

*Exhibit No.:*

*Issue: Regulatory Commission  
Expense; Injuries and  
Damages; Public Affairs and  
Community Relations; Dues  
and Donations*

*Witness: Sheldon Wood*

*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**

**SHELDON WOOD**

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

**CASE NO. GR-2001-292**

Exhibit No. 26

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

*Jefferson City, Missouri* Reporter Stewart  
*April 2001*

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**A DIVISION OF SOUTHERN UNION COMPANY**  
**CASE NO. GR-2001-292**

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Direct Testimony of  
Sheldon Wood

1 Q. Have you made an investigation or study of the books and records of  
2 Missouri Gas Energy (MGE or Company), a division of Southern Union Company  
3 (Southern Union), in this case?

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

6 Q. What adjustments to the Staff's Income Statement, Accounting  
7 Schedule 9, are you sponsoring in this case?

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

10 Dues (S-52.6)

11 Regulatory Commission Expense (S-51)

12 Property Taxes (S-71)

13 Injuries and Damages (S-49)

14 Public Affairs and Community Relations (S-45.3, S-47.9, S-52.5 and  
15 S-44.5)

16 Office Supplies and Expenses (S-45.1)

17 Lobbying (S-47.2) and (S-47.3)

18 Miscellaneous General Expenses (S.52.1).

19 **DUES**

20 Q. Please explain adjustment S-52.6

21 A. Adjustment S-52.6 decreases test year expenses related to various dues  
22 that the Company has included in its cost of service. Consistent with the Commission's  
23 decision in Case No. GR-77-33, Laclede Gas Company, the Staff excluded these dues  
24 from the cost of service because they:

- 1) Are not necessary for the provision of safe and adequate service;
- 2) Do not provide direct rate payer benefit; and
- 3) Including such expenditures in rates places the ratepayer in the position of being an involuntary donor to the organizations in question.

**REGULATORY COMMISSION EXPENSE**

Q. Please explain adjustment S-51.1.

A. Adjustment S-51.1 removes all test year expenses from account 928, Regulatory Commission Expense, and adjustments S-51.2 through S-51.5 add back normalized and annualized costs to account 928.

Q. Please explain adjustment S-51.2.

A. Adjustment S-51.2 annualizes the current year Commission assessment.

Q. Please explain adjustment S-51.3.

A. Adjustment S-51.3 normalizes an annual level of rate case expense (\$600,000 over 2 years). The estimated cost of \$600,000 is based on Case No. GR-98-140 where the Commission found that the Company had prudently incurred \$579,565.64, and that this amount should be annualized over a two-year period. The Staff will true up the \$600,000 estimate when actual costs for this rate proceeding becomes known.

Q. Please explain adjustment S-51.4.

A. Adjustment S-51.4 includes a normalized level of costs for a Commission-ordered depreciation study every five years. Under Rule 4 CSR 240.040(6), gas corporations subject to the Commission's jurisdiction are required to submit a depreciation study to the Commission and the Office of Public Counsel every five years.

Q. Please explain adjustment S-51.5.

1           A.     Adjustment S-51.5 includes costs of a voluntary contribution to the  
2 National Regulatory Research Institute. The Commission authorized these voluntary  
3 contributions in Session Order No. 00-83-116, issued February 24, 1983.

4     **PROPERTY TAXES**

5           Q.     Please explain adjustment S-71.

6           A.     Adjustment S-71.1 annualizes property taxes based on a three-year  
7 average of actual property taxes paid for the period 1998 through 2000. Staff developed  
8 a ratio between the property tax paid in any given year to the amount of plant in service  
9 as of January 1<sup>st</sup> of that year. The three-year average was applied to the December 31,  
10 2000 plant in service to determine the annualized property tax included in Staff's case.  
11 Adjustment S-71.2 reduces total property tax to reflect the amount of property taxes that  
12 were deferred under and Accounting Authority Order (AAO) for MGE's service line  
13 replacement program for the 12 months ended December 2000.

14     **INJURIES AND DAMAGES**

15          Q.     Please explain adjustment S-49.

16          A.     Adjustment S-49 annualizes injuries and damages based on a five-year  
17 average of workers compensation, and auto and general liability claims paid from  
18 1996 through 2000. The adjustment reflects the elimination or reductions of certain  
19 expenses for general liability claims paid in 1999. The Staff eliminated all expenses in  
20 one age discrimination case where the jury rendered an adverse verdict against the  
21 Company. The Staff also eliminated one-half of the expenses in another eight cases filed  
22 against the Company and settled without liability being determined. These eight cases  
23 also involved alleged age discrimination or violation of the American Disabilities Act.

1 Although the Staff agrees that the Company needs to defend such claims, Staff also takes  
2 the position that the ratepayer should not be responsible for 100% of expenses involved  
3 in settling these cases, and that such expenses should be shared equally between investors  
4 and shareholders. Finally, the Staff eliminated an accrual that did not represent any  
5 actual expenses in the test year.

6 **PUBLIC AFFAIRS AND COMMUNITY RELATIONS**

7 Q. Please explain adjustments S-45.13, S-47.9, S-52.5, and S-44.5.

8 A. This adjustment eliminates 50% of the Public Affairs and Community  
9 Relations Department with the exception of those expenses eliminated elsewhere in the  
10 case by Staff Accounting witnesses Charles R. Hyneman and Leslie L. Lucas for meals,  
11 entertainment and advertising. The Company's Public Affairs and Community Relations  
12 Department engages in certain activities, including education and safety, that are  
13 beneficial to ratepayers. However, this department also engages in activities such as  
14 lobbying, participation in civic and charitable activities, and corporate image building  
15 that are not beneficial to ratepayers and should not be recovered in utility rates. In Case  
16 Nos. GR-96-285, GR-98-140 and current rate case, the Company sought recovery of  
17 expenses associated with the Department's lobbying, participation in civic and charitable  
18 activities, and corporate image building in its revenue requirement even though these  
19 activities did not benefit ratepayers. Typically, the Commission does not permit recovery  
20 of such expenses. Further, the Company did not provide sufficient documentation as to  
21 allow the Office of the Public Counsel (OPC) or Staff to determine which expenses  
22 should be recoverable and included in cost of service. In Case Nos. GR-96-285 and  
23 GR-98-140 the Staff recommended, and the Commission ordered, a 50% disallowance of

1 this department's expenses. In the current case, the Staff again found that the Company  
2 had not maintained adequate documentation supporting its request for recovery of these  
3 expenses, and was not in compliance with the Commission's order to do so. In Case No.  
4 GR-98-140, the Commission ordered the Company to create adequate documentation that  
5 would allow the Staff and OPC to verify which of the department's expenses are properly  
6 recovered from the ratepayers and which are not. Given the company's failure to provide  
7 adequate documentation for the activities of the Public Affairs and Community Relations  
8 Department, the Staff allocated 50% to those activities that should not be included in cost  
9 of service.

10 Q. Please explain the scope of work in your determination that 50% of the  
11 Public Affairs and Community Services Department should be included in the  
12 Company's cost of service.

13 A. To determine which costs incurred by the Public Affairs and Community  
14 Services Department should be included in the cost of service, Staff reviewed relevant  
15 documentation, work papers, and orders from Case Nos. GR-96-28-285 and GR-98-140.  
16 Also, the Staff discussed the current activities of the department and how they were  
17 documented with Pam Levetzow, Director of Public Affairs and Community Relations,  
18 and Rob Hack, Vice President of Pricing and Regulatory Affairs. Further, Staff analyzed  
19 documentation and work papers from the current case to determine if the Company had  
20 complied with the Commission's order to maintain adequate documentation to support its  
21 request for recovery of Public Affairs and Community Services' expenses included in the  
22 Company's current case.



1 **LOBBYING**

2 Q. Please explain adjustment S-47.2.

3 A. Adjustment S-47.2 removes lobbying payments made to the firm of  
4 Arnold and Associates.

5 Q. Please explain adjustment S-47.3.

6 A. Adjustment S-47.3 removes expenses for lobbying activities provided by  
7 the firm of Richard Wiles and Associates.

8 Q. Why is it appropriate to exclude costs relating to the above entities?

9 A. Historically, the Commission has disallowed lobbying expenses as  
10 inappropriate costs to recover from ratepayers.

11 **OFFICE SUPPLIES AND EXPENSES**

12 Q. Please explain adjustment S-45.1.

13 A. Adjustment S-45.1 removes payments to the Blue Hills Country Club for  
14 activities and entertainment. The Staff does not consider these costs as necessary to the  
15 provision of utility service.

16 **MISCELLANEOUS GENERAL EXPENSE**

17 Q. Please explain adjustment S-52.1.

18 A. Adjustment S-52.1 acknowledges the Company's adjustment (MGE work  
19 paper, H-21), to remove country club dues. These amounts are excluded consistent with  
20 the Company's filing. These costs are excluded because they are not necessary to the  
21 provision of utility services.

22 Q. Does this conclude your direct testimony?

23 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

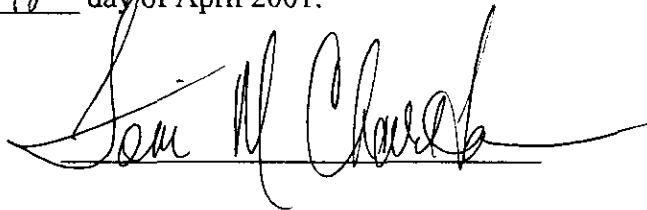
AFFIDAVIT OF SHELDON WOOD

STATE OF MISSOURI       )  
                                      )  
COUNTY OF COLE       )       ss.

Sheldon Wood, 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 7 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.

  
\_\_\_\_\_  
Sheldon Wood

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