

Exhibit No.:
Issues: *Customer and Government
Relations Department Costs;
Service Line Replacement Program
Accounting Authority Orders*
Witness: *Leslie L. Lonergan*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2004-0209*
Date Testimony Prepared: *April 15, 2004*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

LESLIE L. LONERGAN

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
April 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

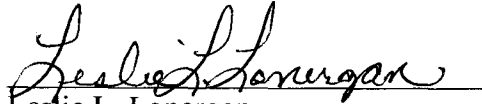
In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate)
Increase for Natural Gas Service)

Case No. GR-2004-0209

AFFIDAVIT OF LESLIE L. LONERGAN

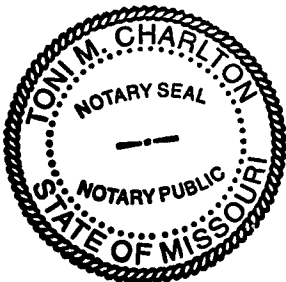
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Leslie L. Lonergan, being of lawful age, on her oath states: that she has participated in the preparation of the following direct testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the following 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.



Leslie L. Lonergan

Subscribed and sworn to before me this 14th day of April 2004.





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

1
2
3
4
5
6
7
8

**TABLE OF CONTENTS OF
DIRECT TESTIMONY OF
LESLIE L. LONERGAN
MISSOURI GAS ENERGY
CASE NO. GR-2004-0209**

SLRP DEFERRALS / ACCOUNTING AUTHORITY ORDERS..... 3
CUSTOMER AND GOVERNMENT RELATIONS..... 5

DIRECT TESTIMONY
OF
LESLIE L. LONERGAN
MISSOURI GAS ENERGY
CASE NO. GR-2004-0209

Q. Please state your name and business address.

A. Leslie L. Lonergan, Missouri Public Service Commission, Governor
Office Building, 200 Madison Street, Jefferson City, Missouri 65102.

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

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

Q. Please describe your educational and employment background.

A. I graduated from Lincoln University in May 1995 with a Bachelors degree
in Accounting. In September 1997, I was employed by the Missouri Department of Social
Services as an Auditor for the State Medicaid Agency's Institutional Reimbursement
Unit. In July 1999, I became an associate member of The Association of Certified Fraud
Examiners. I commenced employment with the Commission Staff (Staff) in
August 2000.

Q. What has been the nature of your duties while employed by the
Commission?

A. I am responsible for assisting in the audits and examinations of the books
and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

Direct Testimony of
Leslie L. Lonergan

1 A. Yes, I have. Please see Schedule 1, attached to this testimony, for a list of
2 the major audits and issues on which I have assisted and filed testimony.

3 Q. With reference to Case No.GR-2004-0209, have you made an examination
4 of the books and records of Missouri Gas Energy (MGE)?

5 A. Yes, in conjunction with other members of the Staff.

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

7 A. The purpose of my direct testimony is to address Customer and
8 Government Relations (CGR) Department costs and Service Line Replacement Program
9 (SLRP) accounting authority orders (AAOs).

10 Q. What knowledge, skills, experience, training or education do you have in
11 these areas of which you are testifying as an expert witness?

12 A. I have been assigned and testified in various disciplined areas of issues.
13 I have also extensively reviewed several other MGE cases related to the issues I am
14 sponsoring to ensure that the consistency of the Staff's methods and procedures is being
15 maintained and reserved. My education has well prepared me to successfully defend and
16 sponsor the issues I've been assigned in this case. I have received numerous certificates
17 of training from the National Association of Regulatory Utility Commissions-sponsored
18 seminars in water, gas and the electric utility cost of service and regulation arenas.
19 Further, I have attended numerous in-house training seminars within the Auditing
20 department, seminars specifically designed for continuing education, and training in the
21 areas if which Staff members testify.

22 Q. What adjustments are you sponsoring?

1 A. I am sponsoring the following Income Statement adjustments:

2 SLRP Accounting Authority Orders S-59.3

3 CGR Department S-47.1, S-49.1, S-54.2, S-56.1

4 **SLRP DEFERRALS / ACCOUNTING AUTHORITY ORDERS**

5 Q. Please discuss MGE's SLRP Program.

6 A. In the late 1980's, the Commission promulgated rules that required natural
7 gas utilities to replace substantial portions of their gas plant infrastructures for safety
8 reasons over a period of time. The infrastructure replacement requirement primarily
9 pertains to the gas utilities' service line and main investment. In several AAO and rate
10 increase applications; the Commission gave MGE, and its predecessor utility Western
11 Resources, Inc. (WRI), authority to defer certain costs associated with the SLRP. These
12 cases were Case Nos. GO-92-185, GO-94-133, GO-94-234, GO-97-301, GR-98-140 and
13 GR-2001-292.

14 Q. What are AAOs?

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

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

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

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

8 A. Yes, several times.

9 Q. Is the Staff recommending rate recovery of SLRP deferrals in this rate
10 case?

11 A. Yes, as calculated under the method set forth by the Commission in Case
12 No. GR-98-140.

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

15 A. For "old" deferrals (i.e., SLRP deferrals given rate recovery in past MGE
16 and WRI rate proceedings), I took the balance of the unamortized deferrals as of
17 December 31, 2003 (the end of the test year update period ordered in this proceeding),
18 and divided that balance by ten, to determine the annualized amortization amount to
19 include in cost of service in this case. The Commission ordered a ten-year amortization
20 period for the remaining unamortized portion of the SLRP deferrals in Case
21 No. GR-98-140. For the "new" deferral of SLRP costs booked by MGE subsequent to
22 June 30, 2001, I reviewed the Company's calculation of this deferral for adherence to the
23 guidelines set forth in the Stipulation And Agreement in Case No. GR-2001-292, which

Direct Testimony of
Leslie L. Lonergan

1 was approved by Commission Order. I verified that the deferral was calculated based on
2 SLRP investment made between July 2001 and December 2003. I further verified that
3 the deferred depreciation and property tax amounts were based on actual depreciation
4 rates in effect for service lines and mains, and the actual historical relationship of
5 property tax expense to plant balances, respectively. Finally, I verified that the carrying
6 charge rate reflected in the deferral was equal to MGE's Allowance for Funds Used
7 During Construction (AFUDC) rate during the deferral period, in accordance with past
8 Commission precedent. I then took the December 2003 balance of the new deferral and
9 divided it by ten, to include a ten-year amortization of that amount in cost of service.

10 Q. What is adjustment S-59.3?

11 A. This adjustment includes the annual amortization of the SLRP deferral
12 authorized in Case No. GR-2001-292 consistent with the methodology prescribed within
13 Commission's Report And Order in Case No. GR-98-140.

14 Q. Has the Staff included the unamortized balances of the SLRP deferrals in
15 rate base?

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

18 **CUSTOMER AND GOVERNMENT RELATIONS**

19 Q. Please describe MGE's Customer and Government Relations Department.

20 A. The Company's CGR Department engages in certain activities, including
21 some related to education and safety that are beneficial to ratepayers. However, this
22 department also engages in activities such as lobbying, participation in civic and
23 charitable activities, and corporate image building that are not beneficial to ratepayers

1 and should not be recovered in utility rates. Typically, the Commission does not allow
2 rate recovery for expenses of this nature. In Case Nos. GR-96-285, GR-98-140 and
3 GR-2001-292, MGE sought recovery of expenses associated with the CGR Department's
4 lobbying, participation in civic and charitable activities, and corporate image building in
5 its revenue requirement, even though these activities did not benefit ratepayers. As a
6 result, in the Cases mentioned above, the Staff recommended a 50% disallowance of this
7 department's expenses, in the absence of detailed documentation from MGE breaking out
8 employee time spent on these various activities. In Case Nos. GR-96-285 and
9 GR-98-140, the CGR Department costs issue was litigated before the Commission. The
10 Commission ruled in the Staff's favor in each instance and ordered a 50% disallowance
11 of CGR Department costs, and also ordered that the Company maintain adequate
12 documentation to justify this expense in future cases.

13 Q. How are you defining the term "adequate documentation"?

14 A. I define the term "adequate documentation" as documentation adequate
15 enough for the Staff to be able to verify which of the department's expenses are properly
16 recoverable from the ratepayer and which are not. To be in compliance with these orders,
17 MGE would need to supply the Staff and other parties with documentation breaking out
18 time spent on ratepayer beneficial activities versus time spent on MGE beneficial
19 activities.

20 Q. In this rate case, was the Company in compliance with the criteria
21 established in past Commission orders pertaining to "adequate documentation" to
22 determine which expenses should be recoverable and included in cost of service?

Direct Testimony of
Leslie L. Lonergan

1 A. While not in total compliance, MGE was found to be doing a better job at
2 documenting CGR employee time spent on various departmental activities.

3 Q. Has MGE's current CGR Department been known by any other name in
4 the past?

5 A. Yes, during the 1996 MGE rate case, the department was known as the
6 Community Leadership, Government and Community Relations Department. In the 1998
7 and 2001 MGE rate cases, the department was known as the Public Affairs and
8 Community Relations Department.

9 Q. Please explain adjustments S-47.1, S-49.1, S-54.2, and S-56.1.

10 A. These adjustments represent the Staff's proposed disallowances of
11 expenses related to MGE's CGR Department.

12 Q. Please explain how you determined what percentage of CGR expenses
13 should be disallowed as expenses not directly benefiting ratepayers.

14 A. I began my review of MGE's CGR Department by requesting a meeting
15 with Ms. Pam Levetzow, CGR Department Manager, and Mr. Mike Noack, Director of
16 Pricing and Regulatory Affairs. During this meeting, Ms. Pam Levetzow explained in
17 detail the various areas that her department was involved in. I then reviewed the
18 documentation that was provided via Staff Data Request Nos. 113, 114, 220, 221, 222,
19 223, 224, and 268.

20 Q. What CGR employee time reporting information was included in these
21 data request responses?

22 A. Time sheets and expense reports were provided for each employee and
23 daily calendars for Ms. Levitzow and Mr. Paul Snider were also provided.

1 Q. How many employees were there in the CGR Department during the test
2 year?

3 A. Six (6) for the entire test year.

4 Q. What is the format of the CGR employee time sheet?

5 A. The timesheets were broken out by ten work areas. Seven of these work
6 area codings were defined in materials provided in response to Staff Data Request
7 No. 268 as follows:

8 **Communication – Public Policy:** This includes time devoted to communication
9 activities related to public policy development. Public Affairs Committee (PAC)
10 related activities are included here. Specific projects to which significant time is
11 devoted may be listed separately on the time sheets.

12
13 **Communication – Customer Relations:** This includes time devoted to bill
14 inserts, pamphlets, etc. promoting safety and other informational type material.
15 This also includes civic meetings related to Company memberships in the various
16 organizations throughout the MGE service territory.

17
18 **Communication – MGE Internal:** This includes all internal communications
19 with employees informing them of the various activities in which the Company is
20 involved, news related messages, regulatory related information, etc.

21
22 **Communication – Media Related:** This includes all dealings with the media, be
23 it print or air. It also includes press releases and other Company related
24 announcements.

25
26 **Telecommunications:** This includes the functions related to monitoring of cell
27 phones, pagers, and all other communication related equipment used by MGE
28 employees.

29
30 **Industry Research:** This includes the monitoring of other companies within the
31 natural gas distribution industry, monitoring of regulatory agencies, the
32 monitoring of all utility related news worthy items, etc.

33
34 **Special Projects:** This includes various MGE work related team projects such as
35 the Weather Related Turn-On Team, etc. Specific projects to which significant
36 time is devoted may be listed separately on the time sheets.

1 The 3 remaining work areas that were listed on the employee timesheets
2 that were not further described in the response to Staff data request No. 114 and are as
3 follows:

4 **Charitable Activities**

5 **Communication – Customer Education/Safety**

6 **Communication – Customer General**

7 Q. What audit steps were taken to verify the information in the CGR time
8 sheets, expense reports, and the daily calendar logs to ensure time sheet authenticity?

9 A. As the Staff auditor sponsoring this issue, I cross-checked each employee
10 time sheet to each employee expense report on a daily and weekly basis. I also
11 cross-checked these same documents to the daily calendar logs for Ms. Levetzow and
12 Mr. Snider, respectively. I also interviewed Ms. Kim Crockett and Mr. Snider to gain an
13 understanding of the contributions they make to the CGR Department and what activities
14 they spent most of their time on.

15 Q. Of the ten work areas described above for MGE's CGR Department, was
16 each work area reviewed to determine if it was indicative of work hours devoted to MGE
17 business interests that provide no direct benefit to Missouri ratepayers?

18 A. Yes. Of the ten work areas reviewed, three work areas were of particular
19 concern as they represented time reporting of work activities devoted to MGE business
20 interests that provide no direct benefit to Missouri ratepayers. These three work areas of
21 concern were as follows:

- 22 1. **Communication – Public Policy:** All hours related to lobbying
23 activities and interests would be reported under this work area.

1 2. **Communication – Customer Related:** All hours related to economic
2 development activities and interests would be reported under this work
3 area.

4 3. **Charitable Activities:** All hours related to participation in charitable
5 events and MGE community interest activities would be reported
6 under this work area.

7 Q. What were the results of this analysis?

8 A. For CGR payroll costs, for five of the six employees I computed a ratio of
9 time spent by each employee as disallowable activities to their total work hours in a year
10 to arrive at a 13.33% aggregate disallowance. For the sixth CGR employee, Mr. Snider,
11 100% of his salary was disallowed in a separate adjustment, sponsored by Staff Auditing
12 witness Charles R. Hyneman and discussed in his direct testimony. Taking together both
13 of these adjustments, a total of 34.32% of CGR Department payroll is proposed for
14 disallowance.

15 Q. How did the Staff treat the CRG Department's non-payroll costs?

16 A. The Staff proposed to disallow a total of 34.32% of non-payroll costs
17 based upon the payroll computation described above.

18 Q. How can MGE further improve its time reporting pertaining to the
19 identification of CGR Department work hours spent on activities providing direct benefit
20 to ratepayers and those work hours spent on activities benefiting only the Company?

21 A. MGE could provide a more detailed accounting of each employee's work
22 activities. For example: Time sheets should indicate each activity they are working on,
23 including departmental meetings and administrative activities. In fact, only one

Direct Testimony of
Leslie L. Lonergan

1 employee timesheet submitted to Staff, in this instant case, provided such detail. If all
2 employees kept timesheets in this fashion it would greatly facilitate any review of this
3 area in future rate case proceedings and benefit the Company as they would be better able
4 to justify appropriate cost of service amounts in rates that are not now evident due to
5 current poor time keeping procedures; for example, incomplete and partial keeping of
6 time sheets and logs. Also, in the future Staff will expect to review a complete record of
7 employee activities, including time sheets and calendar logs, to be available for each
8 employee for the entirety of the test year.

9 Q. Does this conclude your direct testimony?

10 A. Yes, it does.

CASE PROCEEDING PARTICIPATION

LESLIE L. LONERGAN

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Union Electric Company, d/b/a AmerenUE	GR-2003-0517	Direct - Payroll, Payroll Taxes, Employee Benefits, Injuries and Damages, Incentive Compensation, VRP Plan (10/24/2003)
Empire District Electric Company, The	ER-2002-424	Direct – Payroll, Payroll Taxes, Payroll Related Benefits, Incentive Compensation, Miscellaneous Expense (08/16/2002, pka Leslie L. Lucus)
Citizens Electric Corporation	ER-2002-217	Direct – Payroll, Payroll Related Benefits, Payroll Taxes (04/29/2002, pka Leslie L. Lucas)
Laclede Gas Company	GR-2001-629	Direct – Cash Working Capital, Miscellaneous Expenses (10/11/2001, pka Leslie L. Lucas)
Missouri Gas Energy, a Division of Southern Union Company	GR-2001-292	Direct – Rate Base, Income Statement Adjustments, Plant and Reserve Adjustments (04/19/2001, pka Leslie L. Lucas)
St. Louis County Water Company	WR-2000-844	Direct – Dues & Donations, Rent & Leases, Building Rent, General Insurance, Property Tax, MoPSC Assessment, Rate Case Expense, Franchise Tax (11/20/2000, pka Leslie L. Perkins)