

Exhibit No.:
Issue: SLRP Deferrals;
Y2K Deferrals;
Deferred Taxes: SLRP and Y2K
Witness: Mark L. Oligschlaeger
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2001-292
Date Testimony Prepared: April 19, 2001

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY
OF
MARK L. OLIGSCHLAEGER

MISSOURI GAS ENERGY,
A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

Jefferson City, Missouri
April 2001

Exhibit No. 4
Date 6-25-01 *Case No.* GR-2001-292
Reporter S. [unclear]

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MARK L. OLIGSCHLAEGER
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A DIVISION OF SOUTHERN UNION COMPANY
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DIRECT TESTIMONY
OF
MARK L. OLIGSCHLAEGER
MISSOURI GAS ENERGY
A DIVISION OF SOUTHERN UNION COMPANY
CASE NO. GR-2001-292

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) as a Regulatory Auditor since September 1981 within the Accounting 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, which is attached to this direct testimony.

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1 Q. With reference to Case No. GR-2001-292, have you examined the books
2 and records of Missouri Gas Energy (MGE or Company), a division of the Southern
3 Union Company (Southern Union)?

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

6 Q. What is the purpose of your direct testimony?

7 A. The purpose of my direct testimony in this proceeding is to present the
8 Staff's recommended rate treatment of costs associated with MGE's Service Line
9 Replacement Program (SLRP), as well as costs associated with the so-called Year 2000
10 (Y2K) Program. In previous applications, the Commission has issued Accounting
11 Authority Orders (AAO) to the Company that have allowed MGE to defer certain costs
12 associated with both the SLRP and Y2K programs. I am also responsible for the deferred
13 tax offsets included in the Staff's rate base associated with SLRP and Y2K deferrals.

14 Q. Are you sponsoring any Income Statement adjustments for the Staff in this
15 proceeding?

16 A. Yes, I am sponsoring adjustments S-45.10, S-45.11, S-57.2 and S-57.4.

17 **SLRP DEFERRALS**

18 Q. Please discuss MGE's SLRP Program.

19 A. In the late 1980s, the Commission promulgated rules that required natural
20 gas utilities to replace substantial portions of their gas plant infrastructures for safety
21 reasons within ten years. (This time period was later changed several times for MGE,
22 most recently in the Commission's Order in Case No.GO-99-302, issued in March 1999.
23 Per that Order, MGE's SLRP is due to be completed by year-end 2004.) The

1 infrastructure replacement requirement primarily pertains to the gas utilities' service line
2 and main investment.

3 In several AAO and rate increase applications, the Commission gave MGE, and
4 its predecessor utility Western Resources, Inc., authority to defer certain costs associated
5 with the SLRP. These cases were Case Nos. GO-92-185, GO-94-133, GO-94-234,
6 GO-97-301 and GR-98-140.

7 Q. What are AAOs?

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

17 Q. Can capital items be the subject of AAOs as well as expense items?

18 A. Yes, if the capital expenditure is in the nature of an extraordinary item. In
19 that instance, depreciation expense, property tax expense and carrying charges associated
20 with the extraordinary capital asset may be given deferral treatment through a
21 Commission authorized AAO.

1 The Commission has granted capital cost AAOs on several occasions, including
2 the before mentioned cases involving WRI's and MGE's SLRP, after finding that the
3 underlying capital expenditures were extraordinary in nature.

4 Q. Once costs are deferred pursuant to the Commission granting an AAO, are
5 the deferred costs subsequently allowed recovery in rates?

6 A. Yes, if the Commission finds rate recovery to be appropriate. As a
7 standard practice, the Commission has reserved all ratemaking questions concerning
8 costs deferred through AAO applications to subsequent rate proceedings. If the
9 Commission does approve recovery of deferred costs, that recovery generally takes the
10 form of an expense amortization, over periods that have ranged from five to twenty years.
11 The Commission may or may not grant rate base treatment to the unamortized balance of
12 the AAO deferral.

13 Q. Has the Commission granted rate recovery to WRI/MGE SLRP deferrals
14 in past rate proceedings?

15 A. Yes, several times.

16 Q. Is the Staff recommending rate recovery of SLRP deferrals in this rate
17 case?

18 A. Yes, as calculated under the method set forth by the Commission in Case
19 No. GR-98-140, MGE's most recent rate proceeding.

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

22 A. For "old" deferrals (i.e., past SLRP deferrals given rate recovery in Case
23 No. GR-98-140), I took the balance of the unamortized deferrals as of May 31, 1998 (the

1 end of the true-up period ordered in that proceeding), and divided that balance by ten, to
2 determine the annualized amortization amount to include in cost of service in this case.
3 The Commission ordered a ten-year amortization period for the remaining unamortized
4 portion of the SLRP deferrals in Case No. GR-98-140.

5 For the "new" deferral of SLRP costs booked by MGE subsequent to May 31,
6 1998, I reviewed the Company's calculation of this deferral for adherence to the
7 Commission's guidelines set forth in the Case No. GR-98-140 Order (which authorized
8 the new deferral). I verified that the deferral was calculated based on SLRP investment
9 made between June 1998 and December 2000, but with the deferral calculation beginning
10 with a zero balance as of the beginning of September 1998, as specified in the Order in
11 Case No. GR-98-140. I further verified that the deferred depreciation and property tax
12 amounts were based on actual depreciation rates in effect for service lines and mains, and
13 the actual historical relationship of property tax expense to plant balances, respectively.
14 Finally, I verified that the carrying charge rate reflected in the deferral was equal to
15 MGE's Allowance for Funds Used During Construction (AFUDC) rate during the
16 deferral period, in accordance with past Commission precedent. I then took the
17 December 2000 balance of the deferral and divided it by ten, to include a ten-year
18 amortization of that amount in cost of service.

19 Q. What is adjustment S-57.2?

20 A. This adjustment annualizes the annual amortization of previous and
21 current SLRP deferrals consistent with the Commission's Report And Order in Case No.
22 GR-98-140.

1 Q. Has the Staff included the unamortized balances of the SLRP deferrals in
2 rate base?

3 A. No. Again, this treatment is consistent with the Commission's Report
4 And Order in Case No. GR-98-140.

5 **Y2K DEFERRALS**

6 Q. What are Y2K costs?

7 A. Y2K costs are amounts that were incurred, predominantly before the Year
8 2000, to fix computer systems that may not be able to recognize the transition from the
9 Year 1999 to 2000 as the change of a century, but might instead interpret the common
10 computer shorthand for the Year 2000 (the two digits "00") as denoting the Year 1900.
11 Left unaddressed, Y2K would have potentially caused service interruptions for utility
12 companies.

13 Q. Did MGE request authority to defer the Y2K costs it incurred through an
14 AAO?

15 A. Yes, in Case No. GO-99-258. As a result of that application, the Staff and
16 the Company negotiated a settlement allowing for the deferral of Y2K costs. The Office
17 of Public Counsel (OPC) challenged that settlement, and the case went to hearing. The
18 Commission rejected OPC's arguments, found that MGE's Y2K costs were extraordinary
19 in nature, and approved the Staff and MGE's non-unanimous Stipulation And Agreement
20 in the Order for Case No. GO-99-258. That Stipulation And Agreement is attached as
21 Schedule 2 to this direct testimony.

22 Q. Did Schedule 2 address the ratemaking treatment to be recommended by
23 the Staff concerning deferred Y2K costs?

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1 A. No. The terms contained within Schedule 2 explicitly left to future rate
2 proceedings any issues concerning the materiality of actual Y2K deferrals and inclusion
3 of unamortized deferrals in rate base.

4 Q. Has the Staff examined MGE's Y2K deferral booked in response to the
5 AAO granted in Case No. GO-99-258?

6 A. Yes. MGE's workpapers in support of its filed case indicate that a total
7 dollar amount of \$1,764,431 of incremental Y2K expenses was incurred from July 1998
8 through January 2000. Of this amount, \$173,930 was incurred directly by MGE and
9 \$1,590,501 was spent at the corporate level by Southern Union. Approximately 50% of
10 the corporate Y2K costs were allocated to MGE, making the total amount of MGE's Y2K
11 deferral \$978,130.

12 Q. Are there costs included within the Y2K deferral that the Staff believes to
13 be inappropriate?

14 A. Yes. Approximately \$18,250 of the Y2K costs incurred directly by MGE,
15 and \$52,000 of the costs incurred at the Southern Union level, related to bonuses awarded
16 to certain Southern Union/MGE employees related to their work on Y2K projects. The
17 Staff believes that this kind of discretionary expenditure are not appropriately treated as
18 extraordinary in nature and included in deferral calculations. Therefore, I removed the
19 amounts related to employee bonuses in calculating the Staff's adjustment for Y2K
20 deferred costs.

21 Q. Since the Commission has already found MGE's Y2K costs to be
22 extraordinary in nature, are there any other matters that the Staff examined before making

1 a recommendation concerning whether rate recovery of deferred Y2K costs is justified in
2 this proceeding?

3 A. Yes. I reviewed the materiality of the Y2K deferral compared to Southern
4 Union's net income. The Staff's position is that deferred costs should relate both to an
5 extraordinary item and be material in amount in order to justify rate recovery of the costs.

6 Q. How does the Staff define "material" in relation to quantifying the impact
7 of extraordinary items on utilities' financial results?

8 A. The Staff believes that the impact of an extraordinary item should be at
9 least 5% of a utility's net income to justify subsequent rate recovery of the deferred
10 amount.

11 Q. Does MGE's Y2K deferral meet the Staff's materiality standard?

12 A. Yes.

13 Q. How does the Staff recommend that the Y2K deferral be treated in this
14 rate case?

15 A. The Staff recommends that the deferred Y2K costs be recovered through a
16 ten-year amortization. Schedule 2 shows that MGE agreed to a ten-year amortization of
17 the Y2K deferral for booking and ratemaking purposes in the Non-unanimous Stipulation
18 And Agreement in Case No. GO-99-258. The Staff concurs that a ten-year amortization
19 also be used for rate purposes for this item.

20 Q. What are adjustments S-45.10 and S-57.4?

21 A. These adjustments reclassify a portion of the Y2K amortization expense
22 booked in the test year in the Amortization Expense account to the Office Supplies
23 Expense account.

1 Q. What is adjustment S-45.11?

2 A. Adjustment S-45.11 adjusts the amortization of the Y2K deferral booked
3 by the Company during the test year to reflect the Staff's proposed amortization amount
4 for this item.

5 Q. Is the Staff proposing to include the unamortized balance of the Y2K
6 deferral in rate base?

7 A. No.

8 **DEFERRED TAXES: SLRP AND Y2K**

9 Q. Are you sponsoring any items in the Staff's Rate Base, as depicted within
10 Accounting Schedule 2?

11 A. Yes. I am sponsoring the line items Deferred Income Taxes, GO-94-234;
12 Deferred Income Taxes, GO-97-301; Deferred Income Taxes, GR-98-140; and Deferred
13 Income Taxes, Year 2000 AAO. The first three rate base components relate to the
14 previously discussed SLRP deferrals, while the last component relates to the previously
15 discussed Y2K deferral.

16 Q. Please explain why deferred taxes associated with the SLRP and Y2K
17 programs are included within Accounting Schedule 2.

18 A. An explanation of the concept of deferred income taxes in general can be
19 found in the direct testimony of Staff Accounting witness Charles R. Hyneman. The
20 SLRP deferred tax line item I am sponsoring relates to the fact that the Company is
21 allowed to currently deduct SLRP expenses for income tax purposes that are being
22 deferred for financial reporting purposes. The Y2K deferred tax line item I am
23 sponsoring relates to the fact that MGE was allowed to currently deduct Y2K related

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1 costs for income tax purposes that were deferred for financial reporting purposes. Both
2 of these situations give rise to tax timing differences. Normalization of these tax timing
3 differences means that MGE's customers are required to pay in rates amounts for income
4 taxes that precede when the Company will actually pay the income taxes to taxing
5 authorities. Recognizing a rate base reduction for SLRP and Y2K deferred taxes gives
6 customers appropriate credit for providing funds to the utility to use for corporate
7 purposes for a period of time before payment to taxing authorities.

8 Q. How did the Staff calculate its rate base allowance for Deferred Taxes:
9 SLRP and Deferred Taxes: Y2K?

10 A. The Staff calculated the rate base allowance for both items by applying the
11 effective tax rate used by the Staff in this case, and which is discussed in the direct
12 testimony of Staff witness Hyneman, to the unamortized balances of the SLRP and Y2K
13 deferrals as of the end of the ordered test year for this case, the twelve months ended
14 December 31, 2000.

15 Q. Does this conclude your direct testimony?

16 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

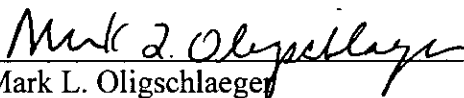
In The Matter of Missouri Gas Energy's Tariff)
Filing For General Rate Increase)

Case No. GR-2001-292

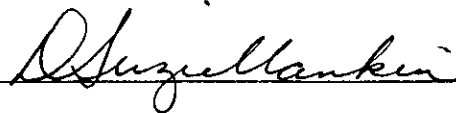
AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

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

Subscribed and sworn to before me this 18th day of April 2001.



D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21, 2004

MARK L. OLIGSCHLAEGER

<u>COMPANY</u>	<u>CASE NO.</u>
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

<u>COMPANY</u>	<u>CASE NO.</u>
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
The Empire District Electric Company	ER-2001-299
Oregon Farmers Mutual Telephone Company	TT-2001-328
Ozark Telephone Company	TC-2001-402

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file

FILED
OCT 05 1999

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the application of Missouri Gas)
Energy, a division of Southern Union Company,)
For the issuance of an accounting authority order)
Relating to Year 2000 compliance projects.)

Missouri Public
Service Commission

Case No. GO-99-258

NONUNANIMOUS STIPULATION AND AGREEMENT

Come now Missouri Gas Energy ("MGE" or "Company") and the Staff of the Missouri Public Service Commission ("Staff"), by and through their respective counsel, and submit the following Nonunanimous Stipulation and Agreement.

Procedural History

1. On or about December 8, 1998, MGE initiated this proceeding by filing an Application for an accounting authority order ("AAO") relating to its Year 2000 compliance projects.

2. On March 8, 1999, the Staff filed its recommendation herein recommending approval of MGE's Application, subject to certain conditions. On or about April 19, 1999, MGE filed its Response to the Staff recommendation taking exception to certain of the Staff's recommended conditions. On or about May 5, 1999, the Office of the Public Counsel filed its Motion to Dismiss and, in the alternative, requested that the Commission set the matter for hearing. By order dated May 11, 1999, the Commission scheduled a prehearing conference and set a deadline for the filing of a proposed procedural schedule. After the filing of the proposed procedural schedule, the Commission scheduled the hearing in this matter for October 19-20, 1999, and set other procedural dates.

3. Pursuant to the Commission's procedural schedule, MGE filed direct testimony of June Dively and Rick Gernereth on or about July 20, 1999; the Staff filed the rebuttal testimony of Charles Hyneman on September 3, 1999; Public Counsel filed the rebuttal testimony of Ted Robertson on September 3, 1999; MGE filed the surrebuttal

testimony of June Dively on October 4, 1999; and Public Counsel filed the cross-surrebuttal testimony of Ted Robertson on October 4, 1999.

Agreed Upon Terms and Conditions

6. As a result of settlement negotiations, MGE and the Staff hereby stipulate and agree as follows:

A. The Commission should grant MGE an AAO pursuant to which MGE would be authorized to defer and book to Account 182.3, beginning July 1, 1998, and continuing through February 28, 2000, incremental operating expenses incurred for Year 2000 compliance projects.

B. MGE shall begin to amortize to expense the deferred Year 2000 compliance costs ("the Year 2000 deferral") beginning on January 1, 2000, subject to restatement for Year 2000 compliance expenditures made through February 28, 2000. MGE shall use a ten-year amortization period for the Year 2000 deferral for both book and ratemaking purposes.

C. The question of the appropriate rate base treatment of the unamortized balance of the Year 2000 deferral shall be left to be resolved in the subsequent general rate proceeding where rate recoverability of the Year 2000 deferral is addressed.

D. The question of the materiality of MGE's deferred Year 2000 costs shall be left to be resolved in the subsequent general rate proceeding where rate recoverability of the Year 2000 deferral is addressed.

E. If a general rate proceeding is not initiated with respect to MGE by February 28, 2002, MGE shall not be permitted to seek rate recovery of the Year 2000 deferral.

F. This Nonunanimous Stipulation and Agreement shall stand as precedent for no purpose other than the treatment of MGE's Year 2000 costs as specified herein. Nothing in this Nonunanimous Stipulation and Agreement shall

be construed as precluding MGE from requesting another AAO for Year 2000 costs in the event that it incurs significant Year 2000 expenditures after February 28, 2000. Nothing in this Nonunanimous Stipulation and Agreement shall be construed as requiring any party to support, or the Commission to grant, such a request

General Provisions

7. None of the signatories to this Nonunanimous Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking, accounting or procedural principle, any method of cost determination or cost allocation, or any service or payment standard underlying or allegedly underlying this Nonunanimous Stipulation and Agreement as a result of entering into this document, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Nonunanimous Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

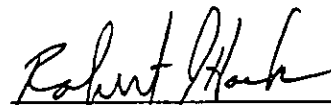
8. This Nonunanimous Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not unconditionally approve and adopt the entirety of this Nonunanimous Stipulation and Agreement without modification, then this Nonunanimous Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

9. If the Commission approves and adopts this Nonunanimous Stipulation and Agreement without condition and without modification, the signatories waive their respective rights pursuant to Section 536.080.1 RSMo 1994 to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 1994; and their respective rights to judicial review pursuant to Section 386.510 RSMo 1994.

10. If the Commission does not unconditionally approve this Unanimous Stipulation and Agreement without modification, this Nonunanimous Stipulation and Agreement and any agreements purported to be represented thereby shall be absolutely null, void, and of no force or effect whatsoever.

WHEREFORE, the undersigned parties respectfully request that the Commission issue its Order approving all of the terms and conditions of this Nonunanimous Stipulation and Agreement.

Respectfully submitted,



Robert J. Hack MBE#36496
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ENERGY



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FAX: (573) 751-9285

ATTORNEY FOR THE STAFF OF
THE MISSOURI PUBLIC
SERVICE COMMISSION

Certificate of Service

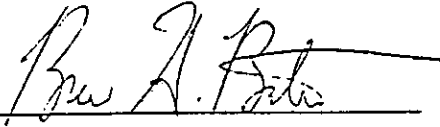
I hereby certify that a true and correct copy of the above and foregoing document was either mailed or hand delivered this Sat day of April, 1999, to:

Douglas E. Micheel

Robert J. Hack

Senior Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

3420 Broadway
Kansas City, MO 64111



A handwritten signature, appearing to read "Bruce A. Felt", is written over a horizontal line.