REBUTTAL TESTIMONY

OF

MICHAEL J. WALLIS

OZARK NATURAL GAS COMPANY

CASE NO. GA-90-321

Q. Please state your name and business address.

A. Michael J. Wallis, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational and professional background.

A. I graduated from Central Missouri State University at Warrensburg, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in July, 1986. I am currently a licensed CPA in the state of Missouri.

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

A. Under the direction of the Manager of the Accounting Department, I have assisted with audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. I have previously filed testimony before this

Commission in Case No. GR-88-115, St. Joseph Light and Power Company; Case No. WR-88-215, Capital City Water Company; Case No. TR-89-182, GTE North Incorporated; Case No. WR-90-56, Empire District Electric Company; Case No. ER-90-138, Empire District Electric Company; and Case No. GR-91-249, United Cities Gas Company.

Q. What is the purpose of your rebuttal testimony in Case No. GA-90-321?

A. The purpose of my rebuttal testimony is to determine the reasonableness of certain assumptions supporting Ozark Natural Gas Company's (Ozark, Company) proposed application in this case, and to sponsor and support the Staff's revenue requirement calculation, attached as Schedule 1 to my direct testimony.

Q. Was a cost of service study prepared by the Company or its engineering consultant to support its application?

A. Yes, a cost of service study was prepared for Ozark by Company witness Dean A. Park of the consulting firm of Barnes, Henry, Meisenheimer and Gende, Inc. The study relied heavily on the use of estimated data.

Q. Why were estimates relied upon to develop the cost of service study?

A. Estimates were used because this is a new venture, and there is no operating history or any type of historical data to rely upon in developing a cost of service calculation.

Q. What did you do to evaluate the Company's cost of service study?

A. I reviewed the Company's application and direct testimony, as well as the cost of service study. In addition, for comparison purposes I reviewed both the Cooperating Cities of Missouri Natural Gas Feasibility study prepared by the engineering firm of Burns and McDonnell and the Laclede Gas Company Natural Gas Feasibility study that were used in the Intercon Gas, Inc., and Missouri Gas Company application cases, Case Nos. GA-90-280, et al.

Q. Why did you use the Burns and McDonnell and the Laclede Gas Company feasibility studies as comparisons to the Ozark study?

A. The Burns and McDonnell study and the Laclede Gas Company study were done for companies in areas with similar backgrounds to Ozark, in that the service areas of each company has electric, propane, and oil customers already in place. In addition, Laclede Gas Company, in particular, has many years of experience in the natural gas business in Missouri, and they should have a very good idea of expected Missouri customer conversion percentages.

Q. What is the rationale for comparing Ozark's study to the Burns and McDonnell and Laclede Gas Company studies?

A. Although it is difficult to make an assessment of the reasonableness of estimates without prior operating experience to rely on, I compared the market penetration percentages of the Barnes, Henry, Meisenheimer and Gende study, the Burns and McDonnell study, and the Laclede Gas Company study.

Ozark's estimation of revenue to be received from its service area over the first five years of operation is based on their estimated market penetration percentages (number of customers who convert from their present energy source to natural gas) over that period. The market penetration rate is a key factor in assessing whether the overall project is economical.

Q. What were the results of your study comparisons?

A. Ozark's estimated market penetration percentages are considerably more optimistic than those of Burns and McDonnell or Laclede Gas Company. As seen in Schedules 2 and 3 attached to my rebuttal testimony, Ozark's penetration percentages show a more rapid conversion of customers from propane and electricity to natural gas in its initial years of operation. In addition, Ozark's market penetration percentages show a higher conversion of electric customers to natural gas at the end of ten years.

Staff witness Thomas A. Shaw of the Energy Department also addresses the Company's projected conversion percentages in his rebuttal testimony in this case.

Q. What is the purpose of the Staff's revenue requirement calculation attached as Schedule 1 to this rebuttal testimony?

A. The purpose of the Staff's revenue requirement calculation is to provide a revenue requirement amount for the fifth year of Company's operations for purposes of calculation of the Staff's rate design in this case, using the Company's projected revenue, expense, and rate base amounts with the following exceptions: (1) the rate of return was provided by Staff witness Jay W. Moore of the Financial Analysis Department, (2) the depreciation rates were provided by Staff witness Melvin T. Love, (3) the gas cost rates, as well as the cost of Williams Natural Gas Company "reinforcement loop" not included in the Company's cost of service study, were provided by Staff witness

Shaw, and (4) the depreciation reserve was calculated by myself, using the depreciation rates provided by Staff witness Love. The revenue requirement amount was then used by Staff witness Shaw to develop a rate design schedule for the customers of Ozark.

These revenue requirement schedules should not be interpreted as representing the Staff's estimate of the actual revenue requirement result for Ozark in the fifth year of operation. In particular, it should be noted that the revenue requirement amount reflects the Company's conversion percentages, which the Staff believes are overly optimistic. This revenue requirement run was produced solely to allow derivation of our proposed rate design for this case.

Q. Why did the Staff use year 5 of the Company's cost of service study in its revenue requirement run?

A. The Staff used year 5 because that is the first year in which the Company projects it will make a profit. In addition, by the fifth year, the majority of the Company's plant in service will be installed and a majority of the current propane customers in Ozark's service territory are projected to be converted to natural gas.

Q. How is Schedule 1 to your rebuttal testimony structured?

A. Schedule 1, the Staff's revenue requirement calculation, consists of seven separate Accounting Schedules that present different components of the Staff's overall revenue requirement calculation. Each Accounting Schedule will be discussed in turn.

Q. Please describe Accounting Schedule 1, Gross Revenue Requirement.

A. Accounting Schedule 1 represents the gross revenue requirement for year 5 of Ozark's operations as calculated by the Staff under the assumptions discussed above.

Line 1 is the net original cost rate base obtained from Accounting Schedule 2, Rate Base. Line 2 is the rate of return range (low end, midpoint, high end) supplied by Staff witness Moore of the Financial Analysis Department, which will be discussed in his rebuttal testimony.

The product of line 1 and line 2 is the net operating income requirement before income taxes, shown on line 3. Line 4 is the net income available, per Accounting Schedule 6, Income Statement. Line 3 less line 4 is the additional net operating income needed before income taxes, and is shown on line 5. Line 7 is the required current income tax from Accounting Schedule 7, Income Tax, using the net operating income requirement on line 3 and the rate of return range recommended by the Staff. Line 8 is test year current income tax, per the first column of Accounting Schedule 6. Line 7 less line 8 is the additional current income tax required, which is shown on line 9. This is the additional tax associated with the additional net operating income needed before income taxes shown on line 5. Line 10 is the required deferred investment tax credit (ITC), and line 11 is the test year deferred ITC. Both of these items are no longer necessary in the calculation of revenue requirement, due to the Tax Reform Act of 1986. The additional tax required is shown on line 13. Line 13 plus the additional net operating income needed before income taxes from line 5 gives the gross revenue requirement amount shown on line 14.

Q. Please explain Accounting Schedule 2, Rate Base.

A. Accounting Schedule 2 represents the determination of Missouri jurisdictional rate base utilizing Year 5 of the Company's cost of service study. First, the depreciation reserve from Accounting Schedule 4 is subtracted from total plant in service from Accounting Schedule 3, to compute net plant in service on line 3. Added to net plant in service is working capital and materials and supplies inventory amounts from the Company's cost of service study.

Q. Please explain Accounting Schedule 3, Total Plant in Service.

A. Accounting Schedule 3 presents the total plant in service balances by account in Year 5 of the Company's cost of service study.

Q. Please explain Accounting Schedule 4, Depreciation Reserve.

A. Accounting Schedule 4 represents the total depreciation reserve balances as calculated by the Staff, using the depreciation rates provided by Staff witness Love which were applied to the plant balances in years 1 through 5 of the Company's cost of service study.

Q. Please explain Accounting Schedule 5, Depreciation Expense.

A. Accounting Schedule 5 calculates an annualized level of depreciation expense. Missouri jurisdictional plant in service, based on Company's cost of service study, is multiplied by the applicable depreciation rate as discussed in the direct testimony of Staff witness Love.

Q. Please describe Accounting Schedule 6, Income Statement.

A. Accounting Schedule 6, Income Statement, contains the Missouri jurisdictional revenues and expenses for year 5 of the Company's cost of service study.

Q. Please describe Accounting Schedule 7, Income Tax.

A. Accounting Schedule 7, Income Tax, reflects the annualization of current income taxes based on annualized net taxable operating income from Accounting Schedule 6, and deferred income taxes as of year 5 from the Company's cost of service study.

Q. Please explain the revenue and expense amounts found on Accounting Schedule 6, Income Statement.

A. The Staff used the total revenue and operation and maintenance expense amounts, with the exception of the gas cost expense, found in the Company's cost of service study.

The Staff developed the gas cost expense in Accounting Schedule 6 by multiplying the Company's expected MCF usage (found in the Company's cost of service study) by the gas cost rates developed by Staff witness Shaw.

Q. What is the Staff's recommendation with respect to Ozark's application to provide natural gas?

A. The Staff has serious concerns on the reliability of Ozark's cost of service study. The Staff believes that Ozark's market penetration percentages are overly optimistic and will not provide the level of revenues that the Company expects. As a result of the Company's use of overly optimistic market penetration percentages, the Staff has serious doubts as to the reliability of the Company's cost of service study. Staff witness Shaw and Staff witness Moore indicate in their rebuttal testimony that due to certain other considerations, the Company's project is not feasible.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Ozark Natural Gas Company, Inc. for an order and certificate of service authorizing Applicant to transport and distribute natural gas from Aurora, Missouri to Branson and Hollister, Missouri with distribution to intermediate points adjacent to the route in the Counties of Lawrence, Stone, Taney and Barry, State of Missouri.	)	Case No. GA-90-321

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Michael J. Wallis, of lawful age, on his oath states: that he has participated in the preparation of the foregoing rebuttal testimony in question and answer form, consisting of 20 pages to be presented in the above case; that the answers in the foregoing rebuttal 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.

Michael J. Wallis

Michael J. Wallis

Subscribed and sworn to before me this 20th day of December, 1991.

Wanda J. King

Notary Public

My Commission Expires: 9/14/95

OFFICIAL NOTARY SEAL
WANDA J KING
Notary Public State of Missouri
COLE COUNTY
My Commission Expires SEP 04,1995

Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Revenue Requirement

Line		10.60% Return
	(A)	(B)
1	Net Orig Cost Rate Base (Sch 2)	$ 15,402,309
2	Rate of Return	10.60%
3	Net Operating Income Requirement	$ 1,632,645
4	Net Income Available (Sch 6)	$ 1,431,507
5	Additional NOIBT Needed	$ 201,138
6	Income Tax Requirement (Sch 7)	
7	Required Current Income Tax	$ 454,749
8	Test Year Current Income Tax	$ 340,546
9	Additional Current Tax Required	$ 114,203
10	Required Deferred ITC	$ 0
11	Test Year Deferred ITC	$ 0
12	Additional Deferred ITC Required	$ 0
13	Total Additional Tax Required	$ 114,203
14	Gross Revenue Requirement	$ 315,341

Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Rate Base

Line	Description	Amount
	(A)	(B)
1	Total Plant in Service (Sch 3)	$ 15,996,519
	Subtract from Total Plant	
2	Depreciation Reserve (Sch 4)	$ 1,018,615
3	Net Plant in Service	$ 14,977,904
	Add to Net Plant in Service	
4	Cash Working Capital (Sch)	$ 0
5	Materials and Supplies Inventory	25,000
6	Working Capital	399,405
	Subtract from Net Plant	
7	Federal Tax Offset 0.0000 %	$ 0
8	State Tax Offset 0.0000 %	0
9	City Tax Offset 0.0000 %	0
10	Interest Expense Offset 0.0000 %	0
11	Customer Advances for Construction	0
12	Contribution in aid of Construction	0
13	Deferred Income Taxes-Depreciation	0
14	Total Rate Base	$ 15,402,309

Accounting Schedule: 3
Wallis
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Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Total Plant in Service

Line No	Acct	Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)
		Intangible Plant			
1		Organizational Costs	$ 1,162,000	$ 0	$ 1,162,000
2		Total	$ 1,162,000	$ 0	$ 1,162,000
		Transmission Plant			
3		Land & Land Rights	$ 300,000	$ 0	$ 300,000
4		Transmission Mains	7,832,300	0	7,832,300
5		Total	$ 8,132,300	$ 0	$ 8,132,300
		Distribution Plant			
6		Distribution Mains	$ 4,591,800	$ 0	$ 4,591,800
7		Distribution Meters	2,110,419	0	2,110,419
8		Total	$ 6,702,219	$ 0	$ 6,702,219
9		Total Plant In Service	$ 15,996,519	$ 0	$ 15,996,519

Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Depreciation Reserve

Line No	Acct	Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)
		Intangible Plant			
1		Organizational Costs	$ 0	$ 0	$ 0
2		Total	$ 0	$ 0	$ 0
		Transmission Plant			
3		Land & Land Rights	$ 0	$ 0	$ 0
4		Transmission Mains	588,596	0	588,596
5		Total	$ 588,596	$ 0	$ 588,596
		Distribution Plant			
6		Distribution Mains	$ 330,257	$ 0	$ 330,257
7		Distribution Meters	99,762	0	99,762
8		Total	$ 430,019	$ 0	$ 430,019
9		Total Depreciation Reserve	$ 1,018,615	$ 0	$ 1,018,615

Accounting Schedule: 5
Wallis
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Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
		(A)	(B)	(C)	(D)
		Intangible Plant			
1		Organizational Costs	$ 1,162,000	0.0000	$ 0
2		Total	$ 1,162,000		$ 0
		Transmission Plant			
3		Land & Land Rights	$ 300,000	0.0000	$ 0
4		Transmission Mains	7,832,300	1.6700	130,799
5		Total	$ 8,132,300		$ 130,799
		Distribution Plant			
6		Distribution Mains	$ 4,591,800	2.0000	$ 91,836
7		Distribution Meters	2,110,419	2.0000	42,208
8		Total	$ 6,702,219		$ 134,044
9		Total Depreciation Expense	$ 15,996,519		$ 264,843

SCHEDULE 1.5

Accounting Schedule: 6
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Ozark Natural Gas Company, Inc.
Case: GA-90-3218

Income Statement

Line No	Acct	Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)
		Operating Revenues			
1		Operating Revenues	$ 4,038,593	$ 0	$ 4,038,593
2		Total	$ 4,038,593	$ 0	$ 4,038,593
		Operation & Maintenance Expense			
3		O & M Expenses--Excluding Gas Costs	$ 303,877	$ 0	$ 303,877
4		Gas Costs	1,697,820	0	1,697,820
5		Total	$ 2,001,697	$ 0	$ 2,001,697
		Depreciation Expense			
6		Depreciation Expense	$ 0	$ 264,843	$ 264,843
7		Total	$ 0	$ 264,843	$ 264,843
8		Other Operating Expenses	$ 0	$ 0	$ 0
9		Total Operating Expenses	$ 2,001,697	$ 264,843	$ 2,266,540
10		Net Income Before Taxes	$ 2,036,896	$ (264,843)	$ 1,772,053
		Current Income Taxes			
11		Current Income Taxes	$ 0	$ 340,546	$ 340,546
12		Total	$ 0	$ 340,546	$ 340,546
		Deferred Income Taxes			
13		Deferred Income Taxes	$ 0	$ 0	$ 0
14		Total	$ 0	$ 0	$ 0
15		Total Income Taxes	$ 0	$ 340,546	$ 340,546

Accounting Schedule: 6
Wallis
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Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Income Statement

Line No	Acct	Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)
16		Net Operating Income	$ 2,036,896	$ (605,389)	$ 1,431,507

SCHEDULE 1.7

Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Income Tax

Line	(A)	Test Year (B)	10.60% Return
1	Net Income Before Taxes (Sch 6)	$ 1,772,053	$ 2,087,394
	Add to Net Income Before Taxes		
2	Book Depreciation Expense	$ 264,843	$ 264,843
3	Total	$ 264,843	$ 264,843
	Subtr from Net Income Before Taxes		
4	Interest Expense 5.4000 %	$ 831,725	$ 831,725
5	Tax Depreciation	264,843	264,843
6	Total	$ 1,096,568	$ 1,096,568
7	Net Taxable Income	$ 940,328	$ 1,255,669
	Provision for Federal Income Tax		
8	Net Taxable Income	$ 940,328	$ 1,255,669
9	Deduct Missouri Income Tax	$ 31,567	$ 42,154
10	Deduct City Income Tax	0	0
11	Federal Taxable Income	908,761	1,213,515
12	Total Federal Tax	$ 308,979	$ 412,595
	Provision for Missouri Income Tax		
13	Net Taxable Income	$ 940,328	$ 1,255,669
14	Deduct Federal Income Tax	$ 308,979	$ 412,595
15	Deduct City Income Tax	0	0
16	Missouri Taxable Income	631,349	843,074
17	Total Missouri Tax	$ 31,567	$ 42,154

Ozark Natural Gas Company, Inc.
Case: GA-90-321B

Income Tax

Line		Test Year	10.60% Return
	(A)	(B)	
	Provision for City Income Tax		
18	Net Taxable Income	$ 940,328	$ 1,255,669
19	Deduct Federal Income Tax	$ 308,979	$ 412,595
20	Deduct Missouri Income Tax	31,567	42,154
21	City Taxable Income	599,782	800,920
22	Total City Tax	$ 0	$ 0
	Summary of Provision for Income Tax		
23	Federal Income Tax	$ 308,979	$ 412,595
24	Missouri Income Tax	31,567	42,154
25	City Income Tax	0	0
26	Total	$ 340,546	$ 454,749
	Deferred Income Taxes		
27	Deferred Investment Tax Credit	$ 0	$ 0
28	Deferred Repair Allowance	0	0
29	Deferred Tax Depreciation	0	0
30	Amort of Deferred Tax Depreciation	0	0
31	Amort of Repair Allowance	0	0
32	Amort of Deferred ITC	0	0
33	Deferred Unbilled	0	0
34	Total	$ 0	$ 0
35	Total Income Tax	$ 340,546	$ 454,749

FRANKLIN COUNTY PROJECT
CONVERSION OF EXISTING BUILDINGS
NUMBER OF CUSTOMERS

SCHEDULE 1
1 Oct 90

	TOTAL POTENTIAL	END OF FISCAL YEAR									
		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
RESIDENTIAL											
Electric	4479	90	179	269	358	448	537	627	717	806	896
Propane	3943	867	1577	2208	2681	3115	3352	3509	3628	3706	3746
Oil	2125	319	595	850	1063	1233	1381	1466	1530	1573	1594
Total	10547	1276	2351	3327	4102	4796	5270	5602	5875	6085	6236
SMALL COML.											
Electric	371	7	15	22	30	37	45	52	59	67	74
Propane	385	85	154	216	262	304	327	343	354	362	366
Oil	253	38	71	101	127	147	164	175	182	187	190
Total	1009	130	240	339	419	488	536	570	595	616	630
LG. COML. & IND.											
Electric	48	0	0	3	3	8	9	11	12	12	12
Propane	94	22	57	79	86	93	93	93	94	94	94
Oil	34	0	2	10	18	27	33	33	34	34	34
Total	176	22	59	92	107	128	135	137	140	140	140
TOTAL											
Electric	4898	97	194	294	391	493	591	690	788	885	982
Propane	4422	974	1788	2503	3029	3512	3772	3945	4076	4162	4206
Oil	2412	357	668	961	1208	1407	1578	1674	1746	1794	1818
TOTAL	11732	1428	2650	3758	4628	5412	5941	6309	6610	6841	7006
CONVERSION RATE - % TO DATE											
RESIDENTIAL											
Electric		2.00%	4.00%	6.00%	8.00%	10.00%	12.00%	14.00%	16.00%	18.00%	20.00%
Propane		22.00%	40.00%	56.00%	68.00%	79.00%	85.00%	89.00%	92.00%	94.00%	95.00%
Oil		15.00%	28.00%	40.00%	50.00%	58.00%	65.00%	69.00%	72.00%	74.00%	75.00%
SMALL COML.											
Electric		2.00%	4.00%	6.00%	8.00%	10.00%	12.00%	14.00%	16.00%	18.00%	20.00%
Propane		22.00%	40.00%	56.00%	68.00%	79.00%	85.00%	89.00%	92.00%	94.00%	95.00%
Oil		15.00%	28.00%	40.00%	50.00%	58.00%	65.00%	69.00%	72.00%	74.00%	75.00%

SCHEDULE 2

COOPERATING CITIES
NATURAL GAS FEASIBILITY STUDY

TABLE V - 2

FORECAST OF RESIDENTIAL NG USAGE - ROLLA

1990 CENSUS DATA

POPULATION	14,100
HOUSEHOLDS	5,640

PROJECTION OF NG CUSTOMERS (REFER TO FIGURE V-6 FOR CONVERSION LEVEL):

YEAR

		1992			1995			2000		
ESTIMATED POPULATION		14,169			14,500			14,800		
ESTIMATED HOUSEHOLDS (USERS)		5,713			5,918			6,167		
PRIMARY ENERGY SOURCE	% OF PRESENT USERS *	NO. OF USERS	CUMUL CONV LEVEL	NO. OF CUST	NO. OF USERS	CUMUL CONV LEVEL	NO. OF CUST	NO. OF USERS	CUMUL CONV LEVEL	NO. OF CUST
ELECTRIC	36%	2,057	2%	41	2,131	6%	128	2,220	16%	355
FUEL OIL	15%	857	10%	86	888	21%	186	925	43%	398
PROPANE	45%	2,571	25%	643	2,663	45%	1,198	2,775	78%	2,165
OTHER	4%	229	10%	23	237	21%	50	247	43%	106
TOTALS		5,713		793	5,918		1,562	6,167		3,024

FORECASTED NG RESIDENTIAL USAGE/DEMAND (Dth) **

	1992	1995	2000
YEARLY AVERAGE (118.6 Dth/CUST)	94,050	185,253	358,646
DAILY PEAK (LOAD FACTOR = 2.70)	696	1,370	2,653

NOTES:

* - BASED ON SURVEY RESULTS

** - Dth= DECATHERM (10 therms), WHICH IS EQUIVALENT TO 1000 CUBIC FEET (1 MCF) OF NATURAL GAS