

Exhibit No.:

Issue(s):

Information Systems Maintenance;

Facility Locates

Witness/Type of Exhibit:

Robertson/True-Up

Sponsoring Party:

Public Counsel

Case No.:

GR-99-315

TRUE-UP TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

FILED
OCT 1 1999
Missouri Public
Service Commission

LACLEDE GAS COMPANY

Case No. GR-99-315

October 1, 1999

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**


In the Matter of Laclede Gas Company's)
Tariff Sheets to Revise Natural Gas Rates) Case No. GR-99-315

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

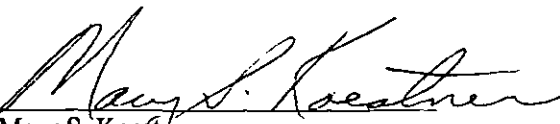
Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my true-up testimony consisting of pages 1 through 9.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Ted Robertson

Subscribed and sworn to me this 1st day of October, 1999.



Mary S. Koestner
Notary Public

My commission expires August 20, 2001.

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1 TRUE-UP TESTIMONY

2 OF

3 TED ROBERTSON

4 LACLEDE GAS COMPANY

5 CASE NO. GR-99-315

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9 INTRODUCTION

10
11 Q. PLEASE STATE YOUR NAME AND ADDRESS.

12 A. Ted Robertson, PO Box 7800, Jefferson City, Missouri 65102.

13
14 Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY TESTIFIED
15 IN THIS CASE?

16 A. Yes, I am.

17
18 Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP TESTIMONY?

19 A. The purpose of this testimony is to present the Public Counsel's recommendations
20 regarding the true-up of incremental expenses associated with Laclede Gas Company's
21 ("Laclede" or "Company") information systems maintenance and facility locates.
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INFORMATION SYSTEMS MAINTENANCE

Q. WHAT IS THE ISSUE?

A. The Company has provided the MPSC Staff and Public Counsel with documentation that shows an incremental increase of \$461,203 in annual expense for information systems maintenance agreements.

Q. DOES THE PUBLIC COUNSEL AGREE WITH THE LEVEL OF COMPANY'S INCREMENTAL COST INCREASE?

A. No. The Company has included in the proposed amount \$294,000 that is associated with a contract it has with the IBM Corporation. Public Counsel believes that a portion of the costs associated with this contract may have already been captured by the Company within the terms of the instant case Stipulation and Agreement, and that any remaining costs incurred during the true-up period should be capitalized and not treated as an on-going operating expense.

The level of actual costs incurred, excluding those addressed in the Stipulation and Agreement, should be capitalized not expensed because they are being incurred to support the development, implementation and fine-tuning of the Company's new database system. On a going forward basis no costs associated with this contract should be built into future

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1 rates as an operating expense because, in addition to being capital expenditures, the contract
2 is set to expire on or about December 31, 1999 thus, no additional costs for this contract
3 will be incurred after the end of the current year.
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5 Q. PLEASE CONTINUE.

6 A. Under the terms of the contract **
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16 Public Counsel believes that it would be inappropriate for the Commission to include the
17 costs as an incremental annual operating expense. One significant reason that the costs
18 should not be treated as an on-going expense is because the contract is due to end on
19 December 31, 1999. The Company has told the OPC that it may extend the contract at the
20 end of its current term; however, Laclede has not provided any documents that would

1 support its statements. Furthermore, OPC believes that costs incurred via the contract, that
2 were incurred prior to the true-up period, were captured and included in the terms of the
3 instant case Stipulation and Agreement reached between the Company, the MPSC Staff and
4 the Public Counsel. To allow the Company to recover the entire \$294,000, either through
5 expensing or capitalization, would result in a double-recovery of at least a portion of the
6 expenditures incurred by the Company.

7
8 Q. WHY IS IT THE PUBLIC COUNSEL'S BELIEF THAT THE COSTS ASSOCIATED
9 WITH ADMINISTERING THE DB2 (DATABASE) PROJECT SHOULD BE
10 CAPITALIZED?

11 A. It's the Public Counsel's understanding that the DB2 Project, which consisted of tasks such
12 as DB2 operations planning, on-going systems administration and system performance and
13 fine-tuning were incurred primarily to make necessary changes to applications and data files
14 for installation of the Company's new mainframe/PC network hardware and platform.
15 According to Company documents, the applications and database changes will allow the
16 implementation of new practices and technologies on both the mainframe and the PC
17 network. It will remove existing constraints and reduce the dependency on manual controls.
18 The Company's response to OPC Data Request No. 1092, which requested a listing and
19 description of the hardware and software enhancements made for the OS/390 system states:
20

1 ...charges incurred since July 1998 were primarily related to the
2 development and implementation of the DB2 sub-system which is
3 the data driver behind the Walker implementation. (emphasis added
4 by Public Counsel)
5
6

7 Public Counsel believes that the costs incurred for implementing and administering the
8 DB2 Project creates and supports the implementation and fine-tuning of a long-lived asset
9 thus, the actual expenditures incurred, through the end of August 1999, that are associated
10 with this contract, excluding the portion already addressed pursuant to the Stipulation and
11 Agreement, should be capitalized.
12

13 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S RECOMMENDATION ON THIS
14 ISSUE.

15 A. The Company is proposing to increase its annual information systems maintenance expense
16 by an amount that includes costs (\$294,000) associated with a contract it has with the IBM
17 Corporation for database administration. Public Counsel believes that it would be
18 inappropriate to treat the costs associated with this contract as an incremental on-going
19 operation and maintenance expense. OPC understands that a portion of the incurred
20 expenditures may have already been captured and recognized via the instant case
21 Stipulation and Agreement, and that the character of the remainder of the actual
22 expenditures incurred has not significantly changed. That is, the costs incurred are related

1 to the Company's installation and implementation of its new mainframe/PC and database
2 and as such are a capital expenditure. Also, the current contract is set to expire on
3 December 31, 1999 and no documentation has been presented that the services currently
4 received from IBM for DB2 administration will continue in its present form or amount. It's
5 the Public Counsel's belief that future expenditures which cannot be verified and/or audited
6 for accuracy should not be included as an operating expense in the determination of current
7 rates. For the reasons discussed above, the Public Counsel recommends that the true-up of
8 incremental expense for information systems maintenance exclude the IBM charge of
9 \$294,000 proposed by the Company, and that in its place, expenditures actually incurred
10 during the true-up period ending August 1999 be capitalized.

11
12 FACILITY LOCATES

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14 Q. WHAT IS THE ISSUE?

15 A. The Company is requesting that it be allowed to increase its true-up expense level by
16 \$409,704 for additional facility locates (gas line locates) costs it expects to incur on a
17 going-forward basis. The amount was calculated, by the Company, based on a seven-
18 month average increase in the number of facility locates for the comparison period of
19 January through July 1999 and January through July 1998. The resulting average
20 increase in the number of locates was then multiplied by the average cost of line locates

1 which the Company is currently experiencing. This average cost of locates was taken
2 from the June and July 1999 bill from the outside vendor that actually performs the work
3 for Laclede.

4
5 Q. DOES THE PUBLIC COUNSEL AGREE THAT THE COMPANY'S
6 METHODOLOGY FOR CALCULATING THE INCREASED COST OF LINE
7 LOCATES IS APPROPRIATE IN THIS SITUATION?

8 A. No. Public Counsel believes that it would be more appropriate to calculate the increase in
9 the number of line locates, and the associated costs, based on a twelve month period
10 ending August 1999. It's my understanding that the number of facility locates occurring
11 are driven primarily by area construction activities and based upon our review of the total
12 number of joint trench locates that the Company has experienced since January 1998 we
13 believe that this work activity is cyclical in nature. Being cyclical in nature would, in our
14 opinion, suggest that the increase in the cost level would be better represented by using
15 the actual number of locates incurred from the most recent twelve month period rather
16 than an average of the increase occurring from the comparison of a seven month period
17 from two different years.

18 Q. BY WHAT AMOUNT DOES THE PUBLIC COUNSEL PROPOSE TO INCREASE
19 THE COMPANY'S LINE LOCATE COSTS?

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1 A. Based on information provided by the Company, for the twelve months ending August
2 1999, the Company incurred 27,049 facility locates. Multiplying this facility locate
3 number by the average cost per locate, which includes the August 1999 facility locate
4 costs, the Public Counsel recommends that the true-up for incremental facility locates
5 expense is \$359,823.

6
7 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE.

8 A. Public Counsel believes that the true-up of incremental facility locates costs be based on
9 the most current data available; therefore, we recommend that Laclede be allowed to
10 increase its annual cost of service expense level by \$359,823. This annual expense
11 amount was calculated by multiplying the total number of facility locates incurred by the
12 Company for the twelve months ended August 1999 by the average current cost of
13 facility locates.

14
15 Q. DOES THIS CONCLUDE YOUR TRUE-UP TESTIMONY?

16 A. Yes, it does.
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