

FILED³
OCT 11 2001
**Missouri Public
Service Commission**

Exhibit No.:

Issue: **Plant Reserve; Other Rate
Base Expense (Excluding
Cash Working Capital and
Taxes); Advertising;
Depreciation; Dues,
Donations and Memberships;
Property Taxes; MoPSC
Assessment; and Rate Case
Expense**

Witness: **Edward F. Began, CPA**

Sponsoring Party: **MoPSC Staff**

Type of Exhibit: **Direct Testimony**

Case No.: **GR-2001-629**

Date Testimony Prepared: **October 11, 2001**

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

EDWARD F. BEGAN, CPA

LACLEDE GAS COMPANY

CASE NO. GR-2001-629

*Jefferson City, Missouri
October 2001*

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EDWARD F. BEGAN, CPA
LACLEDE GAS COMPANY
CASE NO. GR-2001-629

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DIRECT TESTIMONY
OF
EDWARD F. BEGAN, CPA
LACLEDE GAS COMPANY
CASE NO. GR-2001-629

Q. Please state your name and business address.

A. Edward F. Began, CPA, 815 Charter Commons Drive, Suite 100B,
Chesterfield, Missouri 63017

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission
(MoPSC or Commission).

Q. Please describe your educational background.

A. I graduated from Washington University, St. Louis, Missouri, in January
1972, and passed the entire Uniform Certified Public Accountant (CPA) examination in
May 1972. I possess a current Missouri CPA license and permit to practice.

Q. Please describe your professional experience.

A. I have held audit, accounting and controllership duties in public accounting
and in industry which have required progressively increasing responsibility. I have been
employed by the Commission since November 2000.

Q. What are your duties at of the Commission?

A. I assist other Commission Staff (Staff) in the audits and examinations of the
books and records of utility companies operating within the state of Missouri.

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

2 A. Yes, I have previously filed direct testimony in Case No. TR-2001-344,
3 involving Northeast Missouri Rural Telephone Company.

4 Q. In reference to Case No. GR-2001-629, have you made an examination of
5 the books and records of Laclede Gas Company (Laclede or Company) in relation to the
6 Company's request to increase its rates?

7 A. Yes, with other members of the Staff.

8 Q. On what areas will you be testifying?

9 A. My primary areas of responsibility in this case are:

10 Plant and Depreciation Reserve

11 Other Rate Base Items:

12 Special Deposits

13 Prepayments

14 Materials & Supplies

15 Insulation Financing Program Loans

16 Energy Wise Program Loans

17 Customer Advances for Construction

18 Customer Deposits

19 Advertising

20 Depreciation Expense

21 Dues, Donations, Memberships and Miscellaneous Expenses

22 Property Taxes

23 PSC Assessment

Rate Case Expenses

Q. What Accounting Schedules are you sponsoring?

A. I am sponsoring the following Accounting Schedules:

Accounting Schedule 2 – Rate Base

Accounting Schedule 3 – Total Plant in Service

Accounting Schedule 4 – Adjustments to Plant in Service

Accounting Schedule 5 – Depreciation Reserve

Accounting Schedule 6 – Adjustments to Depreciation Reserve

Accounting Schedule 7 – Depreciation Expense

Q. What Income Statement adjustments are you sponsoring?

A. I am sponsoring the following adjustments:

<u>Staff Adjustment Number</u>	<u>Adjustment Area</u>
S-13.1, S-15.11, and S-15.12	Advertising
S-16.1, and S-17.1	Depreciation Expense
S-14.2, and S-15.13	Dues, Donations, Memberships and Miscellaneous Expenses
S-18.2	Property Taxes
S-15.14	PSC Assessment
S-15.18	Rate Case Expense
S-6.1	Insulation Financing Income
S-6.2	Energy Wise Income
S-12.3	Interest On Customer Deposits

1 **RATE BASE**

2 Q. Please explain Accounting Schedule 2.

3 A. Accounting Schedule 2, Rate Base, delineates the net capital investment
4 recommended by the Staff to determine the Company's revenue requirement. Net
5 Plant In Service, shown on line 9, is the summarization of the respective July 31, 2001
6 balances for the plant and depreciation reserve components listed on lines 2 through 8.
7 Utility Plant In Service on line 2 and the related depreciation reserve on line 6 are
8 supported by Accounting Schedules 3 and 5, Plant In Service and Depreciation Reserve,
9 respectively, and are discussed later in this testimony. Laclede Pipeline Plant (Line 4) and
10 Laclede Pipeline Reserve (Line 8) are also components of Net Plant In Service (Line 9).
11 This investment was included because Laclede Pipeline Company net income is a
12 component of the Staff's cost of service calculation. Please refer to the direct testimony of
13 Staff Accounting witness John P. Cassidy for the Staff's position in this area.

14 In addition to Net Plant In Service, Insulation Financing Program Loans (line 18),
15 Customer Advances For Construction (line 26) and Customer Deposits (line 27) reflect
16 their respective recorded balances at July 31, 2001. Lines 12, 15 and 19, which are
17 materials and supplies, gas inventory and Energy Wise Loan Program respectively, reflect
18 13-month averages of recorded balances for the test year updated through July 31, 2001.

19 Prepayments, listed on line 13, reflect an adjusted 13-month average for the test
20 year updated through July 31, 2001. The balances of prepayments recorded on the
21 Company's books have been adjusted to exclude the MoPSC assessment and payments to
22 professional sport franchises. The MoPSC assessment is excluded from the average
23 prepayment balance because its impact on rate base is specifically measured in the

1 calculation of Cash Working Capital (CWC.) CWC, line 11 on the rate base schedule, is
2 discussed in the testimony of Staff Accounting witness Leslie L. Lucus and is supported by
3 Schedule 8. The prepayment balances attributable to professional sport franchises have
4 been removed to reflect the Staff's disallowance of these types of expenditures, as
5 discussed below.

6 Gas inventories reflected on lines 16 and 17 of Accounting Schedule 2, are
7 discussed in the testimony of Staff witnesses David M. Sommerer of the Commission's
8 Gas Procurement Department. The Prepaid Pension Asset on line 14 is discussed in the
9 testimony of Staff Accounting witness Stephen M. Rackers. The Deferred Tax and
10 Investment Tax Credit balances are discussed in the testimony of Staff Accounting witness
11 Doyle L. Gibbs

12 **PLANT IN SERVICE**

13 Q. Please discuss Accounting Schedule 3, Plant In Service, and Accounting
14 Schedule 4, Adjustments to Plant In Service.

15 A. Accounting Schedule 3, Plant In Service, provides the detail for the Staff's
16 rate base component of utility gas plant in service, stated at original cost, as recorded as of
17 July 31, 2001. Accounting Schedule 4, Adjustments To Plant In Service, states that no
18 adjustments were necessary to the Plant Balances presented on Accounting Schedule 3.

19 **DEPRECIATION RESERVE**

20 Q. Please discuss the accounting schedules supporting the depreciation reserve.

21 A. Accounting Schedule 5, Depreciation Reserve, provides the detail of the
22 accumulated depreciation related to the plant balances on Accounting Schedule 3.

Accounting Schedule 6, Adjustments to the Depreciation Reserve, states that no adjustments to the Reserve balances reflected in Accounting Schedule 5 were required.

DEPRECIATION EXPENSE

Q. Please explain Accounting Schedule 7, Depreciation Expense.

A. This schedule calculates the annual depreciation expense on the Company's utility plant in service. Column C shows the plant in service balances from Accounting Schedule 3, Plant In Service. Column D contains the depreciation rates recommended by Staff witness Rosella L. Schad of the Commission's Engineering and Management Services Department. The rates in Column D are applied to the plant balances in Column C to determine the annual depreciation expense that appears in Column E.

ADVERTISING

Q. Please explain adjustments S-13.1, S-15.11 and S-15.12.

A. These adjustments restate the test year advertising levels to reflect allowable expense.

Q. Please explain the history of such adjustments before the Commission.

A. The Commission, in its Report and Order for Case Nos. EO-85-185 and EO-85-224 involving Kansas City Power and Light Company (KCPL), adopted the following treatment which separates advertisements into five categories and provides separate rate treatment for each category. The five categories of advertisements recognized by the Commission for purposes of this approach are:

(1) General – advertising that is useful in the provision of adequate service;

1 (2) Safety – advertising that conveys the ways to safely use the Company’s
2 service and to avoid accidents;

3 (3) Promotional - advertising that encourages or promotes the use of the
4 particular commodity the utility is selling;

5 (4) Institutional - advertising that seeks to improve or retain the Company’s
6 public image;

7 (5) Political – advertising which is associated with political issues. (In the
8 Matter of Kansas City Power and Light, 28 Mo. P.S.C. (NS) 228, 269, (1986)).

9 The Commission adopted these categories for advertisements because it believed
10 that a utility’s revenue requirement should: (1) always include general and safety ads,
11 provided such costs are reasonable; (2) never include the cost of institutional or political
12 ads; and (3) include the cost of promotional ads only to the extent that the utility can
13 provide cost justification for the ads.

14 Q. What examination has the Staff performed in relation to the Company’s
15 advertising expenditures?

16 A. The Staff performed an advertisement-by-advertisement review of all
17 advertisements sponsored in whole or in part by Laclede, which were expensed during the
18 test year. Each advertisement was reclassified by the Staff independent of the
19 classification already performed by the Company.

20 Q. How did the Staff determine each advertisement’s classification under the
21 KCPL standard?

22 A. Staff reviewed each advertisement to determine which of the following
23 “primary messages” the advertisement was designed to communicate: (1) the

1 dissemination of information necessary to obtain safe and adequate service (general,
2 safety); (2) the promotion of a particular product or service (promotional); (3) the
3 enhancement of the Company's image (institutional); or (4) the endorsement of a political
4 candidate or message (political).

5 Q. Does Laclede classify its advertising in categories?

6 A. According to the Company's response to Staff Data Request No. 55,
7 Laclede classifies its advertising for accounting purposes only in accordance with the
8 Uniform System of Accounts.

9 Q. How has the Staff treated general advertising?

10 A. The Staff made no adjustment to the Company's test year expense
11 associated with the advertising that Staff categorized as general advertising. The general
12 advertising that was placed by the Company related to customer assistance programs and
13 budget billing facts.

14 Q. How has the Staff treated safety advertising?

15 A. The Staff recommends including in the cost of service all Staff categorized
16 safety advertising. Safety advertising conveys to the customer ways to deal with natural
17 gas in a safe manner and ways to avoid accidents.

18 Q. How has the Staff treated promotional advertising?

19 A. As previously defined, advertisements that encourage or promote the use of
20 a particular form of the Company's product or service (i.e., gas over electric and alternate
21 energy products) is termed promotional advertising. These expenses were in four
22 programs and totaled \$40,750. The company recorded expenses for all promotional
23 advertisements above-the-line and the Staff removed that total from cost of service

1 through adjustment S-13.1 and S-15.11. Copies of these promotional advertisements are
2 included at Schedules 1-1, 1-2 and 1-3.

3 Q. Did the Company provide any cost justification for the advertising deemed
4 promotional by the Staff?

5 A. As stated earlier, the Company classifies advertising for accounting
6 purposes only and does not attempt to make any further distinctions. The Company does
7 not maintain cost justification for promotional advertising on an advertisement-by-
8 advertisement basis or even on an advertisement campaign basis.

9 Q. How has the Staff treated institutional advertising?

10 A. Institutional advertising is designed to enhance the Company's public
11 image. The Commission has stated that this form of advertising is not necessary for the
12 Company to provide safe and adequate service and, therefore, should not be included in the
13 cost of service. The Staff believes that this type of image enhancement advertising only
14 serves to benefit the shareholders of the utility. The Staff classified three advertising
15 campaigns totaling \$82,300 as institutional and removed that amount from recoverable
16 expense by adjustment S-15.12. Copies of these institutional advertisements are presented
17 on Schedules 1-4, 1-5 and 1-6.

18 Q. Did the Staff become aware of any advertisements that should have been
19 classified as political?

20 A. No. Laclede did not submit, nor is the Staff aware of, any advertisements of
21 a political nature.

22 **DUES, DONATIONS, MEMBERSHIPS AND MISCELLANEOUS EXPENSES**

23 Q. Please describe adjustments S-14.2 and S-15.13.

1 A. These adjustments remove those test year operating expenses that have no
2 apparent demonstrable benefit to the ratepayer. These adjustments included costs for
3 sports arena luxury suites, professional athletic teams' season tickets, country club costs,
4 theater and symphony performances admissions, sponsorship of community sporting/social
5 events, and various charitable donations, etc. Home show expenses were disallowed,
6 consistent with precedent, as these expenses are more appropriately assigned as below-the-
7 line merchandising activities. Professional, and local business and community service
8 memberships were broadly allowed as valid cost of service expenses.

9 Q. What was the basis used by the Staff to make these adjustments?

10 A. The Staff applied judgment in determining whether the activity or services
11 performed by the organizations to which the Company made payments were necessary for
12 the utility to provide safe and adequate service, and non-duplicative of the services
13 performed by other organizations to which the Company belongs. This criterion for
14 recoverable expenses is consistent with Commission precedents. Further, the Staff has
15 attempted to derive the adjustment in a manner consistent with the adjustments proposed in
16 the Company's previous two rate cases.

17 Q. Are these adjustment amounts final at this date?

18 A. No. The detailed examination continues due to the high number of
19 transactions and the number of these expenses that are considered confidential by the
20 Laclede. These confidential transactions are processed and paid separately from routine
21 invoices and Laclede's General Ledger does not include the same detailed descriptions of
22 these confidential transactions as it reports for routine payments. Because of this separate

1 treatment, Laclede needs additional time to provide data for Staff examination. The true-up
2 examination will include final amounts of these adjustments.

3 **PROPERTY TAXES**

4 Q. Please describe Adjustment S-18.2.

5 A. Adjustment S-18.2 annualizes property tax expense to reflect the latest
6 known assessed values and effective tax rates as of July 31, 2001. The annualized level of
7 property tax is included in the calculation of CWC at line 18, Column B on Accounting
8 Schedule 8. This method of calculating property taxes provides the Staff's best estimate of
9 2001 property taxes as of July 31, 2001. The Staff will include in expense, as part of its
10 true-up, the actual property taxes due for 2001, which should be known by
11 November 2001.

12 **INTEREST REVENUE FOR LOAN PROGRAMS**

13 Q. Please explain adjustments S-6.1 and S-6.2.

14 A. Adjustments S-6.1 and S-6.2 impute interest revenue for the Company's
15 Insulation Financing and Energy Wise programs. The Insulation Financing program
16 permits a residential customer to borrow up to \$2,000 from the Company at a 3% annual
17 rate for the purpose of insulating their home. Energy Wise is a program similar to
18 Insulation Financing except that its focus is the financing of gas heating/cooling systems
19 and appliances and is available to commercial customers in addition to residential
20 customers. Energy Wise financing terms are up to five years at interest rates ranging from
21 7.5% to 8.5% depending on the equipment package purchased. The Staff adjustments
22 reflect a 3% rate for Insulation Financing and 7.5% for Energy Wise. Since the balances

1 for these programs are included in Rate Base, the associated interest income is
2 appropriately included in the cost of service.

3 **MoPSC ASSESSMENT**

4 Q. Please explain adjustment S-15.14

5 A. Adjustment S-15.14 reflects the difference between the Company's expense
6 for the MoPSC Assessment during the test year and the current MoPSC assessment as of
7 July 1, 2001.

8 **RATE CASE EXPENSE**

9 Q. Please explain adjustment S-15.18.

10 A. Adjustment S-15.18 is the Company's estimated Total Rate Case Expense
11 for this case, divided by two, to reflect a two-year amortization. This item will be adjusted
12 to reflect actual expenses as part of the Staff's true-up.

13 **INTEREST ON CUSTOMER DEPOSITS**

14 Q. Please explain adjustment S-12.3.

15 A. This adjustment includes the Interest on Customer Deposits in expense.
16 Since Customer Deposits are an offset to Rate base, the associated interest expense is
17 appropriately included in the cost of service.

18 Q. Does this conclude your direct testimony?

19 A. Yes, it does.

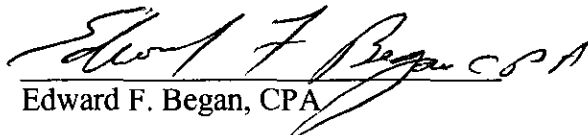
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter of Laclede Gas Company's Tariff)
To Revise Natural Gas Rates) Case No. GR-2001-629

AFFIDAVIT OF EDWARD F. BEGAN, CPA

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Edward F. Began, being 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 12 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.


Edward F. Began, CPA

Subscribed and sworn to before me this 10th day of October 2001.

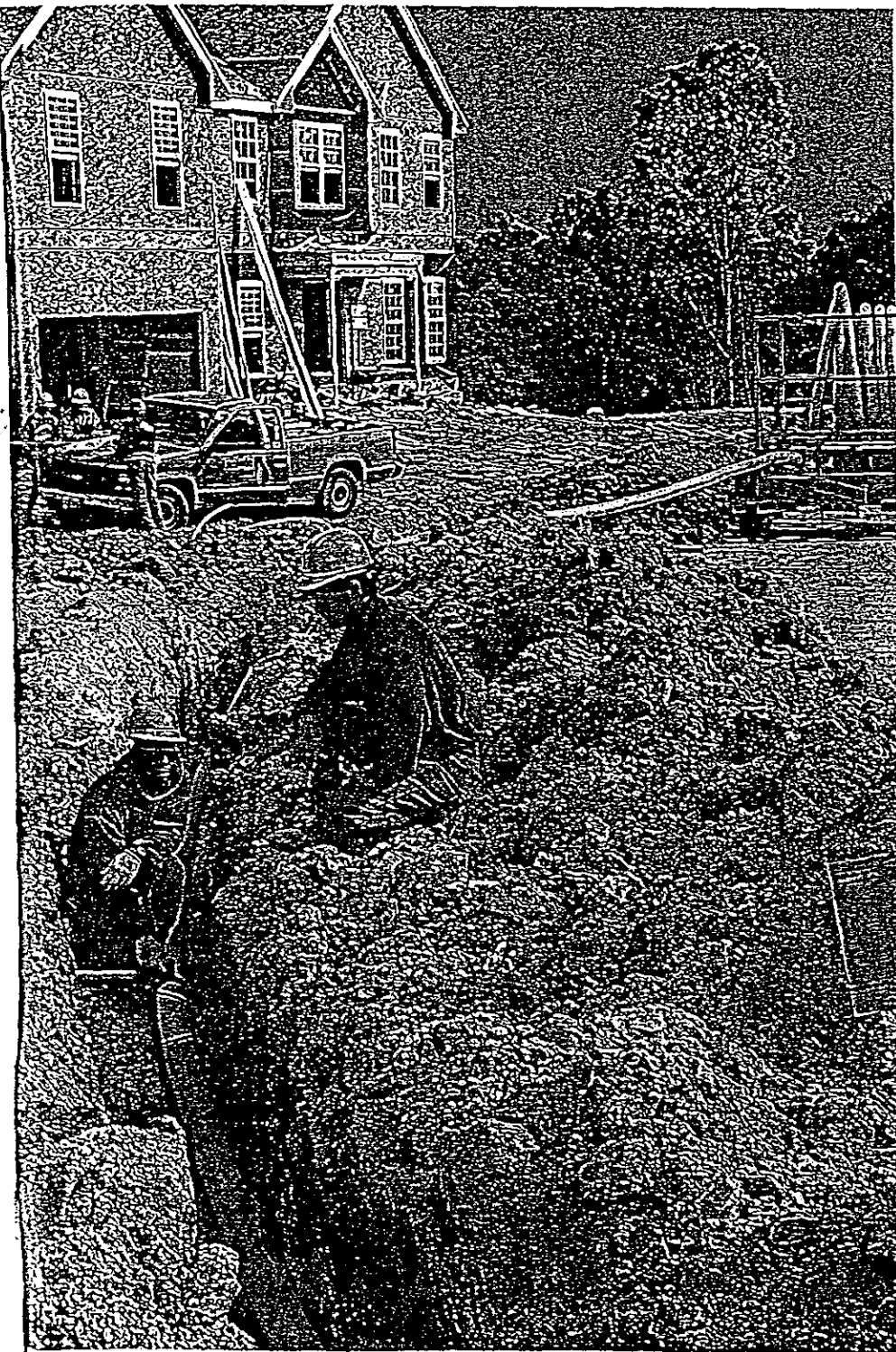


TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004



St. Louis Builds

with natural gas



In the area served by Laclede, more than nine out of ten single family homes built are equipped with natural gas furnaces and water heaters.

Natural gas is comfortable, efficient and virtually pollution-free.

Not only is natural gas the most economical way to heat your home, gas also heats water faster, cooks food with greater control and dries more loads of clothes for less cost.

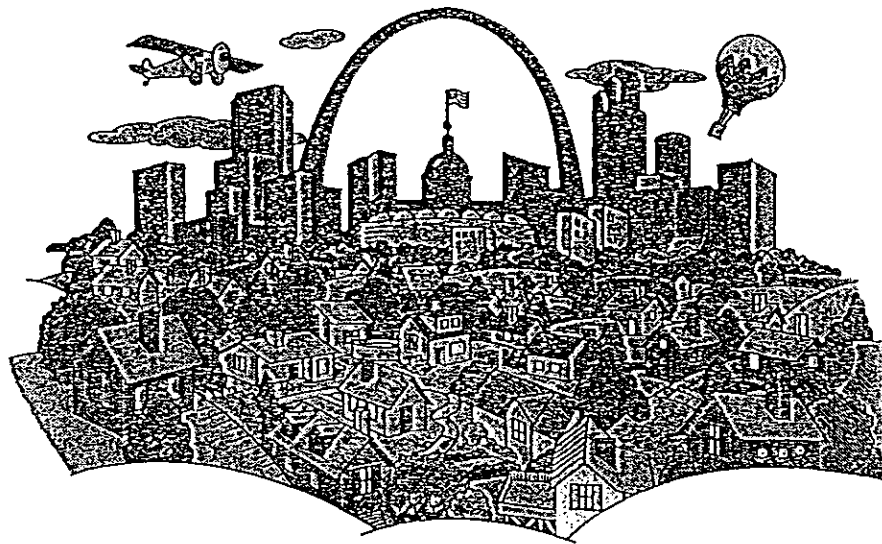
Natural gas fireplace logs, gas grills and gas lights also complement your home.

**PLAN WITH
NATURAL GAS**



Laclede Gas
THE GAS EXPERTS

St. Louis builds with natural gas.



Laclede Gas

St. Louis builds with natural gas.



Ninety-eight percent of all single-family homes built last year in the St. Louis area served by Laclede were equipped with natural gas furnaces and water heaters. And for good reason: both cost less to operate than their electric counterparts.

Not only is gas the most economical way to heat your home, but gas also heats water faster, cooks food with greater control and dries more loads of clothes for less cost. Natural gas heat is comfortable, efficient and virtually pollution-free.

Laclede is proud to deliver the St. Louis area's energy of choice. At Laclede Gas, public service is our daily business.



Laclede Gas

The Newshour

"Our Daily Business"

ANNOUNCER: "Channel 9's broadcast of The NewsHour has been locally supported for more than 10 years by Laclede Gas, where public service is our daily business.

"Laclede Gas, bringing you energy that is comfortable, efficient and virtually pollution free. Bringing you prompt and professional service and bringing you The Newshour on Channel 9."

The Newshour

"Bringing You Energy"

Channel 9's broadcast of The NewsHour has been locally supported for more than 10 years by Laclede Gas, 2,000 people taking care of more than a million customer inquiries, making more than 400,000 service calls, adding to 12,000 miles of pipe. Laclede Gas, bringing you energy that is comfortable, efficient and virtually pollution free.

Serving this public is our daily business.

