

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

FILED²

APR 19 2001

**Missouri Public
Service Commission**

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

CASE NO. GR-2001-292

*Jefferson City, Missouri
April 2001*

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DIRECT TESTIMONY

OF

SHELDON WOOD

MISSOURI GAS ENERGY,

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

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8 Q. Please state your name and your business address.

9 A. Sheldon Wood, Noland Plaza Office Building, Suite 110, 3675 Noland
10 Road, Independence, MO 64055.

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

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

14 Q. Please describe your educational background and work experience.

15 A. I have undergraduate degrees from the Universities of Illinois and
16 Wisconsin with a major in accounting. Prior to joining the Commission, I was employed
17 for 25 years as a senior auditor by the United States General Accounting Office, the
18 investigative arm of the U.S. Congress. I also served as a captain in the U.S. Naval
19 Reserve, retiring after 31 years of active and reserve service.

20 Q. What has been the nature of your duties since you have been employed at
21 the Commission?

22 A. I have assisted with audits and examinations of the books and records of
23 public utility companies operating in the state of Missouri.

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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:

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

7
8 **REGULATORY COMMISSION EXPENSE**

9 Q. Please explain adjustment S-51.1.

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

13 Q. Please explain adjustment S-51.2.

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

15 Q. Please explain adjustment S-51.3.

16 A. Adjustment S-51.3 normalizes an annual level of rate case expense
17 (\$600,000 over 2 years). The estimated cost of \$600,000 is based on Case No.
18 GR-98-140 where the Commission found that the Company had prudently incurred
19 \$579,565.64, and that this amount should be annualized over a two-year period. The
20 Staff will true up the \$600,000 estimate when actual costs for this rate proceeding
21 becomes known.

22 Q. Please explain adjustment S-51.4.

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

27 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 1st 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. Lucus 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

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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)
) ss.
COUNTY OF COLE)

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
Sheldon Wood

Subscribed and sworn to before me this 19th day of April 2001.

Toni M. Charlton

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

