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Amortization; Cash
Working Capital
Witness: *Paula Mapeka*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *GR-2006-0422*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

PAULA MAPEKA

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Jefferson City, Missouri
November 2006

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariff)
Sheets Designed to Increase Rates for Gas Service)
in the Company's Missouri Service Area.)
Case No. GR-2006-0422

AFFIDAVIT OF PAULA MAPEKA

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Paula Mapeka of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.




Paula Mapeka

Subscribed and sworn to before me this 25th day of November 2006.



ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06896978



Notary Public

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Q. Please state your name and business address.

A. Paula Mapeka, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Paula Mapeka who has previously filed direct testimony in this proceeding?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of the rebuttal testimony is to address the changes in the Staff's case from the time of its direct filing pertaining to the cash working capital (CWC) and the Company's proposed Infinium computer software amortization.

Q. Why is the Staff changing its position on these issues at this time?

A. The Staff is changing its position on these issues in order to correct certain errors in its CWC calculation and in response to the discussions with the Company during the settlement conference for this proceeding, held from October 30, to November 2, 2006.

CASH WORKING CAPITAL

Q. For what elements of its cash working capital calculation is the Staff modifying its position at this time?

1 A. The Staff is modifying its revenue lag calculation, as well as its calculations
2 for the expense lags associated with vacation expense, use taxes, sales taxes and gross receipts
3 taxes.

4 **REVENUE LAG**

5 Q. What components of the revenue lag is the Staff modifying?

6 A. The Staff is modifying its position on the collection lag component of the
7 revenue lag.

8 Q. How did the Company and Staff calculate the collection lag in their respective
9 direct testimonies?

10 A. The Company used an “accounts receivable aging” calculation to determine its
11 recommended 27.17 day collection lag, as discussed in the direct testimony of Company
12 witness Michael J. Adams.

13 The Staff used a sample of MGE’s customer bills in order to determine its
14 recommended 20.87day collection lag, as addressed in my direct testimony.

15 Q. Why does the Staff disagree with the Company’s recommended collection lag
16 in this proceeding?

17 A. The Company’s calculation includes the impact of MGE’s uncollectible
18 amounts in its calculation of the collection lag. As a non-cash expense, uncollectible/bad debt
19 expense should not be reflected in a proper cash working capital analysis.

20 Q. Why is the Staff modifying its position on the collection lag at this time?

21 A. During the settlement conference, MGE brought to the Staff’s attention some
22 problems with the Staff’s calculation of the collection lag component of the overall revenue
23 lag. MGE selected every 50th customer from Staff’s collection lag calculation for residential

1 customers. Out of the 19 customer bills that MGE selected, MGE alleged that wrong payment
2 dates had been used on three of the Staff's selected residential customer bills collection lag
3 calculation; hence, giving a misrepresentation of the collection lag.

4 Q. Did the Staff verify MGE's claims of inaccuracies in the Staff's collection lag
5 calculation?

6 A. Yes. Due to time constraints, the Staff has not been able to do any further
7 verification of the accuracy of its initial collection lag calculation.

8 Q. Is the Staff now recommending a different revenue lag calculation in light of
9 the problems with its initial calculation?

10 A. Yes. The Staff is now recommending an overall revenue lag of 43.00 days,
11 which represents what the Staff believes was the revenue lag used to set rates in MGE's last
12 two rate proceedings. This revenue lag incorporates an assumed collection lag of 23.530
13 days.

14 **VACATION EXPENSE LAG**

15 Q. Is the Staff proposing to modify its calculation of the vacation expense lag?

16 A. Yes. The Staff is now proposing to use the accrual balance of vacation pay
17 owed to MGE employees as of the end of the test year as the annualized expense level for this
18 CWC line item, instead of the test year amount of vacation paid. This approach also corrects
19 the double-counting of the annualized amount of vacation pay in the Staff's direct filing in
20 Accounting Schedule 8, Cash Working Capital, where vacation was included both in the
21 vacation pay line item and also in the annualized payroll expense line item. The Staff is also
22 proposing to split vacation expense into two separate CWC line items, non-union and union

1 vacation pay. The Staff is using a 182.5 day vacation expense lag for vacation non-union and
2 365 days for vacation union.

3 Q. What does the vacation payroll in Staff's CWC study represent?

4 A. Vacation payroll is wages paid to employees for service provided and earned
5 by the employees. Vacation accrual for non-union employees begins the first full pay period
6 after the date of hire. The accrual varies based upon the employee's number of years of
7 service. Employees can begin to take vacation as soon as it is accrued and approved by the
8 supervisor. Because vacation for non-union employees can be unevenly taken during the
9 same year it was accrued, the Staff is proposing to use an expense lag of 182.5, which is 365
10 days of the year divided by two, to serve as a conservative estimate of this lag.

11 Union employees are given vacation accrual each December 31st is based upon past
12 service to the Company. The accrual varies based upon the employee's number of years of
13 service. Employees can begin taking vacation as soon as it is accrued, but most vacation
14 earned by MGE's union employees is taken in the twelve months following the date it is
15 accrued. However, some union employees can carry up to one week of vacation to the
16 following calendar year. The union employees do not take vacation evenly throughout the
17 year. For these reasons, the Staff is proposing an expense lag of 365 days as a conservative
18 estimate of the time elapsed between when vacation was earned and paid to MGE's union
19 employees.

20 Q. How did the Company treat vacation pay in its CWC analysis?

21 A. The Company did not include vacation pay in the CWC analysis sponsored in
22 Mr. Adam's direct testimony in this case.

1 **BAD DEBT EXPENSES**

2 Q. Please explain the change in the Staff's CWC Accounting Schedule relating to
3 bad debt expense.

4 A. Even though there is no cash outlay associated with uncollectible amounts,
5 Staff is proposing to include bad debt expense as a separate line item in Accounting
6 Schedule 8 in order to remove the amount from the cash vouchers expense amount in the
7 Staff's cash working capital analysis. Inclusion of bad debt expense in the CWC Accounting
8 Schedule in this manner has no impact on the bottom-line results of the Staff's CWC analysis.

9 **USE TAX, SALES TAX AND GROSS RECEIPT TAX**

10 Q. Why does the revenue lag depicted on Accounting Schedule 8 for use and sales
11 tax and gross receipts tax differ from the Staff's proposed revenue lag of 43.00 days?

12 A. As indicated in Staff's direct testimony, MGE does not provide any service to
13 the ratepayers associated with these taxes. MGE acts only as an agent of the taxing authority
14 in collecting these taxes from the ratepayers and in paying the proper institution on a timely
15 basis.

16 Q. Has the Staff changed its expense lag calculations for sales, use and gross
17 receipts taxes?

18 A. Yes. The Staff recalculated these lags to appropriately begin the expense lag
19 period at the same point in time as the start of the collection lag period for these CWC line
20 items.

21 **INFINIUM SOFTWARE AMORTIZATION**

22 Q. What is the Infinium software system?

1 A. The Infinium software system is an intangible asset that MGE was using for its
2 day to day operations until 2005, when the Company reclassified this asset as non-utility plant
3 and is now using the software for time entry.

4 Q. What did the Company propose in its direct testimony regarding an
5 amortization of its Infinium software costs?

6 A. In its direct testimony, MGE proposed a three-year amortization of the portion
7 of Infinium software costs that had not yet been amortized on MGE's books.

8 During the settlement conference, Company witness Michael R. Noack indicated that
9 the original cost of the Infinium software that MGE was using had already been fully
10 recovered by the Company. The remaining costs of this software which MGE is seeking to
11 recover in this rate proceeding are the costs of certain updates to this software.

12 Q. What did the Staff recommend in its direct case relating to this amortization?

13 A. The Staff did not address this item in its direct testimony. At that time, the
14 Staff was not convinced the cost should be recovered by MGE.

15 Q. What is the Staff recommending at this time regarding the Infinium software
16 amortization?

17 A. The Staff is now recommending a five-year amortization on the unrecovered
18 portion of the Infinium software enhancements.

19 Q. Why is the Staff now recommending an amortization of the Infinium software
20 amortization at this time?

21 A. The entire Southern Union Company switched to the use of the Oracle
22 software system in 2005 a decision which led to MGE's discontinuation of the Infinium
23 software at that time. The Staff believes that it is more efficient for Southern Union and MGE

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1 to use the same software for such tasks as performing financial consolidations and in
2 providing consistent reports across the organization. The Staff believes that it would have
3 been time consuming and costly for Southern Union and MGE to maintain two general ledger
4 systems

5 Q. Why is the Staff proposing a five-year amortization for this item?

6 A. The Staff believes this is a more reasonable timeframe for spreading the costs
7 of this remaining software to MGE's customers than the Company's initial proposal to
8 amortize it over three years.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes, it does.