Exhibit No.:	
Issues:	*Revenue Requirement Differences; Corporate Cost Allocation Study*
Witness:	*Mark L. Oligschlaeger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2004-0209*
Date Testimony Prepared:	*April 15, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
April 2004

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's	)	
Tariffs to Implement a General Rate	)	Case No. GR-2004-0209
Increase for Natural Gas Service	)	

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Mark L. Oligschlaeger, being of lawful age, on his oath states: that he has participated in the preparation of the following direct testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the following 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.

Mark L. Oligschlaeger

Mark L. Oligschlaeger

Subscribed and sworn to before me this 14th day of April 2004.

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

Toni M Charlton

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

TABLE OF CONTENTS OF

DIRECT TESTIMONY OF

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DIRECT TESTIMONY

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MARK L. OLIGSCHLAEGER

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, MO, and received a Bachelor of Science degree in Business Administration with a major in Accounting in 1981. I have been employed by the Missouri Public Service Commission (Commission) since September 1981 within the Auditing Department. In November 1981, I passed the Uniform Certified Public Accountant (CPA) examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission is given in Schedule 1, attached to this direct testimony. A listing of the issues I have addressed in filed testimony in dockets before the Commission since 1990 is provided in Schedule 2 to this testimony.

Q. What knowledge, skills, experience, training or education do you have in these areas of which you are testifying as an expert witness?

A. I have been employed by this Commission as a Regulatory Auditor for over 20 years, and have submitted testimony on ratemaking matters numerous times before the

Commission. I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings numerous times. I have received training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission.

Q. With reference to Case No. GR-2004-0209, the Application by Missouri Gas Energy (MGE or Company) to increase rates charged to its natural gas customers, have you examined the books and records of MGE?

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

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to highlight for the Commission some of the major issues causing the difference between MGE's requested amount of rate relief in this proceeding, and the Staff's recommended revenue requirement. I also address a corporate cost allocation study issue that has recently arisen between MGE and the Staff.

<u>REVENUE REQUIREMENT DIFFERENCES</u>

Q. What is the Staff's recommended rate change for MGE as a result of its audit of the Company's books and records?

A. Based upon its audit of the books and records of MGE, the Staff's recommended revenue requirement for the Company in this case is $330,953, calculated at the Staff's recommended midpoint return on equity in this case, sponsored by Staff witness David Murray of the Financial Analysis Department. The Staff's revenue requirement is based upon a test year of the twelve months ended June 30, 2003, with an update of known and measurable changes through December 31, 2003, as ordered by the Commission earlier in this proceeding. The Staff's revenue requirement also reflects the impact of an

"Allowance for True-up" amount of $2.5 million, which is discussed in the direct testimony of Staff Auditing witness Charles R. Hyneman.

Q. What amount of rate relief is MGE seeking in this proceeding?

A. On November 4, 2003, MGE filed tariff sheets with the Commission seeking to implement a general rate increase for natural gas service in an annual amount of $44,875,635.

Q. What explains the difference between MGE's and the Staff's filed revenue requirements in this case?

A. The Staff has performed a preliminary reconciliation of MGE's and the Staff's filed cases. (All amounts cited in this testimony regarding value of issues are subject to change, pending the Staff's filing of a case reconciliation on April 26, 2004, as ordered by the Commission.) Based upon this preliminary reconciliation, the rate of return area is the largest issue area in this proceeding. The Staff believes the differences between the parties in the area of rate of return in this case are worth approximately $23 million in total.

Q. Why is the rate of return/capital structure issue so significant in this case?

A. There are two main subcomponents to this issue: 1) use of different capital structures; and 2) differences in recommended return on equity. Differences between the parties in both of these areas are significant in terms of revenue requirement.

Q. What are the different capital structures being recommended by MGE and the Staff in this case?

A. In its filing, MGE recommended a capital structure of 43.3% common equity, 46.1% long-term debt, and 10.5% preferred equity. This is the capital structure that results when one takes Southern Union's actual capital structure at June 30, 2003, and then eliminates all debt associated with Southern Union's Panhandle Energy (Panhandle) properties. (The equity associated with Panhandle remains in MGE's proposed capital structure.)

The Staff's capital structure as of December 31, 2003, is Southern Union's consolidated capital structure of 61.1% long-term debt, 25. 4% common equity, 6.2% preferred equity and 7.35% short-term debt. (The short-term debt in the Staff's recommended capital structure is the amount in excess of Southern Union's current construction requirements.) As a consolidated capital structure, the Staff's recommendation reflects both the debt and the equity associated with Panhandle Eastern.

The Staff is estimating that the revenue requirement difference caused by MGE and the Staff's different capital structures in this case as being worth approximately $16.3 million.

Q. What is the difference in recommended return on equity between MGE and the Staff?

A. The Company recommended a return on equity of 12.00%. The Staff has recommended a range of equity returns between 8.50% and 9.50%. The difference in revenue requirement between the MGE's recommended return on equity and the Staff midpoint return on equity recommendation is approximately $6.7 million.

Q. What Staff witness is addressing rate of return matters in this proceeding?

A. Staff witness David Murray of the Financial Analysis Department is sponsoring the Staff's position on these matters.

Q. What are the other major issues, measured in dollar value, between MGE and the Staff in this proceeding?

A. I have listed below some of the major revenue, expense and rate base issues between the Company and the Staff, based upon each party's direct testimony filing. The revenue/expense issues listed below all have an approximate income statement difference of approximately $1 million. The rate base issues listed below involve a rate base valuation difference of at least $5 million.

Revenues

- Capacity Release Revenues
- Load Attrition Adjustment

Expenses

- Depreciation Expense
- Corporate Allocations
- Bad Debt Expense
- Pensions/PPA Amortization

Rate Base

- SLRP Deferrals
- AMT Credit
- Cash Working Capital (Revenue Lag)

Q. In the revenues area, what is the difference between the Company and the Staff concerning capacity release revenues?

A. The Staff has included a normalized level of capacity release revenues in its case of approximately $1.34 million, while MGE has not included any of these revenues in its case. Capacity release revenues represent revenues received by gas utilities for release of unused pipeline capacity to third party users. This item is discussed in the direct testimony of Staff witness Anne M. Allee of the Procurement Analysis Department.

Q. What is the difference in revenues concerning "load attrition?"

A. The Company has included an adjustment in its case to reduce revenues by approximately $1.63 million to account for what it asserts to be reduced usage of gas by its customers over time. The Staff has not proposed any adjustment for load attrition in its case.

Q. What is the issue between the Company and the Staff on depreciation expense?

A. There are two subcomponent issues: depreciation rates and treatment of cost of removal. These issues' total value is approximately $3.9 million.

Concerning depreciation rates, the Company has recommended that one-half of the value of the shift in depreciation rates called for in a depreciation study performed for MGE in 2000 by Black & Veatch be implemented in this case, although it offered no such study in its testimony. The Staff recommends that the depreciation rates agreed to by the parties of MGE's last rate proceeding, Case No. GR-2001-292 should be maintained in this proceeding, and that continuing property record data problems associated with MGE's acquisition of its Missouri service territory from Western Resources, Inc. in 1994 makes the quality of any current MGE-specific depreciation rate analysis suspect. This matter is addressed in the direct testimony of Staff witness Jolie L. Mathis of the Engineering and Management Services Department.

As for cost of removal, the Staff is following its current practice of treating actual cost of removal/salvage amounts as a component of expense, as opposed to MGE's recommended approach of accruing for estimated future cost of removal as a component of depreciation rates. Staff witness Hyneman in this case sponsors the Staff's cost of removal position.

Q. What is the issue concerning allocation of Southern Union corporate costs in this proceeding?

A. The Company has recommended inclusion of an estimated $4.1 million in allocated corporate costs from Southern Union as part of its rate request in this case. The Staff has proposed a number of adjustments to the test year Southern Union allocated costs, including recalculation of the general allocator to exclude a customer numbers component, removal of excessive directors' salary and office expenses, exclusion of lobbying related allocated costs, and removal of excessive corporate aircraft costs. The Staff's total adjustments in this area, sponsored by Mr. Hyneman, total approximately $2.4 million.

Q. What is the difference in this case concerning bad debt expense?

A. Staff Auditing witness Paul R. Harrison sponsored a five-year average of past bad debt write-offs to develop a normalized level of bad debt expense to include in rates. MGE used a three-year average of bad debt write-offs for its recommended rate allowance. The difference between these two approaches is approximately worth $1.3 million in expense.

Q. What were the positions of the parties concerning pension expense in this proceeding?

A. The Company's case was based upon the FAS 87 level of accrued pension expense, which when annualized totaled a little under $1 million. The Staff filed its case consistent with its current pension position of using the Minimum ERISA amount, which for MGE is zero.

There is also a difference between the parties concerning amortization of the prepaid pension asset in rate base. The Company has proposed to amortize this amount over six years, with the Staff advocating seven years. This difference is worth approximately $400,000 in expense.

Staff witness Hyneman is sponsoring the Staff's position on pension related matters in this case.

Q. What is the issue concerning SLRP deferrals in rate base in this case?

A. MGE has included $18.3 million of unamortized Service Line Replacement Program accounting authority deferrals in rate base in this case. The Staff has excluded the unamortized balances of SLRP deferrals from rate base in accord with Commission precedent for MGE, set in Case No. GR-98-140.

Q. What is the rate base issue concerning the Alternative Minimum Tax Credit?

A. This credit results from the alternative minimum tax payments Southern Union has paid to the Internal Revenue Service in recent years. The Company has placed this credit in rate base where it effectively is an offset to the Deferred Income Tax balances. The Staff does not believe that the AMT credit should be in rate base at all until it is shown that the AMT payments are directly related to MGE financial results, and not the results of MGE's parent company, Southern Union. Staff witness Harrison addressed this matter in his direct testimony in this proceeding.

Q. What are the rate base differences between the Company and the Staff concerning cash working capital?

A. The primary differences in this area relate to the revenue lag component of the CWC lead/lag study. The Company filed a billing lag of over six days, while the Staff has sponsored a billing lag of slightly over three days, which is more in line with the billing lags of other large energy utilities in this state. In relation to the collection lag, the Company calculated that lag through an accounts receivable turnover computation, and derived a lag of over 25 days. The Staff has chosen to modify MGE's turnover calculation by removing the impact of bad debts on the computation, and came up with a collection lag of slightly under 23 days.

The total difference between the Staff's and MGE's CWC recommendations is worth approximately $8.9 million in rate base. These issues are addressed in the direct testimony of Staff Auditing witness Dana E. Eaves.

Q. What explains the remaining differences between the Staff and MGE on the appropriate amount of rate relief for the Company from this case?

A. There are a number of revenue, expense and rate base issues of lower dollar value between the Staff and MGE in this proceeding.

CORPORATE COST ALLOCATION STUDY

Q. Does the Staff have any other issues that need to be addressed in this case?

A. Yes. Case No. GM-2003-0238 was a case filed by Southern Union seeking Commission approval of the acquisition of Panhandle Eastern Pipeline Company. This transaction was approved by Commission Order on March 27, 2003. The Commission approved a Stipulation And Agreement in that Order, for which Section III.3.G required that a study be done within six months of the closing of the transaction. The transaction was closed in June 2003. The study was to be done by Southern Union regarding the specific impacts of the acquisition and operation of Panhandle on Southern Union's administrative and general expense and cost allocation methodology. The provisions of the Stipulation And Agreement specifically set out the details of the study that was to be performed.

Q. Does the Staff believe that Southern Union has adequately completed this study?

A. No. The Staff does not believe that such a study has in fact been adequately completed. While Southern Union has provided some information to the Staff, including a Cost Allocation Model and a Joint and Common Costs Model, the Staff does not believe that the specific study contemplated by the Stipulation And Agreement has actually been performed. Accordingly, the Staff recommends that, as part of any Commission Order in this case, that Southern Union be ordered to complete this study and provide it to the parties to Case No. GM-2003-0238.

The Staff proposes that, during the prehearing to this case, MGE, the Staff and other interested parties meet to discuss the topics outlined in Section III.3.G of the Stipulation And Agreement in Case No. GM-2003-0238. It is hoped that the result of the meeting will be an agreement on what specific information will be provided in the study consistent with the Stipulation And Agreement in Case No.GM-2003-0238. The Staff further proposes that MGE/Southern Union complete and file its study with the Commission as part of this case no later than the operation-of-law date for this proceeding.

Q. Does this conclude your direct testimony?

A. Yes, it does.

MARK L. OLIGSCHLAEGER

COMPANY	CASE NO.
Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199
Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14
Western Resources	GR-90-40 & GR-91-149
Missouri-American Water Company	WR-91-211
UtiliCorp United Inc. / Missouri Public Service	EO-91-358 & EO-91-360
Generic: Expanded Calling Scopes	TO-92-306
Generic: Energy Policy Act of 1992	EO-93-218
Western Resources, Inc./Southern Union Company	GM-94-40
St. Louis County Water Company	WR-95-145
Union Electric Company	EM-96-149
St. Louis County Water Company	WR-96-263
Missouri Gas Energy	GR-96-285
The Empire District Electric Company	ER-97-82
UtiliCorp United, Inc./Missouri Public Service	ER-97-394
Western Resources, Inc./Kansas City Power & Light Company	EM-97-515
United Water Missouri, Inc.	WA-98-187
Missouri-American Water Company	WM-2000-222

MARK L. OLIGSCHLAEGER

COMPANY	CASE NO.
UtiliCorp United Inc. / St. Joseph Light & Power Company	EM-2000-292
UtiliCorp United Inc. / The Empire District Electric Company	EM-2000-369
Green Hills Telephone Corporation	TT-2001-115
IAMO Telephone Company	TT-2001-116
Ozark Telephone Company	TT-2001-117
Peace Valley Telephone Company, Inc.	TT-2001-118
Holway Telephone Company	TT-2001-119
KLM Telephone Company	TT-2001-120
Missouri Gas Energy	GR-2001-292
The Empire District Electric Company	ER-2001-299
Oregon Farmers Mutual Telephone Company	TT-2001-328
Ozark Telephone Company	TC-2001-402
Gateway Pipeline Company, Inc.	GM-2001-585
Missouri Public Service	ER-2001-672
Union Electric, d/b/a AmerenUE	EC-2002-1
Laclede Gas Company	GA-2002-429
Aquila, Inc., d/b/a Aquila Networks-MPS-Electric and Aquila Networks-L&P-Electric and Steam	ER-2004-0034 & HR-2004-0024 (Consolidated)

MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs
Missouri-American Water	WR-91-211	True-up; Known and Measurable
Missouri Public Service	EO-91-358 and EO-91-360	AAO
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Generic Electric	EO-93-218	Preapproval
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
St. Louis County Water	WR-95-145	Policy
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-96-263	Future Plant
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
Empire District Electric	ER-97-82	Policy
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
United Water Missouri	WA-98-187	FAS 106 Deferrals
Missouri-American Water	WM-2000-222	Conditions
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
Utilicorp United & Empire District Electric	EM-2000-369	Overall Recommendations
Green Hills Telephone	TT-2001-115	Policy
IAMO Telephone Company	TT-2001-116	Policy

Company Name	Case Number	Issues
Ozark Telephone Company	TT-2001-117	Policy
Peace Valley Telephone	TT-2001-118	Policy
Holway Telephone Company	TT-2001-119	Policy
KLM Telephone Company	TT-2002-120	Policy
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
Empire District Electric	ER-2001-299	Prudence/State Line Construction/Capital Costs
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
Gateway Pipeline Company	GM-2001-585	Financial Statements
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectibles
Laclede Gas Company	GA-2002-429	AAO Request
Aquila, Inc., d/b/a Aquila Networks-MPS-Electric and Aquila Networks-L&P-Electric and Steam	ER-2004-0034 and HR-2004-0024 (Consolidated)	Aries Purchased Power Agreement; Merger Savings