

Exhibit No.:
Issues: Recordkeeping requiremnts,
cost documentation
procedures, conversion
program and cost of service
Witness: William A. Meyer, Jr.
Sponsoring Party: MoPSC Staff
Case No.: GA-91-299

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

FIDELITY NATURAL GAS, INC.

CASE NO. GA-91-299

FILED

NOV 15 1991

PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

WILLIAM A. MEYER, JR., CPA

RECEIVED

NOV 18 1991

Jefferson City, Missouri
November, 1991

ACCOUNTING DEPT.
PUBLIC SERVICE COMMISSION

1 REBUTTAL TESTIMONY

2 OF

3 WILLIAM A. MEYER, JR., CPA

4 FIDELITY NATURAL GAS, INC.

5 CASE NO. GA-91-299

6 Q. Please state your name and business address.

7 A. William A. Meyer, Jr., CPA, P.O. Box 360, Jefferson
8 City, Missouri 65102.

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

10 A. I am employed by the Missouri Public Service
11 Commission (Commission) as a Regulatory Auditor.

12 Q. Please describe your educational background and other
13 qualifications.

14 A. I attended Central Missouri State University in
15 Warrensburg, Missouri, from which I received a Bachelor of Science
16 degree in Business Administration, with a major in Accounting, in
17 1974. In 1979, I passed the Uniform Certified Public Accountant
18 examination. I am currently licensed as a Certified Public
19 Accountant in the state of Missouri.

20 Q. What has been the nature of your duties while in the
21 employ of this Commission?

22 A. I have, under the direction of the Manager of
23 Accounting, been responsible for supervising, conducting and
24 assisting with audits and examinations of the books and records of
25 utility companies operating within the state of Missouri. In
26
27
28

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 addition, for the past 12 years, I have been an active member of the
2 National Association of Regulatory Commissioners (NARUC) Staff
3 Subcommittee on Accounts. In recent years, I have been responsible
4 for all registration activities, and at the present time I have
5 assumed the duties of Secretary for this group.

6 Q. Have you previously testified before this Commission?

7 A. Yes, I have. Please refer to Schedule 1, which is
8 attached to my rebuttal testimony, for a list of cases in which I
9 have previously filed testimony.

10 Q. With reference to Case No. GA-91-299, have you made an
11 investigation or study of the application of the Fidelity Natural
12 Gas, Inc. (FNG or Company)?

13 A. Yes, I have, with the assistance of other members of
14 the Commission Staff (Staff).

15 Q. What is the Staff's overall recommendation in regard
16 to the Company's filing in Case No. GA-91-299?

17 A. As more fully discussed in the testimony of Staff
18 witness Craig Jones of the Energy Department, the Staff recommends
19 that FNG's application for a certificate of convenience and necessity
20 be denied. However, if the Commission does not adopt the Staff's
21 primary recommendation, the Staff's alternative position on certain
22 matters is reflected in the balance of my rebuttal testimony.

23 Q. What were your areas of responsibility with regard to
24 Case No. GA-91-299?

25 A. I was assigned to review the Company's application
26 from the Accounting Department's perspective. I am submitting
27
28

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 testimony on four areas. These are: 1) recordkeeping requirements;
2 2) cost documentation procedures; 3) accounting for the proposed
3 conversion program; and 4) cost of service.

4 Q. Please explain the first area, recordkeeping
5 requirements.

6 A. Since the Company is just starting operations, the
7 Accounting Department recommends that the Company maintain a set of
8 accounting records for its gas operations that is in accordance with
9 the Uniform System of Accounts (USOA) as adopted by this Commission.

10 Q. What record keeping requirements do the Commission
11 rules require a gas company to follow?

12 A. Rule 4 CSR 240-10.010, Books and Records, require the
13 safekeeping of the general records of the Company's business. In
14 addition, Rule 4 CSR 240-40.040, Uniform System of Accounts - Gas
15 Corporations, requires a specific set of records to be maintained by
16 all gas corporations regulated by the Commission.

17 Q. Do these rules mean that a company may not customize
18 its accounting system as it may desire?

19 A. No. A company may develop its own accounting system.
20 The rules only specify what the minimum requirements are for the
21 accounting system. However, in customizing its accounting system,
22 the Company must also maintain a cross reference system to allow a
23 reconciliation between its system and that prescribed in the
24 Commission's rules. In discussions with Company personnel, it is my
25 understanding that while they plan to use a customized accounting
26 system, they plan to comply with these rules.

27
28

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 Q. If this is the case, why have you found it necessary
2 to file rebuttal testimony on this point?

3 A. I have filed rebuttal testimony on this area, so that
4 there can be no misunderstanding at a later date as to the intent of
5 the parties in this case.

6 Q. Please explain the second area, cost documentation
7 procedures, for which you are submitting rebuttal testimony.

8 A. The Company is a subsidiary of Fidelity Communications
9 Company (FCC). FCC is planning to finance all of FNG's initial
10 capital needs. Also, FCC owns several other businesses, not all of
11 which are regulated by this Commission. It will be entirely probable
12 that some of the existing employees as well as existing equipment
13 owned by one or more of these other entities will be involved in
14 providing services to FNG. As such, additional accounting controls
15 need to be in place prior to FNG operation to assure that cross
16 subsidization of unregulated services and/or other business lines by
17 FNG will not take place.

18 Q. On pages 11, 13 and 14 of his direct testimony,
19 Company witness Terry E. Troughton discusses the accounting system
20 the Company is developing. Have you reviewed the system he
21 described?

22 A. Yes. In response to Staff Data Request (DR) No. 18,
23 the Company provided a sample copy of the chart of accounts and the
24 various forms it will use to record its costs of doing business. In
25 simple terms, these items represent the backbone of the proposed
26 accounting system.

27
28

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 Q. In your opinion, are these documents provided through
2 the response to DR No. 18 substantially capable of accounting for all
3 of the costs of FNG doing business?

4 A. Yes. All costs directly attributable to FNG are
5 capable of being directly assigned through the detailed records, such
6 as time sheets, equipment logs, work orders, property records, maps,
7 invoices, etc.

8 Q. In other dockets, has FCC previously agreed to account
9 for the costs of its regulated and non-regulated operations in a
10 particular way?

11 A. Yes. FNG has stated that it will agree to follow the
12 stipulation and agreement signed by FCC in Case No. TM-89-113. This
13 stipulation and agreement sets out specific documentation,
14 recordkeeping, cost assignment and cost allocation procedures to be
15 consistently followed by all FCC operations. In my opinion, this
16 stipulation and agreement, which the Commission approved by Order
17 dated October 17, 1989, adequately documents the accounting controls
18 necessary to be in place to assure the Commission that cross
19 subsidization of FCC's non-regulated operations by FCC's regulated
20 entities, including FNG, will not occur.

21 Q. Are you saying that neither the Commission nor the
22 Company will have to be concerned about any allocation issues in the
23 future regarding FNG?

24 A. No. However, I believe that the proper use of the
25 above mentioned records will go a long way to prevent any such
26 allocation issues arising in the future. As previously mentioned,
27
28

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 FNG will effectively operate along side of several other affiliated
2 businesses. It is my understanding from DR responses and from
3 discussions with Company personnel that certain facilities and
4 equipment owned by one affiliate could likely also be used by another
5 affiliate from time to time. It is imperative that any joint use be
6 fully documented so that appropriate costs can be assigned to the
7 user. To best achieve this, I recommend that the legal entity owning
8 the property develop appropriate costing rates, based on its fully
9 distributed costs, to be applied across the board for any actual use
10 by all of the other operations owned by FCC.

11 Q. What is the third area upon which you are testifying?

12 A. The Company has proposed a conversion program for
13 certain customer-owned facilities to allow the customers to use FNG
14 supplied gas. In summary, the Company is proposing to provide to
15 customers at no charge modifications of appliances and piping within
16 certain set dollar guidelines. All customers of the Company then
17 would bear the burden of paying for the conversion through applicable
18 rates. Staff witness Jones will be addressing the Staff's conceptual
19 concerns with this program. As such, I fully support the Staff's
20 position as sponsored by Mr. Jones that the customers involved in the
21 conversion program should bear the costs of the program. However, I
22 will propose an alternative amortization period for the Company to
23 recover the conversion costs if the Commission chooses to adopt the
24 Company's position on this matter.

25 Q. Over what period of time has the Company proposed to
26 amortize the conversion costs?
27
28

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 A. The Company has proposed a five year amortization of
2 the costs. It is my understanding from discussions with Company
3 personnel that the five year proposal was developed based on federal
4 tax rules.

5 Q. What federal tax rules are you referring to?

6 A. Internal Revenue Code section 195(b) specifically
7 provides a taxpayer the opportunity to amortize start up expenses
8 over a period of time not less than 60 months (five years).

9 Q. Can you classify conversion costs as a start up
10 expense when it involves tangible property?

11 A. Under the Company's proposal, FNG would not own any of
12 the converted items that could be depreciated. Therefore, in my
13 opinion, the cost should be recorded as an intangible asset, and an
14 amortization schedule would be appropriate.

15 Q. Over what alternative period of time does the Staff
16 propose to amortize the conversion costs, if the Company's proposal
17 to assume these costs is accepted?

18 A. The Staff recommends that the period of time to
19 amortize the conversion costs be the same as that used to depreciate
20 customer services (USOA account 380). Staff witness Melvin T. Love
21 of the Energy Department is recommending specific depreciation rates
22 for FNG in this case. Staff witness Love recommends a depreciation
23 rate of 2.86% for customer services (steel). This rate computes into
24 an amortization period of 35 years.

1 Q. If the Commission adopts the specific depreciation
2 rates proposed by Staff witness Love, can the Company for tax
3 purposes use the 60 month amortization period it originally proposed?

4 A. To my knowledge, yes.

5 Q. Please explain your fourth area of testimony, on cost
6 of service.

7 A. I examined a cost of service financial study (Study)
8 developed by the Company, which relied on estimated data to determine
9 the proposed rates for the Sullivan service area.

10 Q. Why were estimates relied upon to develop a cost of
11 service study?

12 A. Estimates were used because this is a new venture, and
13 there is no operating history or historical data to rely on.

14 Q. Since no actual historical data exists, would it not
15 be possible to rely on comparable rates for other gas utilities in
16 the state to base the estimated cost of service upon?

17 A. No. Each gas utility is unique. Basing a gas
18 company's rates on something other than cost sends a wrong signal to
19 the potential customer. In deciding whether to become a customer,
20 the individual or business must make certain long range plans that
21 cannot be easily changed midstream without incurring additional
22 financial costs. Setting rates which are excessive may turn the
23 potential customer away. Likewise, a rate unreasonably low may
24 result in the potential customer believing they were tricked into
25 taking service, assuming that the Company in the future would request
26 a rate increase commensurate with its actual, higher level of costs.

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 Q. What did you do to evaluate FNG's cost of service
2 estimates?

3 A. I reviewed the Company application and the direct
4 testimony supporting it, as well as the cost of service study itself.
5 In addition, I submitted various DR's to the Company in an attempt to
6 fully understand FNG's application in this case.

7 Q. Are you able to make a recommendation on the
8 reasonableness of the estimates used to develop FNG's cost of service
9 study?

10 A. Yes. Although it is always difficult to make an
11 accurate assessment of the reasonableness of estimates without prior
12 historical operating experience to rely on, I did review the
13 assumptions and estimates proposed by FNG. As such my conclusion is
14 based primarily on my past experience and judgment. Excluding the
15 areas of purchased gas, free conversions and depreciation which the
16 Staff is addressing in rebuttal testimony, I did not find any other
17 material areas to question at this time.

18 Q. In your opinion, would the differences discussed by
19 Staff witness Jones dealing with purchased gas costs have a material
20 impact on the rates?

21 A. Yes, if you assume that FNG were to actually contract
22 for a firm gas supply, as was suggested by Staff witness Jones.

23 Q. In your opinion, would elimination of the free
24 conversion program have a material impact on the rates?

25 A. My best answer is yes and no. Yes, because without
26 the free conversions, it is highly probable that fewer potential
27
28

1 customers will take the service. This will cause lower total sales
2 and fewer customers being responsible for a larger portion of the
3 fixed costs of the Company. Likewise, I could also answer no,
4 because the potential customer could take advantage of a market based
5 financing plan, as suggested by Staff witness Jones, to pay the costs
6 involved in connecting to gas service. Under this scenario, the
7 customers in total would be paying approximately the same amount in
8 rates for the conversion, assuming 1) that the high number of
9 conversions estimated by the Company in its Study were realized, and
10 2) that the financing rate offered by FNG would be equal to its
11 authorized rate of return.

12 Q. Finally, would the depreciation rates recommended by
13 Staff witness Love have a material impact on the rates?

14 A. No. A quick comparison of the assumptions used by
15 Company witness Kent S. Bliss in estimating depreciation expense,
16 given in his direct testimony on page 11, to the proposed
17 depreciation rates recommended by Staff witness Love indicates that
18 the overall dollars of depreciation expense should be reasonably
19 close in both cases.

20 Q. Why can't you be more precise in your analysis?

21 A. As previously stated, I am working with estimates.
22 The Company's estimates for plant investment was not broken down into
23 the detailed categories prescribed by Staff witness Love.
24 Depreciation rates used by the Company ranged from a low of 2% to a
25 high of 20%. Rates recommended by the Staff ranged from a low of
26 1.67% to a high of 18%.

Rebuttal Testimony of
William A. Meyer, Jr. CPA

1 Q. In conclusion then, from the accounting viewpoint, do
2 you have a recommendation as to whether FNG's application should be
3 approved?

4 A. From the accounting viewpoint, FNG should be capable
5 of maintaining the necessary financial records. However, in my
6 opinion the Company does have an extremely difficult battle ahead of
7 itself in getting its proposed utility service in operation at a cost
8 that can effectively compete in the area market. Assuming Commission
9 approval, the rates proposed by the Company need to be modified, at a
10 minimum, as previously discussed for the Staff recommendations in the
11 areas of purchased gas, depreciation expense and amortization of
12 conversion costs.

13 Q. Does this conclude your rebuttal testimony?

14 A. Yes, it does.

15
16
17
18
19
20
21
22
23
24
25
26
27
28

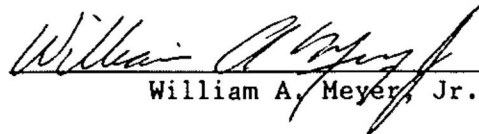
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the application of Fidelity)
Natural Gas, Inc. for a certificate of)
convenience and necessity authorizing it to)
construct, install, own, operate, control,) Case No. GA-91-299
manage and maintain gas facilities and to)
render gas service in and to residents of the)
city of Sullivan, Missouri, in Franklin and)
Crawford Counties)

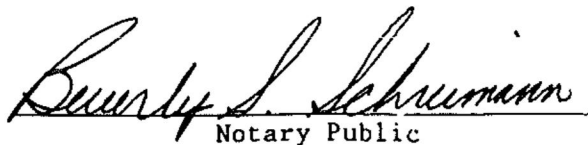
AFFIDAVIT OF WILLIAM A. MEYER, JR., CPA

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

William A. Meyer, Jr., of lawful age, on his oath states: that he has participated in the preparation of the foregoing rebuttal testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing rebuttal 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.


William A. Meyer, Jr.

Subscribed and sworn to before me this 15th day of November, 1991.


Notary Public

My Commission expires 3-8-94.

LIST OF CASES FILED WITH TESTIMONY

<u>COMPANY NAME</u>	<u>CASE NUMBER</u>
Airsignal International, Inc.	TR-79-236
Arkansas Power and Light Company	ER-81-364
Arkansas-Missouri Power Company	EF-79-260
Arkansas-Missouri Power Company	ER-80-32
Associated Natural Gas Company	GM-81-368
Boone Electric Service Company	EA-87-99
Capital City Telephone Company	18,617
Capital City Water Company	18,099
Capital City Water Company	WR-81-193
Capital City Water Company	WR-88-215
Capital City Water Company	WR-90-118
Carter County Telephone Company	TR-81-306
Central Telephone Company of Missouri	18,698
Citizens Electric Company	ER-83-61
Cuivre River Electric Service Company	EA-87-102
Empire District Electric Company	ER-77-210
Fidelity Telephone Company	18,318
General Telephone Company of the Midwest	TR-83-164
Goodman Telephone Company	TR-82-103
Great River Gas Company	GR-82-235
Holway Telephone Company	TR-83-287
Howard Electric Service Company	EA-88-113
I.H. Utilities	18,196
Imperial Utilities Corporation	SR-83-319
Kansas City Power and Light Company	EF-81-366
Martigney Creek Sewer Company	18,390
Martigney Creek Sewer Company	18,732
Midstate Telephone Company	18,617
Missouri Cities Water Company	SM-81-217
Missouri Cities Water Company	WM-82-147
Missouri Cities Water Company	WM-82-192
Missouri Cities Water Company	SM-86-94
Missouri Cities Water Company	SM-87-8

<u>COMPANY NAME</u>	<u>CASE NUMBER</u>
Missouri Power and Light Company	GR-78-123
Missouri Public Service Company	18,502
Missouri Telephone Company	TM-91-348
Missouri Utilities Company	18,246
Missouri Utilities Company	18,352
Missouri Utilities Company	18,371
Missouri Water Company	WR-81-40
North Electric Service Company	EA-88-33
Northeast Missouri Rural Telephone Company	TR-85-23
Ralls Electric Service Company	EA-88-21
Raytown Water Company	WR-79-137
Raytown Water Company	WR-81-92
Saline Sewer Company	SR-77-7
Seneca Telephone Company	TR-81-105
St. Joseph Light and Power Company	ER-77-107
St. Louis County Sewer Company	18,598
Sho-Me Power Corporation	ER-86-27
Sho-Me Power Corporation	ER-91-298
Terre Du Lac Utilities Corporation	WR-83-6
Terre Du Lac Utilities Corporation	SR-83-7
Terre Du Lac Utilities Corporation	SR-83-69
Terre Du Lac Utilities Corporation	WR-83-70
Union Electric Company	EA-87-159
United Cities Gas Company	GR-91-249
United Telephone Company of Missouri	18,617
Webster County Telephone Company	TR-84-94
West Elm Place Corporation	SR-82-64
West Elm Place Corporation	SR-84-225
West Elm Place Corporation	SO-85-131
West Elm Place Corporation	SO-88-140