

Exhibit No.:
Issues: *Accounting Authority Orders for*
Safety Line Replacement Program
Witness: *Joan C. Wandel*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2006-0422*
Date Testimony Prepared: *October 13, 2006*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JOAN C. WANDEL

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Jefferson City, Missouri
October 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

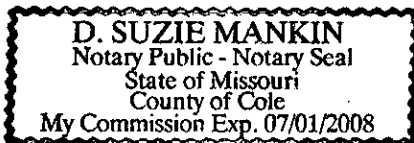
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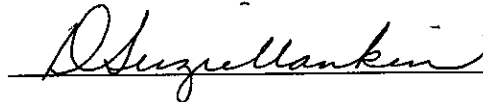
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Joan C. Wandel of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct 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.


Joan C. Wandel

Subscribed and sworn to before me this 11th day of October 2006.





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JOAN C. WANDEL
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1 for the Affton School District in St. Louis, MO as the Business and Budget Manager.
2 Since 1994, I have been employed by the Commission as a Utility Regulatory Manager
3 of the Auditing Department.

4 Q. Have you previously filed testimony before this Commission?

5 A. Yes. I filed testimony in the St. Louis Water Company rate case, Case No.
6 WR-96-263 and the Aquila, Inc. finance case, Case No. EF-2003-0465.

7 Q. With reference to Case No. GR-2006-0422, have you made an
8 examination and analysis of the books, records and workpapers of Missouri Gas Energy
9 (MGE or Company) in regard to matters raised in this case?

10 A. Yes, in conjunction with other members of the Commission's Staff (Staff).
11 I have reviewed the books, records and workpapers of MGE in regard to matters raised in
12 this case.

13 Q. What knowledge, skill, experience, training or education did you use to
14 arrive at the conclusions expressed in your testimony?

15 A. I relied upon the education and experience detailed earlier in my
16 testimony. I have attended utility regulatory training as part of my employment with this
17 Commission and other accounting and auditing training as a CPA. I have been involved
18 in the majority of the rate and other cases coming before this Commission in a
19 supervisory capacity since my employ with the Commission, participating in meetings,
20 hearings and discussions and reviewing workpapers and testimony. I specifically relied
21 upon my training and experience as a CPA to conduct my examinations of MGE's filing
22 in this case and have discussed my assigned issue with senior auditors. I have reviewed
23 the Auditing Department's position paper on accounting authority orders, as well as

1 workpapers and testimony filed by the Company in this proceeding. I have reviewed
2 Staff's workpapers and testimony regarding this subject matter from previous cases.

3 **EXECUTIVE SUMMARY**

4 Q. Please describe the purpose of your direct testimony.

5 A. The purpose of my direct testimony is to provide the Staff's position with
6 regard to the treatment of several existing Accounting Authority Orders (AAO) related to
7 MGE's Safety Line Replacement Program (SLRP). Specifically, I am proposing an
8 adjustment to include the amortization expense resulting from MGE's previous
9 Commission approved SLRP deferrals.

10 Q. Are you sponsoring any Staff adjustments in this proceeding?

11 A. Yes. I am sponsoring the following Income Statement adjustment:

12 SLRP Accounting Authority Orders S-59.2

13 **SLRP DEFERRALS/ACCOUNTING AUTHORITY ORDERS**

14 Q. Please discuss MGE's SLRP Program.

15 A. In the late 1980s, the Commission promulgated rules that required natural
16 gas utilities to replace substantial portions of their gas plant infrastructures. The
17 Commission promulgated these rules for safety reasons, allowing the utilities to
18 primarily replace their service lines and mains over a period of time. Since these
19 replacements were mandated by the Commission, the natural gas utilities were allowed to
20 accumulate the costs associated with the replacements and to request inclusion of these
21 costs in rates through the use of Commission approved AAOs. In several AAO and rate
22 increase applications, the Commission gave MGE, and its predecessor utility
23 Western Resources, Inc., authority to defer certain costs associated with their SLRP.

1 These cases were Case Nos. GO-92-185, GO-94-234, GO-97-301, GR-98-140 and
2 GR-2001-292.

3 Q. What are AAOs?

4 A. AAOs are applications by a utility to account for an item in a manner that
5 differs from the Commission's prescribed Uniform Chart of Accounts in some manner.
6 Most often, AAOs are used to "defer" on the utility's balance sheet a cost that would
7 otherwise be charged to expense currently on the utility's income statement. This
8 treatment allows the utility to seek rate recovery of the deferred item in a subsequent rate
9 case, even if the cost in question was not incurred within the test year ordered for that rate
10 proceeding. The Commission has usually reserved deferral treatment of expenses for
11 "extraordinary items." Extraordinary items are defined as costs that are unusual in nature
12 and infrequent in occurrence.

13 Q. Can capital items be the subject of AAOs?

14 A. Yes. A capital expenditure may be the subject of an AAO if it is in the
15 nature of an extraordinary item. In that instance, depreciation expense, property tax
16 expense and carrying charges associated with the extraordinary capital asset may be
17 given deferral treatment through a Commission authorized AAO.

18 Q. Is the Staff recommending rate recovery of the SLRP deferrals in this rate
19 case?

20 A. Yes. The Staff is recommending rate recovery of the SLRP deferrals as
21 calculated under the method set forth by the Commission in Case Nos. GR-98-140 and
22 GR-2001-292.

1 Q. Please describe generally the Staff's calculation of the SLRP amortization
2 amount in this case.

3 A. For SLRP deferrals authorized in Case Nos. GO-92-185, GO-94-133,
4 GO-94-234 and GO-97-301, I took the balance of the unamortized deferrals as of
5 May 31, 1998, and divided that balance by ten to determine the annualized amortization
6 amount to include in cost of service in this case. The Commission ordered a ten-year
7 amortization period for the remaining unamortized portion of these SLRP deferrals in
8 Case No. GR-98-140.

9 Subsequent to May 31, 1998, MGE filed for and was authorized AAOs in
10 Case Nos. GR-98-140 and GR-2001-292. I verified that the Company's total deferral
11 amount resulting from the GR-98-140 AAO was the same as the amount used in the
12 Staff's adjustment sponsored in Case No. GR-2004-0209 and calculated the annual
13 amortization to include in cost of service for this case by dividing the gross deferral by
14 ten. The Commission ordered a ten-year amortization period of the gross deferral of this
15 AAO according the guidelines set forth in the Commission approved Stipulation And
16 Agreement in Case No. GR-2001-292. With regard to the GR-2001-292 AAO, I
17 reviewed the Company's calculation of these deferrals for adherence to the guidelines set
18 forth in the Stipulation And Agreement in Case No. GR-2001-292, which was approved
19 by Commission Order. I verified that the deferrals were calculated based on the SLRP
20 investments made from July 2001 through the end of the deferral period. I then took that
21 balance and divided by ten to include a ten-year amortization of that amount in cost of
22 service.

23 Q. What is adjustment S-59.2?

1 A. This adjustment includes the annual amortization of the SLRP
2 deferral authorized in Case Nos. GO-92-185, GO-94-133, GO-94-234, GR-97-301 and
3 GR-2001-292 consistent with the methodology prescribed within the Commission's
4 Report And Orders in Case Nos. GR-98-140 and GR-2004-0209.

5 Q. Has the Staff included the unamortized balances of the SLRP deferrals in
6 rate base?

7 A. No. Consistent with the Commission's Report And Order in Case No.
8 GR-98-140, the Staff did not include the unamortized balances of the SLRP deferrals in
9 rate base.

10 Q. Does this conclude your direct testimony?

11 A. Yes, it does.