

DIRECT TESTIMONY

OF

STEPHEN M. RACKERS

MISSOURI PIPELINE COMPANY

CASE NO. GR-92-314

Q. Please state your name and business address.

A. Stephen M. Rackers, 906 Olive Street, Suite 330, St. Louis, Missouri 63101.

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

A. I am the Assistant Manager - St. Louis Office in the Accounting Department of the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Columbia, Missouri in 1978, from which I received a Bachelor of Science degree in Business Administration, majoring in Accounting.

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

A. Under the direction of the Manager of Accounting, I have supervised and assisted in audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have listed audits I have previously participated in on Schedule 1 of this direct testimony.

Q. What is the purpose of your direct testimony in this case?

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1 A. My direct testimony will address the Staff's proposed treatment of the costs
2 associated with Missouri Pipeline Company's (MPC or Company) Franklin County Delivery Spur
3 (FCDS).

4 Q. Please describe the FCDS.

5 A. The FCDS is a natural gas pipeline which interconnects with the Company's
6 original pipeline in St. Charles County and continues south through St. Charles and Franklin
7 Counties, terminating approximately at Sullivan, Missouri. Local distribution companies, such
8 as Laclede Gas Company (Laclede), have and will interconnect with the FCDS to provide natural
9 gas service to various communities along the pipeline route. Finally, a sister company to MPC,
10 Missouri Gas Company (MOGAS), has built another pipeline which interconnects with the FCDS
11 and extends to Fort Leonard Wood. Schedule 2, attached to this direct testimony, shows the
12 approximate routes of the pipelines referenced above.

13 Q. What are the Staff's recommendations regarding the costs associated with the
14 FCDS?

15 A. The Staff is proposing three types of adjustments to the FCDS costs. The Staff
16 is proposing specific disallowances and reallocation of costs which it believes are inappropriately
17 or incorrectly charged to the FCDS project. These items are discussed in the testimonies of Staff
18 Accounting witnesses Doyle L. Gibbs and Arlene S. Pfleeger. The Staff is also proposing to
19 reclassify costs from Accounts 366 and 367, Transmission Structures and Mains, respectively,
20 to Account 365, Transmission Rights-of-Way. This reclassification of costs is discussed in the
21 testimony of Staff Accounting witness Renee' M. Cramer. Finally, the Staff is proposing to

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1 disallow certain portions of the cost of the FCDS project because of management imprudence.

2 My direct testimony will address the management imprudence issue.

3 Q. In the Staff's opinion, how was MPC's management imprudent in regard to the
4 FCDS project?

5 A. Decisions by MPC's management regarding the process of acquiring rights-of-way
6 (ROW) directly resulted in an increase in the cost of ROW and indirectly increased the cost of
7 installing the pipeline.

8 Q. How did the Staff identify the increase in the cost of the FCDS project?

9 A. The Staff initially identified cost overruns by examining various reports provided
10 by MPC, conducting interviews of MPC personnel and reviewing Staff data request responses.

11 Q. What reporting mechanisms has the Staff used to review this project?

12 A. **

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Q. What was the Company's estimate of the cost to construct the FCDS?

A. The following estimate/budget was taken from the AFE Report and to be consistent reflects the Staff's adjustments to reclassify ROW costs in both the actual and budget columns. The actual column reflects expenditures through September 30, 1992. This estimate was used by MPC to track its progress on the FCDS project:

<u>CATEGORY</u>		<u>ACTUAL</u>	<u>BUDGET</u>	<u>DIFFERENCE</u>
Pipeline	**	**	\$15,660,312	**
Cap. Salaries	**	**	210,000	**
Cap. Interest	**	**	350,000	**
ROW	**	**	<u>1,051,023</u>	**
TOTAL	**	**	\$17,271,335	**

Q. Does the Company have written explanations which justify these overruns?

A. **

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5 ** Therefore, the process of examining the prudence of the
6 Company's decisions and practices is very difficult.

7 Q. What explanations or justifications has the Company provided for the project cost
8 overruns?

9 A. The following discussion is based on the Staff's review of data request responses
10 and interviews of MPC personnel. Most of the Company's documentation merely shows the
11 variance from budget and contains little in the way of quantified explanation or justification.

12 Q. Please continue with a discussion of the various cost categories appearing on
13 page 4.

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2 ** Based on
3 data supplied by the National Oceanic and Atmospheric Administration, in the St. Louis area the
4 rainfall was 56% above normal and the temperature was 4% above normal for October through
5 December of 1991. The Staff also examined photographs showing a very wet and muddy work
6 site which the Company represented to be reflective of general conditions during this period.

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14 The third item relates to the increase in the labor rates charged by the contractor, Murphy
15 Bros., Inc., (Murphy). The original bid submitted by Murphy was significantly lower than other
16 bids received by MPC. However, Murphy called to withdraw this bid because union "low scale"
17 had been used in its preparation. Murphy had subsequently been advised by a craft union that
18 "high scale" would be required for this project. As a result, Murphy was invited to resubmit its
19 bid with wages calculated at the appropriate scale. While Murphy was still low bidder, the

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1 change in union scale caused an approximate \$2 million increase in construction costs. The
2 above discussion is based on the MPC response to Office of Public Counsel (OPC) Data Request
3 No. 13.

4 Q. How can the increase in capitalized salaries and interest be explained?

5 A. **

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10 Q. What explanations has the Company offered regarding ROW?

11 A. **

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Q. Based on data supplied by the Company, is the Staff able to quantify the entire amount of ROW overrun?

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A. No. Based on the previous discussion, the Staff was only able to account for approximately ** of the over ** of ROW overrun. The Staff's

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1 attempt to quantify part of the amount of ROW overrun does not imply that MPC was prudent
2 in incurring the quantified cost. In the Staff's opinion, the opposite is true.

3 Q. What decision did the Company make regarding ROW which the Staff believes
4 was imprudent?

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Q. How did MPC's decision and actions increase the cost of the project?

A. MPC's decision and actions increased the project cost in the following ways:

(1) Payments to landowners for ROW

(2) Cost of acquisition of ROW

(3) Cost of construction

Q. How did the Company's decision and actions regarding ROW affect the payments to landowners?

A. **

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1 Target ROW easement \$/rod costs were reviewed as needed
2 between agents (via chief agent) and MPC management. These
3 target \$/rod costs were increased on a per county (north to south)
4 basis as necessary to avoid excessive numbers of condemnation
5 proceedings. (Response to OPC Data Request No. 10).

6 Q. How did the Company's decision and actions regarding ROW affect the cost of
7 acquisition?

8 A. **

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18 Q. How did the Company's decision regarding ROW affect the cost of construction?

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Q. Why does the Staff believe that the manner in which MPC dealt with landowners may have caused some of the ROW acquisition problems?

A. The Staff compared the results experienced by MPC and Laclede, which was also in the process of building a pipeline in Franklin and St. Louis Counties during the same time frame.

The Staff believes that this comparison indicates that the increased cost of ROW resulted, at least in part, from the manner in which MPC dealt with landowners.

Q. How did the cost of ROW compare between MPC and Laclede?

A. The average cost of ROW experienced by Laclede was \$64/rod, based on its response to Staff Data Request No. 301. This is approximately 35% less than the \$98/rod experienced by MPC.

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1 Q. Was Laclede able to secure a significant portion of its required ROW through
2 option contracts with landowners?

3 A. Yes. Based on the response to Staff Data Request No. 302, Laclede was able to
4 secure over 30% of the total roddage associated with private land through option contracts.

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9 Q. Was Laclede required to file any condemnation petitions to obtain ROW?

10 A. No. However, in response to OPC Data Request No. 9, MPC stated that it filed
11 60 condemnation cases, of which only 16 were settled prior to condemnation hearings.

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15 Q. What adjustment is the Staff recommending to the Commission concerning ROW
16 overruns?

17 A. The Staff believes that the imprudence of MPC led to an increase in the cost of
18 ROW and the cost of construction. Based on the experience of Laclede in comparison to MPC,
19 the Staff proposes a 35% reduction to the cost of ROW, reflecting the increased cost of both the

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1 payments to landowners and cost of acquisition. The Staff Adjustment P-1-B reduces ROW by

2 ** **

3 Q. Is the Staff also proposing to reduce the cost of pipeline construction for the
4 indirect impact of the ROW problems?

5 A. The Staff is unable to quantify an adjustment associated with the effect on pipeline
6 costs resulting from the failure to obtain ROW earlier. However, in recognition that there was
7 some effect and of the project overrun of over ** ** through September 30, 1992, the Staff
8 would propose that the Commission deny recovery of any additional costs related to this project
9 subsequent to the end of the Staff's update period. While the pipeline is in service, additional
10 capital costs are continuing to be realized for this project. The Staff believes the Company will
11 request that the Commission recognize these expenditures, if not in a true-up, in a subsequent
12 proceeding. Staff witness Gibbs addresses the Company's request for a true-up in this proceeding
13 in his direct testimony?

14 Q. Does this conclude your direct testimony?

15 A. Yes, it does.

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

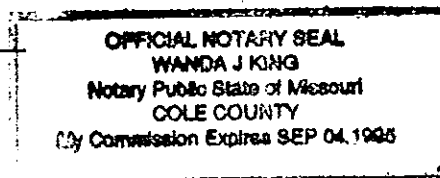
Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has 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.

Stephen M. Rackers
Stephen M. Rackers

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

David J. King
Notary Public

My Commission Expires: 9/4/95



RATE PROCEEDING PARTICIPATION

<u>Company</u>	<u>Case Number</u>
Bowling Green Gas Company	GR-78-218
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Fidelity Telephone Company	TR-80-269
St. Louis County Water Company	WR-80-314
Laclede Gas Company	GR-81-245
Great River Gas Company	GR-81-353
Union Electric Company	ER-82-52
Laclede Gas Company	GR-82-200
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Arkansas Power and Light Company	ER-85-20
Kansas City Power and Light Company	ER-85-128
Arkansas Power and Light Company	ER-85-265
Union Electric Company	EC-87-114 & EC-87-115
Union Electric Company	GR-87-62
Southwestern Bell Telephone Company	TC-89-14
St. Louis County Water Company	WR-89-246
Laclede Gas Company	GR-90-120
Missouri Cities Water Company	WR-91-172
St. Louis County Water Company	WR-91-361
Laclede Gas Company	GR-92-165

