

Exhibit No.:

*Issue: Revenues; Purchased Gas;
Uncollectibles*

Witness: James M. Russo

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

JAMES M. RUSSO

**MISSOURI GAS ENERGY,
A DIVISION OF SOUTHERN UNION COMPANY**

CASE NO. GR-2001-292

Jefferson City, Missouri _____ *Exhibit No.* 21
April 2001

Date 6-25-01 *Case No.* GR-2001-292

Reporter Stewart

1
2
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TABLE OF CONTENTS
OF DIRECT TESTIMONY OF
JAMES M. RUSSO
MISSOURI GAS ENERGY,
A DIVISION OF SOUTHERN UNION COMPANY
CASE NO. GR-2001-292

Revenues 2

Purchased Gas 13

Uncollectible Accounts 14

Direct Testimony of
James M. Russo

1 Q. With reference to Case No. GR-2001-292, have you made an examination
2 of the books and records of Missouri Gas Energy (MGE or Company)?

3 A. Yes, in conjunction with other members of the Commission Staff (Staff).

4 Q. Please describe your principal areas of responsibility in this case.

5 A. My principal areas of responsibility are annualization of revenues,
6 purchased gas expense and uncollectible accounts (bad debt) expense.

7 Q. What adjustments are you sponsoring for purposes of this case?

8 A. I am sponsoring the following adjustments which can be found on
9 Accounting Schedule 10, Adjustments to Income Statement:

10 Residential Sales: S-1.1 - S-1.7 and S-1.9 - S-1.13

11 Unbilled Revenues: S-1.8

12 Commercial and Industrial Sales: S-2.1 - S-2.4, S-2.7 - S-2.12, S-2.15 -
13 S-2.23

14 Miscellaneous Service Revenue: S-5.1

15 Transportation of Gas for Others: S-6.1 and S-6.2

16 Other Gas Revenues: S-9.2

17 Purchased Gas: S-11.1

18 Uncollectible Accounts: S-35.1

19 Taxes Other: S-72.1

20 **Revenues**

21 Q. Please give a general description of MGE's service territory in the state of
22 Missouri.

Direct Testimony of
James M. Russo

1 A. MGE's service territory covers much of the western side of Missouri. The
2 Company's customers are segregated into three different regions. These regions are:
3 Joplin (including Monett), St. Joseph, and Kansas City (including Kansas City North,
4 Independence, Lee's Summit, and Warrensburg territories).

5 Each region serves four classes of customers: residential, general service (small and
6 large), large volume and transportation customers. This testimony will address the
7 annualizations for residential and small and large general service (commercial and
8 industrial) customer class revenues.

9 Q. What type of customers are in the Small General Service (SGS) and Large
10 General Service (LGS) rate classifications?

11 A. Each rate class has both commercial and industrial customers. The
12 distinction between SGS and LGS is in the volumes used by the customer, not how the gas
13 is utilized.

14 Q. Does MGE's current tariff specify commercial and industrial customer
15 classes?

16 A. No. Unless a commercial or industrial customer qualifies for the Large
17 Volume Service rate schedule, MGE's current tariff requires these customers to be
18 classified as either Small General Service (SGS) or Large General Service (LGS). Staff's
19 revenue adjustments in this case were calculated consistent with the SGS and LGS rate
20 schedules. However, for purposes of recording these adjustments to the Income Statement
21 within Staff's Exhibit Manipulation System, commercial and industrial customers are
22 combined with the SGS and LGS rate schedules consistent with MGE's accounting
23 system.

Direct Testimony of
James M. Russo

1 Q. What is the basis for pricing the revenue adjustments?

2 A. All revenue adjustments in the Staff's cost of service were priced on the
3 margin (the total rate excluding Purchased Gas Adjustment (PGA) gas cost rate) included
4 in the Company's tariffs.

5 Q. Please describe and discuss the types of adjustments Staff developed to
6 determine annualized revenues.

7 A. In general, the Staff's annualized revenues reflect the effects of the
8 following conditions:

- 9 1. Normalized Weather
- 10 2. Customers switching customer classes (rate switching)
- 11 3. Customer load changes
- 12 4. Customer growth or loss

13 Q. Why is it appropriate to adjust revenues for normalized weather?

14 A. Temperature levels experienced during any 12-month period could have a
15 significant impact on the Company's revenues. If the overall temperature was very cold
16 during the period, the Company's revenue would be overstated in relation to normal
17 weather. Conversely, if the overall temperature was warm during the period, the
18 Company's revenues would be understated in relation to normal weather. Therefore, the
19 Staff normalized revenues for weather to eliminate the effects of above-normal
20 temperature during the test year.

21 Q. What methodology did the Staff use to normalize weather?

22 A. The weather-normalization computations were performed by Mr. James A.
23 Gray of the Gas Department. Because the Company's service territory covers much of the

Direct Testimony of
James M. Russo

1 western side of Missouri, the Company's customers were segregated into two weather
2 regions.

3 Q. Please describe the Staff's adjustments relating to weather normalization.

4 A. Staff witness Gray of the Commission's Gas Department developed the
5 monthly weather normalized Ccf sales per customer for the firm customer classes during
6 the Staff's test year. Generally, these classes consisted of the residential, small and large
7 general service-heating customers. The weather normalized Ccf sales per customer were
8 developed for each of the three regions for each customer class.

9 Mr. Gray adjusted the actual monthly therm sales from the test year to reflect
10 normalized weather. The totals were then priced on the margin to develop the Staff's
11 weather normalized adjustments.

12 Q. Please explain Staff adjustments S-1.4, S-1.5 and S-1.6.

13 A. Staff adjustments S-1.4, S-1.5 and S-1.6 normalize actual per book revenues
14 to reflect weather experienced during the test year being different than "normal" for
15 residential customers. These adjustments were calculated by multiplying the weather
16 normalization volume adjustment by current rates to quantify the impact of weather on test
17 year revenues.

18 Q. Please explain Staff adjustments S-2.10, S-2.11, S-2.12, S-2.18, S-2.19 and
19 S-2.20.

20 A. Staff adjustments S-2.10, S-2.11, S-2.12, S-2.18, S-2.19 and S-2.20
21 normalize actual per book revenues to reflect weather experienced during the test year
22 being different than "normal" for small and large general service customers. Staff's
23 commercial and industrial weather normalization adjustment for the general service

Direct Testimony of
James M. Russo

1 customers is necessary to recognize that warmer than normal weather during the test year
2 had the effect of decreasing usage and corresponding revenues. Accordingly, test year
3 revenues and usage must be increased for ratemaking purposes.

4 Q. Please explain Staff adjustments S-1.1, S-1.2, S-1.3, S-2.7, S-2.8, S-2.9,
5 S-2.15, S-2.16 and S-2.17.

6 A. Staff adjustments S-1.1, S-1.2, S-1.3, S-2.7, S-2.8, S-2.9, S-2.15, S-2.16 and
7 S-2.17 annualize gas-operating revenues for the residential, small and large general service
8 customers to reflect 365 days of consumption. The total days to be adjusted were provided
9 by Staff witness Gray.

10 Q. Please explain how Staff annualized gas-operating revenues for the
11 residential customers.

12 A. The Staff's annualization of customer revenues contains two components,
13 the base charge and the commodity charge. The base charge is the minimum monthly
14 charge that MGE assesses to a customer for supplying gas service. The Staff's annualized
15 base charge revenue is the sum of the 12 annualized customer levels multiplied by the base
16 charge as contained in the Company's current tariffs. The commodity charge is the rate
17 MGE charges a customer for each Ccf of gas usage. Residential customers have only one
18 commodity charge.

19 Q. Please explain Staff adjustments S-1.11 and S-1.12.

20 A. Staff adjustments S-1.11 and S-1.12 adjust test year revenues to reflect
21 residential customer growth. This adjustment is necessary to capture the increase in
22 residential customer levels not reflected in test year revenues.

Direct Testimony of
James M. Russo

1 Q. Please describe how the annualized level of gas customers for residential
2 service was determined.

3 A. Staff determined the historical relationship of the number of customers for
4 the month of June 2000 and compared this to the prior year monthly average (1999
5 calendar year) number of customers. In addition, Staff also compared the number of
6 customers for the month of June 2000 to the monthly average (2000 calendar year) number
7 of customers for the current year. Staff repeated this process for the number of customers
8 in the month of June for the years 1998 and 1999. It is the opinion of Staff that there is a
9 significant relationship between the number of customers in the month of June to the
10 average number of monthly customers for a given year. Staff is confident that this
11 methodology will allow Staff to predict fairly accurately the number of customers as of
12 June 30, 2001. In addition, Staff distributed these annualized levels of customers based on
13 the historical distribution for MGE.

14 Q. Please describe the methodology the Staff used to distribute the annualized
15 levels of customers.

16 A. The annualized level of customers was determined in a multi-step process.
17 The first step involved a determination of allocation factors to be used to distribute the
18 total number of annualized customer bills to each month. The historical distribution for
19 each month was determined by taking the total number of customers in a given month and
20 dividing that number by the monthly average number of customers for that calendar year.
21 Staff computed these factors for the period of January 1998 to December 2000. Staff then
22 added the factors for each individual month for the three years and divided this number by

Direct Testimony of
James M. Russo

1 three. The resulting averaged number for each month was the factor used by Staff in its
2 annualization calculations.

3 Q. How did Staff use this historical relationship?

4 A. Staff used the two relationships to determine an average factor for the
5 number of customers in the month of June.

6 Q. Please describe the growth calculation.

7 A. Staff multiplied the monthly average number of customers during calendar
8 year 2000 by the two-year averages determined above to establish the projected average
9 monthly customers. The average monthly customers number was multiplied by 12 to
10 determine the annualized number of customers. The annualized number of customers was
11 then multiplied by the monthly distribution factors previously discussed, to determine the
12 projected number of customers for each month.

13 Staff then compared these monthly-annualized numbers to the month with the
14 highest known customers as of March 1, 2001. The annual estimated number of customers
15 number was used except when it exceeded the highest known monthly number of
16 customers. In these situations the highest known level of MGE customers was used for the
17 monthly annualization number.

18 Q. Why was it necessary to distribute the customers through a 12-month
19 period?

20 A. As can be seen from Schedules 2 through 5 of my direct testimony,
21 customer levels fluctuate during any calendar year. Generally, customer levels are higher
22 in the winter months and decrease during the summer months. Likewise, normal usage per
23 customer is greater in the winter months than in the summer months. Distributing

Direct Testimony of
James M. Russo

1 customers through the 12-month period enables the Staff to more accurately annualize
2 revenues to reflect seasonal impact on usage.

3 Q. Did Staff use this methodology for growth annualization in all three regions
4 of the Company?

5 A. No, Staff did not use the same methodology. Overall, the Company has
6 been experiencing steady growth. The number of customers at any given point in time has
7 been higher than the same period in the preceding year. Schedule 2 attached shows MGE's
8 total residential customer growth trend since July of 1997. Schedule 3 (Kansas City) and
9 Schedule 4 (Joplin) clearly show the same growth trend as the overall Company for the
10 same time period. However, Schedule 5 (St. Joseph) shows no growth. A further review
11 of the St. Joseph region indicated that the St. Joseph region is not experiencing any growth
12 at this time. For this reason, Staff is not proposing to adjust revenues in the St. Joseph
13 region.

14 Q. Does the Staff have any plans to monitor the number of customers during
15 the true-up period ending June 30, 2001?

16 A. Yes. It is Staff's intention to continue to monitor the number of customers
17 billed for the period April 1, 2001 through June 30, 2001 to verify the accuracy of Staff's
18 calculation. Staff has reviewed the number of customers billed in January, February and
19 March 2001 and believes these numbers support the methodology.

20 Q. What is Staff's plan if the number of customers billed does not support
21 Staff's methodology?

22 A. If necessary, Staff will revisit the calculation.

23 Q. Please explain how Staff annualized SGS and LGS revenues.

Direct Testimony of
James M. Russo

1 A. Small and large general service customers have two commodity charges
2 covering different periods (November through March and April through October) of the
3 year. In addition, small general service customers have two usage rate blocks. For small
4 general service customers, block one represents usage of 0 through 600 Ccf and block two
5 represents usage over 600 Ccf. Please refer to the testimony of Staff witness Henry
6 Warren of the Gas Department for a discussion of this area and the assignment of Ccf
7 usage between blocks.

8 To annualize the commodity charge revenues, the monthly level of customers by
9 customer class was multiplied by Staff's normal usage per customer, based on normal
10 weather. The residential and large general service normal monthly usages were then
11 multiplied by the seasonal commodity charge to determine the monthly commodity charge
12 revenues. For small general service customers, the Staff allocated normal monthly usages
13 to the Company's rate blocks.

14 Q. Please explain Staff adjustments S-2.21, S-2.22 and S-2.23.

15 A. Staff adjustments S-2.21, S-2.22 and S-2.23 adjust test year revenues to
16 reflect commercial and industrial customer growth. These adjustments are necessary to
17 capture the change in customer levels that are not reflected in test year revenues. These
18 adjustments are calculated by multiplying the SGS growth numbers by normal usage
19 volumes and current rates.

20 Q. Please describe how the annualized level of gas customers for SGS service
21 was determined?

22 A. Staff determined the total increase in customers from the 1998 calendar year
23 to the 2000 calendar year. The increase in customers was divided by the total customers

Direct Testimony of
James M. Russo

1 for the 1998 year. This number was then divided by two giving the average yearly
2 increase in customers over the last two years. Staff then increased the total number of
3 customers in the year 2000 by the average yearly increase. This annualized customer level
4 was then distributed through out the year based on the average monthly factors developed
5 for SGS customers. The monthly factors were determined for SGS customers in the same
6 manner that Staff determined the monthly factors for residential customers.

7 Q. Please describe the Staff's analysis of gas customers for LGS service in
8 respect to any growth?

9 A. Staff determined that at this time there is no growth in the level of gas
10 customers for LGS service. However, Staff will continue to monitor the number of
11 customers billed for the period of March 1, 2001 through June 30, 2001 to verify if there is
12 any growth. If necessary, Staff will revisit this class of customers.

13 Q. Please describe the Staff's analysis regarding revenues associated with
14 customer load changes.

15 A. Mr. Dan Beck, also of the Gas Department, analyzed the Large Volume
16 Service customer class by individual customer. Through his analysis, Mr. Beck can
17 determine if customers have switched rate classes, come onto the system as a new
18 customer or reduced demand on the system by a significant amount. If any of the three
19 circumstances occurred, Mr. Beck developed an adjustment in Ccf's from the Company's
20 records.

21 Q. Please describe the phenomenon of customers switching customer classes or
22 rate switching.

Direct Testimony of
James M. Russo

1 A. Customers switching customer classes, or rate switching, can occur for
2 several reasons. The nature of a customer's operations may have changed and another
3 customer class is now more appropriate. The customer may find it to be economical to
4 switch to another customer class. Finally, the customer may decide to procure its own gas,
5 which would also make a rate switch necessary. Please refer to Staff witness Beck for a
6 discussion of this area.

7 Q. Please explain what Staff adjustments were made to test year ending
8 December 31, 2000 per book revenues for gross receipt taxes.

9 A. Staff adjustments S-1.7, S-2.1, S-5.1 and S-6.1 removes the test year gross
10 receipts taxes from the operating revenues. Gross receipt taxes are not operating revenues
11 for the Company. The Company merely remits the taxes to the appropriate taxing entities.
12 The Staff also made adjustment S-72.1 to remove gross receipts taxes from the Taxes
13 Other Than Income Taxes line item of the expense portion of the income statement. Gross
14 receipt taxes are reported as both a revenue and expense item on the Company's books.
15 Therefore, both revenues and expense adjustments are necessary.

16 Q. Please explain what adjustments were made to test year ending
17 December 31, 2000 per book revenues for unbilled revenue.

18 A. Staff adjustment S-1.8 represents an adjustment to eliminate unbilled
19 revenues from the test year. The Staff's unbilled revenue adjustment is made to reflect the
20 Company's revenues on a billed basis for the test year. In the Staff's test year, there will
21 exist gas sales to customers, at both the beginning and end of the test year, which either
22 relate to usage periods outside the test year or which won't be recognized on the bills. To
23 recognize this usage, companies generally book an unbilled adjustment to revenues. The

1 purpose of this adjustment is to reflect an estimate of what the actual revenues are for that
2 month. For the purpose of a rate case, the adjustment of unbilled revenues must be
3 eliminated from the Company's books, in order to reflect revenues during the test year on a
4 billed basis.

5 **Purchased Gas**

6 Q. Please explain what Staff adjustments were made to test year ending
7 December 31, 2000 per book revenues for purchased gas.

8 A. Staff adjustment S-11.1 is a line item adjustment to adjust revenues to
9 reflect MGE's test year per book expense for gas purchases. Gas purchase expenses are
10 estimated charges assessed ratepayers through MGE's Purchased Gas Adjustment (PGA)
11 Clause. The PGA Clause provides MGE an estimating methodology for recovering
12 purchased gas expense which is subsequently trued-up through the Actual Cost Adjustment
13 (ACA) mechanism. Therefore, purchased gas expense and revenues generally are netted to
14 equal zero for purposes of rate cases. Staff adjustments S-1.9 and S-2.2 eliminate PGA
15 revenues for the test year from the appropriate revenue accounts and Staff adjustment S-
16 11.1 eliminates the purchased gas expense portion from the books.

17 Staff adjustments S-1.10, S-2.3 and S-6.2 removed the take or pay portion of the
18 PGA revenues.

19 Staff adjustments S-1.13 and S-2.4 adjusted the PGA revenue for the ACA.

20 Q. Please explain what Staff adjustments were made to test year ending
21 December 31, 2000 per book revenues for other gas revenues.

22 A. Staff adjustment S-9.2 removed non-jurisdictional revenue in Company
23 Account 495 that does not appear in the Company's CSS Report Number 311.

Direct Testimony of
James M. Russo

1 **Uncollectible Accounts**

2 Q. Please explain Staff adjustment S-35.1.

3 A. Staff adjustment S-35.1 adjusts the test year per book balance in the
4 uncollectible account to the last three-year average of uncollectible expense from the
5 Company's records for the purpose of this case.

6 Q. Does this conclude your direct testimony?

7 A. Yes, it does.

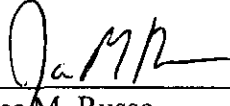
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter of Missouri Gas Energy's Tariff)
Filing For General Rate Increase) Case No. GR-2001-292

AFFIDAVIT OF JAMES M. RUSSO

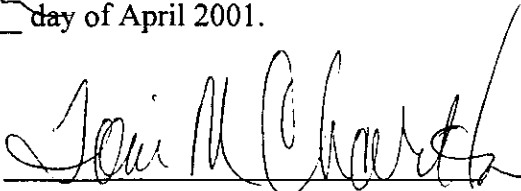
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

James M. Russo, 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 14 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.



James M. Russo

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



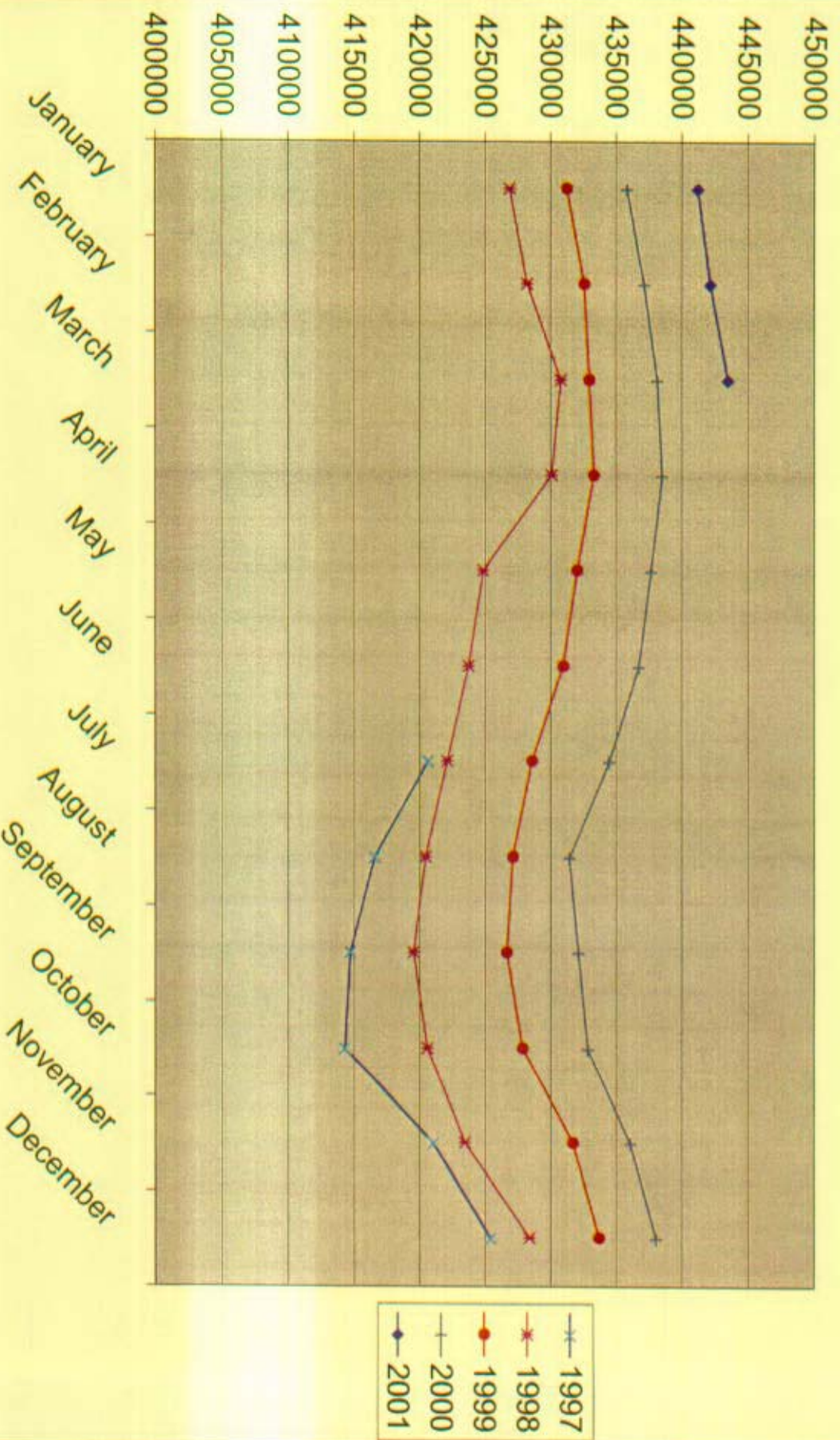
TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

RATE CASE PROCEEDING PARTICIPATION

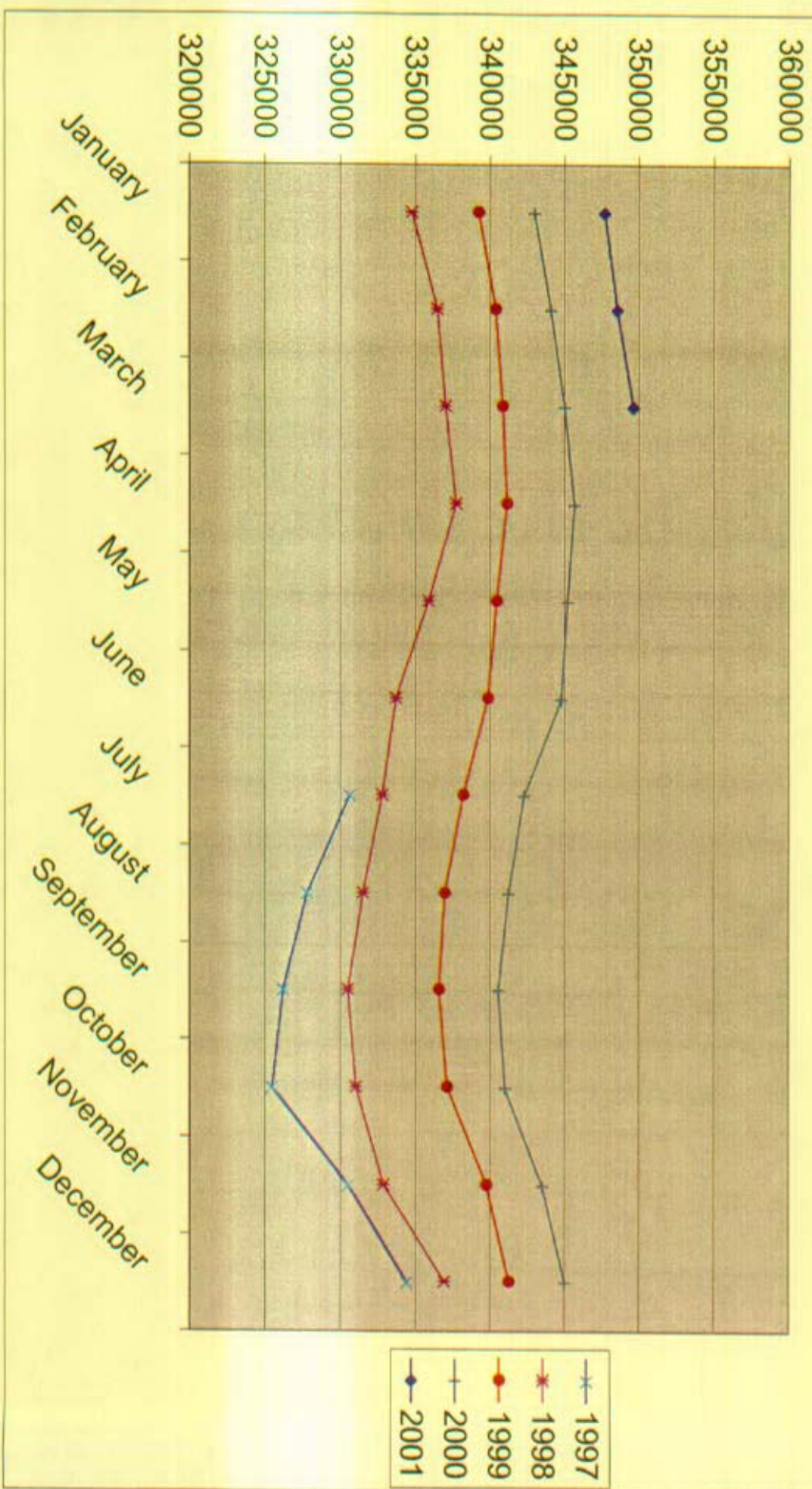
JAMES M. RUSSO

<u>COMPANY</u>	<u>CASE NO.</u>
Union Electric Company	GR-97-393
Gascony Water Company	WA-97-510
St. Joseph Light and Power Company	EC-98-573
St. Joseph Light and Power Company	HR-99-245
St. Joseph Light and Power Company	GR-99-246
St. Joseph Light and Power Company	ER-99-247
UtiliCorp United Inc./St. Joseph Light and Power Company	EM-2000-292
UtiliCorp United Inc./Empire District Electric Company	EM-2000-369
Osage Water Company	WR-2000-557
Osage Water Company	SR-2000-556

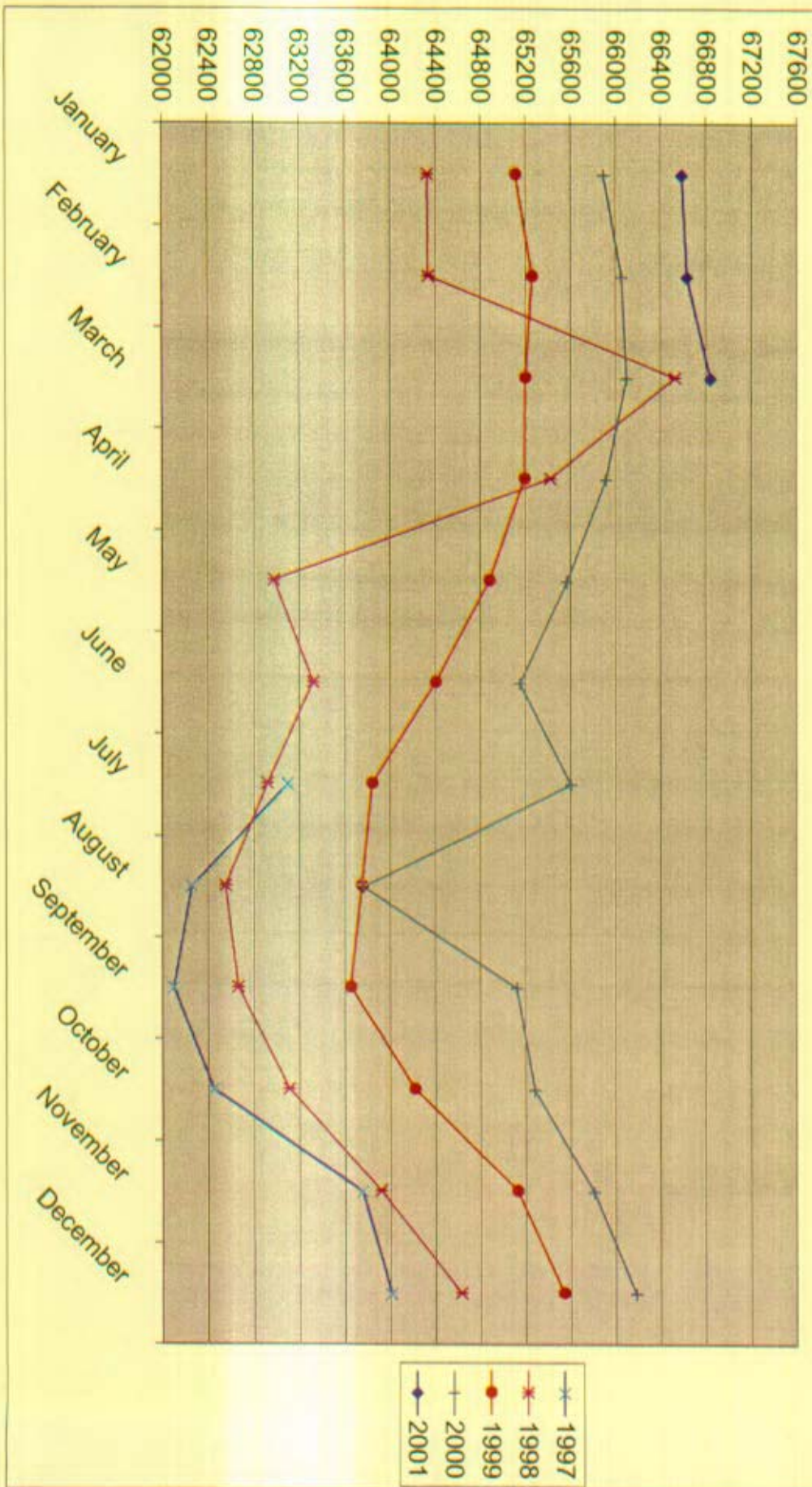
Schedule 2: Residential Customers Total Company



Schedule 3: Residential Customers-Kansas City



Schedule 4: Residential Customers-Joplin



Schedule 5: Residential Customers-St. Joseph

