Capital.

Q. Which Accounting adjustments are you sponsoring?

A. I am sponsoring Income Statement adjustments S-1-A, S-1-B, S-2-A, S-2-B, , S-2-C, S-4-H and S-4-I as detailed on Accounting Schedule 11, Adjustments to Income Statement and Plant adjustments P-3-A and P-3-B found on Accounting Schedule 4, Adjustments to Plant in Service. As mentioned earlier, I am also sponsoring the revenue lag component of Accounting Schedule 8.

Q. Please begin by discussing the Staff's revenue annualization.

A. The revenue annualization comprises two parts, firm and interruptible transportation revenues. Adjustments S-1-A and S-2-A are adjustments to restate firm and interruptible revenues to the level that would have been collected had the Company utilized the maximum tariffed rate. Adjustment S-1-B reflects the normalization of firm revenues and adjustment S-2-B reflects the normalization of interruptible revenues to the level projected during the time the rates developed in this case will be in effect.

Q. Did the Company also normalize revenues to the maximum tariffed rate in their case?

A. Yes, they did.

Q. What was the methodology the Staff employed in restating test year revenues?

A. The Staff reviewed invoices supplied in response to Staff Data Request No. 38 to determine test year volumes of gas that were transported. The Staff applied the current maximum tariffed rates to actual test year firm volumes (reservation and commodity) and test year interruptible volumes to arrive at test year revenues at maximum rates which resulted in Adjustment S-1-A for firm and S-2-A for interruptible transportation revenues.

Q. How did the Staff arrive at the normalized levels of revenues?

A. The Staff used the same projections for firm volumes utilized by the Company in its filing. The Company projected annual throughput at 21,900 MMBtu (Million British thermal units) for firm shipment once the Franklin County Delivery Spur project is fully completed and operational. This volume assumes firm sales based on pipeline capacity of 80,000 MMBtu daily with a 75% load factor. As the system is now constructed and configured, MPC can transport a maximum of 80,000 - 85,000 MMBtu per day. The Staff applied the current maximum authorized transportation rates to the anticipated throughput after system expansion to arrive at adjustment S-1-B for firm transportation.

Based on a review of projected revenues detailed in the MPC and Missouri Gas Company (MOGAS) forecast provided to the Staff in response to Staff Data Request No. 44, the adjustment for firm volumes appears reasonable.

Staff witness Craig A. Jones of the Energy Department developed the annualized volumes of interruptible sales. The Staff priced these volumes based on the maximum interruptible rates to calculate normalized interruptible revenues to arrive at adjustment S-2-B.

Q. What is adjustment S-2-C?

A. Adjustment S-2-C reduces test year revenues for volumes which had been transported but incorrectly priced and billed in February of 1991. The revenues invoiced in April, 1991 repriced 105,000 MMBtu of February, 1991 volume at firm instead of interruptible rates, resulting in additional revenue of $8,526 in the test year. Since February, 1991 was outside of Staff's test year, without this adjustment test year revenues relating to interruptible volumes transported would be overstated.

Q. Please continue by discussing your additional adjustments to the Income Statement.

A. Adjustment S-4-H eliminates certain contributions, entertainment expenses and disallowable employee benefits discovered while performing an analysis of Account 205.012 A/P - Omega pipeline (OMEGA), the parent company of MPC and MOGAS. The Staff examined all entries to the intercompany account between MPC and OMEGA as furnished in response to Staff Data Request No. 35.

Adjustment S-4-I allocates 50% of the ESCO Energy, Inc. (ESCO or Corporate) allocation of Administrative & General Expense (A&G) to MOGAS. The amount of expense included on the books for the test year was $156,000. The Staff's adjustment reduces annual expense to $78,000.

Q. Please discuss the Staff review of intercompany expenses and describe how you arrived at the allocation of $78,000 to MOGAS.

A. Please refer to the direct testimony of Staff Accounting witness Doyle L. Gibbs for a complete description of the overall organizational structure to which MPC belongs.

The Staff examined in detail copies of monthly billings for the test year allocating ESCO A&G expenses by department to its subsidiaries. Total test year expenses allocated to subs was $2,914,627. Of this amount, $925,560 was originally allocated to OMEGA. Of this amount, however, MPC is allocated only $13,000 a month. This is accomplished through a year end journal entry which allocates $156,000 to MPC from OMEGA. ESCO views both MPC and MOGAS as cost centers. Revenues generated by each Company flow to the parent and costs are allocated down. Because of the size of the revenue stream generated by MPC, MPC believed corporate expenses of over $900,00 could not be supported by MPC. The Company decided to develop what it considered to be a reasonable level. Company witness Dean Lowe, MPC Controller/Administration, analyzed the various corporate charges and estimated monthly costs to duplicate services currently provided by ESCO. Next, Company witness W. Scott Keith, the Company's consultant, reviewed and evaluated Mr. Lowe's pricing of the various services from ESCO/Omega. Mr. Keith made several revisions and determined that $13,000 was a reasonable amount that could be supported at the current level of growth of the Company. The discussion of the development of these monthly costs and the basis for allocation was supplied to the Staff as a response to Staff Data Request No. 7. At this time, $13,000 is being allocated per month for corporate A&G.

Q. Were any corporate costs allocated to MOGAS by Corporate?

A. No, they were not. Based on the Corporate philosophy that MOGAS was producing no revenues as a cost center during the test year, no expenses were allocated to it. Mr. Lowe indicated that costs would be allocated to MOGAS when it was "up and running". However, the Staff believes A&G costs should be allocated to MOGAS for rate purposes.

Q. Has the Staff performed a review of the allocated expenses?

A. We have reviewed the monthly costs and the department expenses in general. We have been provided explanations for several services provided by each department.

Q. What are the departments and what services do they provide relating to the corporate allocation?

A. The departments and the services provided, as indicated on the Company's responses to Staff Data Requests Nos. 7, 99 and 100, are:

Corporate General - Corporate salaries, corporate rent and miscellaneous expenses. As a relatively new entity, MPC receives more constant executive time and attention than they will in the future. Corporate provides involvement in MPC's financing arrangements.

Treasury and Planning - Treasury activity consists of deposits, account transfers, investments, debt drawdowns, etc. Additionally, the area coordinates and finalizes all budgets and forecasts.

Legal and Regulatory - Involvement with contracts and corporate organization documents. Credit agreements related to project funding, assistance and coordination of outside counsel on regulatory issues.

Data Processing - This support consists of software/hardware installation, software/hardware trouble-shooting and software/hardware order placement. The support given MPC takes approximately 5% of Corporate data processing time.

Finance - Finance includes the handling of the capital structure, coordination of accounting functions, financial reporting, audit and tax coordination, intercompany transaction reconciliation and liaison with the bank(s).

Corporate Administration - Corporate Administration is responsible for all human resources business. This includes payroll preparation, payroll benefit administration (and associated state and federal reports), personnel policies and employee relations, hiring function, safety program and employee evaluation.

Corporate Development - Corporate Development is the project/business development unit for all ESCO operations. They strategize, research and present ideas that will enhance ESCO assets.

Based on the Staff's review, $156,000 appears to be a reasonable amount for the services received, of which 50% has been allocated to MOGAS by the Staff. The Staff is inclined to recognize this level and the need for direct corporate involvement in MPC's operations in light of the Company's elimination of the MPC President's and Vice President's positions. The oversight and approval once performed by MPC employees will now be provided directly by corporate personnel.

Q. What are Plant adjustments P-3-A and P-3-B?

A. These adjustments are also the result of the Staff's analysis of intercompany charges. In a review of intercompany allocations of A&G, the Staff also examined vouchers for an attorney, Mr. J.A. Ladner, and for the law firm of Moline, Ottsen, Mauze, Legat & Shostak (Mauze), both of which provided legal services to the Company. These expenses were capitalized as part of the cost of the MPC and MOGAS pipeline projects. In this context we also reviewed the legal services provided by corporate in-house counsel, namely the services of Mr. Gary Himes.

Q. Why did the Staff review the legal expenses?

A. The Staff reviewed the legal expenses in detail because over $2,000,000 of the total increase of $5,000,000 over the original estimate for the MPC expansion was attributable to right-of-way and related costs. A significant portion of the legal expense capitalized to this project related to right-of-way.

Q. Please begin by discussing your analysis of Mr. Mauze's expenses.

A. The Staff reviewed the statements for the period June, 1990 through September, 1992. Mr. Mauze provided a statement of professional services rendered for each month. Each statement contained an itemized list of services for each day of the month, the attorney who provided each service, and the number of hours attributable to each service. Each monthly statement contained approximately 6 to 10 pages of itemized services. Although services provided related to both MPC and MOGAS, expenses for eight months of the test year (August, 1991 through March, 1992) were allocated 100% to MPC. Based on discussions with the Company, the amounts in question were allocated subjectively. The Company has been asked in Staff Data Request No. 111 to redistribute these expenses on the basis of an analysis of billing statements. As of the time of the Staff's direct filing, no response had been received. The Staff has therefore allocated 50% of the expenses relating to the eight months in question to MOGAS, resulting in Plant adjustment P-3-A.

Q. What was the nature of your review of Mr. Ladner's expenses?

A. We examined the statements from Mr. Ladner for the period February, 1991 through September, 1992. No support was included with the monthly statements which included a monthly retainer fee of $8,333. The Staff requested support for each monthly statement and a copy of Mr. Ladner's contract in Staff Data Request No. 97. The response to this Staff Data Request was the copy of Mr. Ladner's contract and the following statement only:

> Mr. Ladner's expertise was utilized in three main areas MPSC Regulatory Issues - he has been involved in loan financing approval, review of testimonies, attend proceedings and assist in rate methodology.

The Staff was furnished a supplement to Staff Data Request No. 97 on November 18, 1992, consisting of 5 pages entitled "Recap Attorney Services John A. Ladner from April 1, 1991 through March 31, 1992." This document contains a monthly summary of the services provided, rather than daily descriptions of services as provided by Mr. Mauze, and there is no breakdown for hours applicable to each service. From this recap, it appears that many items were unrelated to MPC and many items were duplicative of the services provided by Mr. Mauze or Corporate counsel.

Q. Did you perform the same analysis for the legal services provided by Mr. Himes?

A. No, we did not. There are no monthly statements associated with these legal services because Mr. Himes' services are allocated down to the Company from ESCO through the intercompany allocation as previously discussed. The response to Staff Data Request No. 98 explained the services provided by Mr. Himes as follows:

> Gary Himes assists MPC in its transportation and interconnect agreements. As this is a new process for MPC the contracts must be prepared and reviewed by Mr. Himes or his department. Mr. Himes also involved himself in regulatory matters that pertain to ESCO Energy's relationship with MPC.

The response to Staff Data Request No. 7 indicated that Mr. Himes spends 25% of his time on MPC projects. As mentioned earlier in my testimony, the Staff has accepted these expenses as reasonable.

Q. What conclusions did the Staff reach after analyzing the legal expenses?

A. It appears from this analysis that the Company has a duplication of services with three sources for legal services. As mentioned earlier, the Staff has accepted the inter-company allocation of A&G containing the legal services of Mr. Himes, as adjusted for the 50% allocation to MOGAS. We have also accepted the expenses of Mr. Mauze, as adjusted for the reallocation of expenses to MOGAS. We are disallowing the expenses for Mr. Ladner based on lack of sufficient detail to determine the actual services he provided and costs for these services. These expenses were additionally disallowed because many services appeared unrelated to the operations of MPC or repetitive of services provided by Mr. Mauze or Corporate counsel. This adjustment appears as P-3-B on Accounting Schedule 4.

Q. What types of services of Mr. Ladner did the Staff disallow?

A. Some of the services listed in the Company's response to Staff Data Request No. 97 are as follows:

- Research and discussions on MPC financing, previous debt, NYL loan documents, approval by MPSC, drafted concepts for MPC and MOGAS financing.
- Attended St. Louis Rate Regulation Symposium.
- Discussions on capitalization, FNBT notes and loan documents, suggestions and editing.
- Credit agreements.
- Fidelity Gas fiber optics proposal to MPC.

- NYL and FNBT discussion and documents; second indenture.

- Preparation and trip to MoPub, Kansas City, Mo. with possible contract terms.

Many of the services mentioned are in areas of expertise specifically represented by other legal counsel or services that are unrelated to the regulated business of MPC, such as the development of fiber optics.

Q. Please continue by discussing the calculation of the revenue lag.

A. I am responsible for the calculation of the revenue lag which appears in column B on Accounting Schedule 8, Cash Working Capital. The revenue lag denotes the amount of time, expressed in days, between the midpoint of the period during which the Company provides service and the payment for that service by the ratepayer. The Cash Working Capital Accounting Schedule is sponsored by and discussed in the direct testimony of Staff Accounting witness Renee M. Cramer.

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

A. Yes, there are three, and they are defined as follows:

<u>Usage Lag</u> - The midpoint of average time elapsed from the beginning of the first day of a service period through the last day of that service period.

<u>Billing Lag</u> - The period of time between the end of the last day of a service period and the day the bill is placed in the mail by the Company.

<u>Collection Lag</u> - The period of time between the day the bill is placed in the mail by Company and the day the Company receives payment from the ratepayer for services rendered.

Q. How was the revenue lag on Accounting Schedule 8 calculated?

A. The revenue lag on Accounting Schedule 8 is the lag for transportation customers. The revenue lag is the summation of the usage, billing, and collection lags.

Q. What methodology did the Staff use to calculate the revenue lag components?

A. The Staff's calculations of the usage, billing and collection lags was based on an examination of test year monthly invoices for gas transported. The usage lag was calculated as the midpoint of each month for the twelve months of the Staff's test year. From the invoices, the Staff was able to determine the dates the invoices were mailed and the dates payment for the transportation services were received. We calculated the billing lag and the collection lag for each invoice utilizing this information. The Staff combined the three lags relating to each invoice and multiplied this lag by the billed invoice amount to arrive at weighted revenues for each invoice. These amounts were summed and divided by the summation of the revenues to arrive at the weighted revenue lag for the test year.

Q. Were any adjustments made to any components of the revenue lag?

A. Yes, we have adjusted the billing lag component of the revenue lag.

Q. Why was this component adjusted?

A. As a response to Staff Data Request No. 39, the Company stated:

> Invoices are prepared and mailed to customers the same day the data is received from the transportation department, which is usually by the <u>sixth</u> or <u>seventh</u> day of the month following the month to be billed.

Part 2 of this response indicated that the Company estimated the same billing schedule would apply for any additional future customers.

The response to Staff Data Request No. 96 provided a detailed discussion of the process involved in accumulating billing data in the transportation department. This illustration indicates a five business day delay in developing and transmitting transportation statements and invoices. The Staff's examination of monthly invoices indicated a minimum billing period of five days and a maximum of 22. Based on the responses to the Staff data requests, the Company should be able to bill within six or seven days. The Staff's interpretation of the Staff Data Request No. 96 is a maximum of five days, factored up for weekends and holidays to seven days. We therefore, included actual billing days for all months which were billed in seven days or less. For those months where bill preparation was over seven days, we have adjusted the billing lag to seven. It is the Staff's opinion that since there were only two invoices per month mailed to customers during the test year, steps could be taken to gather the information for billing, prepare the invoices, and mail them on a more timely basis. The Staff is concerned that the billing lag is high in comparison to other regulated utilities operating in the state of Missouri, but will accept the lag in this case and examine it again in the future. The Staff's adjustment has the effect of reducing the billing lag from 7.87 to 6.56 days. The effect on the revenue lag is a reduction from 35.48 to 34.50 days.

Q. Does this conclude your direct testimony in this case?

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 ARLENE S. PFLEEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Arlene S. Pfleeger, 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 14 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.

Arlene S. Pfleeger
ARLENE S. PFLEEGER

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 expires: MY COMMISSION EXP. AUG. 15,1993

RATE CASE PROCEEDINGS

ARLENE S. PFLEEGER

Company	Case Number
Arkansas-Missouri Power Company	ER-79-48
Radio Communications Company	TR-79-86
Fidelity Telephone Company	18310
Southwestern Bell Telephone Company	TR-79-213
Southwestern Bell Telephone Company	TR-80-256
Union Electric Company	ER-80-17
Union Electric Company	ER-81-180
Union Electric Company	ER-82-52
Union Electric Company	EO-82-86
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Union Electric Company	EO-85-17
Union Electric Company - Steam	HR-80-193
Union Electric Company	EM-91-29
Laclede Gas Company	GR-80-210
Laclede Gas Company	GR-81-245
Laclede Gas Company	GR-82-200
Laclede Gas Company	1987 Earnings Investigation
Laclede Gas Company	GR-90-120
Citizens Electric Corporation	ER-81-79
O'Fallon Gas Company	GR-81-51
Capital City Water Company	WR-82-117
St. Louis County Water Company	WR-82-249
St. Louis County Water Company	WR-83-264
St. Louis County Water Company	WR-85-243
St. Louis County Water Company	WR-87-2
St. Louis County Water Company	WR-88-5
St. Louis County Water Company	WR-89-246
St. Louis County Water Company	WR-91-361
St. Joseph Water Company	WR-83-108

RATE CASE PROCEEDINGS

ARLENE S. PFLEEGER

Company	Case Number
Joplin Water Works	WR-83-132
Osage Natural Gas Company	GR-85-183
Arkansas Power & Light Company	ER-85-20
Continental Telephone Company	TR-86-55
Webster County Telephone Company	TR-86-63
Missouri Cities Water Company	WR-86-111
Missouri Cities Water Company	SR-86-112
Cedar Hill Utility	Informal Rate Case - 1987
Cat Pak Waterworks	Informal Rate Case - 1988
Contel, CSM & Webster Telephone Companies	TR-89-106
Citizens Electric Corporation	Informal Examination of Legal & Consulting Expenses
Fidelity Telephone Company	1989 Earnings Investigation
Bourbeuse Telephone Company	1989 Earnings Investigation
Contel	1990 Earnings Investigation
SK&M Water Company	Informal Rate Case - 1990
Argyle Estates Water Company	Informal Rate Case - 1990
Missouri-American Water Company	WR-91-211
United Cities Gas / Great Rivers	GR-91-55
United Cities Gas / Neelyville	GR-91-53
Evergreen Lakes Water Company	Informal Rate Case - 1992