

*Exhibit No.:*  
*Issues:* *Rate Case Filing*  
*Test Year/True Up*  
*General Overview*  
*Witness:* *Cary G Featherstone*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Rebuttal Testimony*  
*Case No.:* *GR-2014-0007*  
*Date Testimony Prepared:* *March 4, 2014*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING**

**REBUTTAL TESTIMONY**

**OF**

**CARY G. FEATHERSTONE**

**MISSOURI GAS ENERGY COMPANY  
a Division of Laclede Gas Company**

**CASE NO. GR-2014-0007**

*Jefferson City, Missouri*  
*March 2014*

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**CARY G FEATHERSTONE**  
**MISSOURI GAS ENERGY COMPANY**  
**CASE NO. GR-2014-0007**

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1 Gas) acquisition of MGE on September 1, 2013. MGE has not filed an updated revenue  
2 requirement representing any cost increases or decreases through the update period of  
3 September 30, 2013 or through the true-up period of December 31, 2013.

4 **EXECUTIVE SUMMARY**

5 Q. Please summarize Staff's position with regard its true-up revenue requirement  
6 compared to MGE's requested \$23 million rate increase.

7 A. On January 29, 2014, Staff filed its initial recommendation in this case using  
8 information through the update period of September 30, 2013. On February 14, 2014, Staff  
9 filed supplemental direct testimony and filed an updated revenue requirement representing  
10 information through December 31, 2013. Staff's recommendation includes revenue and cost  
11 changes that have occurred after the test year of April 30, 2013, and, more importantly, after  
12 Laclede Gas' acquisition of MGE on September 1, 2013. Staff's revenue requirement  
13 recommendation represents MGE's most current cost of service and therefore should be used  
14 as a basis to set rates on a going forward basis. The Company's direct filing is based on cost  
15 components as of April 30, 2013, and therefore does not represent the current cost of service  
16 for the MGE. While the Company updated its case through December 31, 2103, Staff did not  
17 receive this information until February 27, 2014, shortly before this rebuttal filing. As such,  
18 Staff was unable to review the Company's updated case before this filing.

19 **MGE'S DIRECT FILING**

20 Q. When was the MGE rate case filed?

21 A. On September 16, 2013 the Company filed its direct testimony requesting a  
22 \$23 million increase over existing rates.

1 Q. On what period did MGE file its rate case?

2 A. In the direct testimony filed on September 16, 2013, MGE recommended using  
3 a test year of April 30, 2013. MGE also recommended an update to the test year through  
4 September 30, 2013.

5 Q. Did the Commission approve the use of the April 30, 2013 test year, updated  
6 through September 30, 2013?

7 A. Yes. In its November 13, 2013, *Order Adopting Recommended Procedural*  
8 *Schedule* the Commission authorized the use of the test year and update period as proposed  
9 by MGE.

10 Q. On what basis did MGE develop its \$23 million rate increase?

11 A. MGE based this amount using the test year period ending April 30, 2013.  
12 However, it did not update its case to reflect the September 30 period or the December 31,  
13 2013 true-up period. The Company's revenue requirement calculation is based on operations  
14 prior to the acquisition of MGE by Laclede Gas, which was effective September 1, 2013. The  
15 various pre-acquisition components of MGE's revenue requirement calculation are:

16 **Rate Base Components**

- 17 • Plant and Reserve at April 30, 2013
- 18 • Materials & Supplies
- 19 • Prepayments
- 20 • Gas Supply Inventories at April 30, 2013
- 21 • Deferred Taxes at April 30, 2013 (pre-acquisition)

22 **Expenses**

- 23 • Uncollectibles at April 30, 2013
- 24 • Payroll at April 30, 2013 (pre-acquisition-- included employees who were no  
25 longer employed at September 30 and at December 31 true-up)
- 26 • Payroll benefits and payroll taxes at April 30, 2013 (pre-acquisition)
- 27 • Pensions and OPEBS at April 30, 2013

- 1 • Depreciation rates did not reflect lower rates recommended by MGE's own
- 2 consultant, Black & Veatch.
- 3 • Depreciation expense at April 30, 2013 plant levels
- 4 • Property Insurance and other insurance was not updated
- 5 • Injuries and Damages was not updated
- 6 • Property Taxes at April 30, 2013

7 **Revenues**

- 8 • Revenues based on April 30, 2013

9 Q. Did MGE include the results from the September 1, 2013 acquisition by  
10 Laclede Gas?

11 A. No. Because its initial filing used only information through April 30, 2013, the  
12 Company did not reflect any results from the MGE acquisition. MGE did provide an updated  
13 case based on December 31, 2013 information on February 27, 2014, one day prior to the  
14 scheduled February 28 rebuttal filing date. Staff has not been able to review this information  
15 and, as such has not been able to properly review this update.

16 Q. Did Staff reflect any updates to its recommended revenue requirement  
17 calculation?

18 A. Yes. Staff's initial recommendation in this case is based on using information  
19 through the updated period September 30, 2013. This recommendation was filed on  
20 January 29, 2014. On February 14, 2014, Staff filed supplemental direct testimony as  
21 directed by the Commission that provided a revenue requirement using information through  
22 the true-up period of December 31, 2013. Staff's true-up is the only comprehensive revenue  
23 requirement calculation in this case. Hence, there is no other party in this proceeding,  
24 including MGE, that has a more complete and current revenue requirement calculation.

25 Staff computed payroll expense as of December 31, 2013 for the true-up. This  
26 calculation reflects employee levels and salary amounts as of the end of the true-up period.

1 Plant and depreciation reserve is included in the cost of service calculation as of December  
2 31, 2013, and depreciation expense reflects this time period. Staff included other components  
3 in MGE's cost of service as of the December 31, 2013 true-up period.

4 Q. Has it been difficult to compare MGE's results to Staff's recommendation?

5 A. Yes. Since MGE's case was never updated until February 27, 2013, it has  
6 been difficult to make any meaningful comparisons between the Company and Staff. In  
7 essence, comparing the two cases has resulted in "an apples and oranges" comparison. MGE  
8 used plant balance at April 30, 2013, while Staff's true-up reflects plant through December  
9 31, 2013. Because MGE did not update its payroll to more current levels, the Company's  
10 case reflects April 30, 2013 payroll costs, compared to Staff's December 31, 2013 results.  
11 Other costs such as insurance, non-wage operation and maintenance costs, inventories, energy  
12 efficiency, property taxes and deferred taxes were updated by Staff with the most current  
13 information available through the true-up. MGE chose not to update any of these cost  
14 components, instead leaving its case at the test year period of April 30, 2013 until it provided  
15 the December 31, 2013 results on February 27, 2014.

16 Q. Is it unusual for utility companies not to provide the latest results in its  
17 rate case?

18 A. Yes. Generally, utility companies update cases to reflect actual information at  
19 more recent points in time past the original filing dates. Most companies file the initial case  
20 using an historical test year projecting information to a specific point. Later, when the  
21 projected information is known, the company will update its case to a period agreed to by the  
22 parties and approved by the Commission. In this case, the Commission authorized an update  
23 to September 30, 2013 and a true-up through December 31, 2103. However, MGE did not

1 follow this procedure in this case. It wasn't until February 27, 2014, one day before the  
2 scheduled rebuttal filing date on the Commission's procedural schedule, that the Company  
3 provided its December 31, 2013 update.

4 Q. Has MGE updated its revenue requirement calculation in previous rate cases?

5 A. Yes. MGE has, in the past, updated its rate case results from those in its initial  
6 filing. Because the Commission's rules require a company to file for a rate increase allowing  
7 sufficient time for Staff and other parties an opportunity to review that rate request, the rate  
8 case is started using preliminary information. As the information becomes known during the  
9 case, the revenue requirement calculation is updated. In its past rate cases, MGE has updated  
10 its case to reflect this actual information. It chose not to do so in this case.

11 In MGE's past rate case filings, the Company supported its rate request using an actual  
12 test year period with an update period several months beyond the test year. In many  
13 instances, MGE, like other utilities, requested a true-up several months beyond the update.  
14 The following table illustrates the test years, updates and true-up periods used by MGE in its  
15 last several rate cases:

16

<b>Case No.</b>	<b>Test Year</b>	<b>Update Period</b>	<b>True-up Period</b>
GR-2009-0355	December 31, 2008	April 30, 2009	September 30, 2009
GR-2006-0422	December 31, 2005	June 30, 2006	October 31, 2006
GR-2004-0209	June 30, 2003	December 31, 2003	April 30, 2004
GR-2001-292	June 30, 2000	December 31, 2000	June 30, 2001

17

18 In each of these previous rate cases, MGE updated its rate request using actual  
19 information as it became available. In MGE's 1996 (Case No. GR-96-281) and 1998 (Case  
20 No. GR-98-140), the Company also updated its case from the initial filing through a true-up.

1 In all instances, MGE provided the results of its updates to various parties to those rate cases.  
2 In this rate case, the Company did not follow this practice.

3 Q. Did MGE indicate in its direct filing it intended on updating its case?

4 A. Yes. MGE recommended using the 12-months ending April 30, 2013 as the  
5 test year. It further recommended updating the test year through September 30, 2013. In the  
6 direct testimony of MGE witness Michael R. Noack, he identified the test year used by  
7 the Company<sup>1</sup>:

8 **Q. WILL MGE BE REQUESTING THAT THE TEST**  
9 **YEAR BE UPDATED?**

10 A. Yes. MGE is requesting that the test year be updated through  
11 September 30, 2013. This is consistent with the process used in all four of the  
12 MGE rate cases I have supervised since 2000. MGE believes that this approach  
13 will provide a relatively current time period of actual experience on which to  
14 base rates, while at the same time providing an opportunity for the  
15 Commission Staff and other parties to audit this actual experience.

16 Q. Did MGE propose a true-up be used in this case?

17 A. No. MGE indicated it did not believe a true-up was necessary. Mr. Noack  
18  
19  
20 stated:

21 **Q. IS MGE REQUESTING A “TRUE-UP” PROCESS?**

22 A. No. At this time, MGE believes that its recommended update of costs,  
23 revenues and rate base through September 30, 2013 should be sufficient to  
24 establish a reasonable and representative cost of service. I should note,  
25 however, that as this proceeding unfolds there may be a need to revisit this  
26 issue depending on the positions taken by other parties. There also may be a  
27 need to consider certain additional changes in accounting practices, orders or  
28 procedures or in tariff modifications to reflect operational changes as the  
29 integration process proceeds.  
30

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<sup>1</sup> MGE witness Michael R. Noack's direct testimony at page 3 and 4.

1 Q. Did the Commission approve a true-up period in this case?

2 A. Yes. In the same November 13, 2013, Order Adopting Recommended  
3 Procedural Schedule, previously mentioned, the Commission authorized the use of December  
4 31, 2013 for the true-up period. After Staff filed its direct case, it learned the Company would  
5 update the MGE rate request through the period ending December 31, 2103. It was not until  
6 February 27, 2014 that MGE finally provided its updated case through December 31, 2013.  
7 Staff has not been able to properly review this information.

8 Q. Should MGE have updated its case earlier?

9 A. Yes. As seen from the above table, MGE has updated its initial filing in all its  
10 previous rate cases filed before the Commission. But MGE chose not to update its rate case  
11 to reflect any of the post-acquisition results through September 30, 2013 or updated further  
12 through December 31, 2103 until very late in the rate case process. While Staff did a  
13 comprehensive cost of service calculation, including all major components of the revenue  
14 requirement, MGE's updated case would have been used to compare the results of the various  
15 rate case areas. Since MGE did not provide its update case until very late in this process it  
16 was not available to compare to Staff's updates.

17 Q. Is MGE's requested increase in rates reflective of current operations?

18 A. No. MGE's rate increase request of \$23 million in its direct filing was  
19 calculated using data for the 12-month period ended April 30, 2013. The April 30, 2013  
20 pre-acquisition information is not an adequate representation of MGE's post-merger cost of  
21 service on a going forward basis and therefore, a comparison between the Company's  
22 requested \$23 million and Staff's revenue requirement, based on the December 31, 2013,  
23 true-up period is not appropriate.

1           For example, the payroll costs MGE is requesting in rates is based on April 30, 2013  
2 employees. This period includes some employees who are no longer employed by MGE at  
3 the end of the year. Therefore, MGE's payroll calculation is overstated in its initial filing,  
4 which is based on the April 30, 2013 time frame. Staff's payroll adjustment is based on the  
5 more recent period through December 31, 2013 and does not include those eliminated  
6 employee positions. Several MGE upper management positions were eliminated at the time  
7 of the September 1, 2013 acquisition. Staff's payroll annualization did not include those  
8 employee positions, even though MGE's payroll calculation did. The payroll benefits,  
9 incentive compensation and payroll taxes paid in 2013 included the eliminated positions as  
10 well. The test year level for incentive compensation is overstated for these eliminated  
11 positions. Staff witness Keith Majors addresses incentive compensation in his testimony.  
12 Payroll costs need to reflect the most current updated amounts available for the rate case and  
13 Staff's payroll calculation has used this most recent information.

14           Q.     How does MGE's case compare to Staff's revenue requirement?

15           A.     MGE's case is based on April 30, 2013 while Staff's rate calculation is based  
16 on the true-up ending December 31, 2013. The following table compares the various  
17 components of the revenue requirement calculation in this case:

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20  
21  
22 *continued on next page*

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<b>Rate Case Component</b>	<b>Staff</b>	<b>Missouri Gas Energy</b>	<b>Missouri Gas Energy December 31, 2013 update provided on February 27, 2014</b>
Plant and Depreciation Reserve	December 31, 2013	April 30, 2013	December 31, 2013
Inventories and Prepayments	December 31, 2013	April 30, 2013	December 31, 2013
Deferred Income Taxes	December 31, 2013	April 30, 2013	December 31, 2013
Revenues	September 30, 2013	April 30, 2013	September 30, 2013
Uncollectibles (Bad Debts)	December 31, 2013	April 30, 2013	December 31, 2013
Payroll, Payroll benefits including incentive compensation and payroll taxes Pensions and OPEBS	December 31, 2013	April 30, 2013	December 31, 2013
Depreciation expense	December 31, 2013  Staff reflected the recommended lower depreciation rates	April 30, 2013  MGE did not reflect the lower depreciation rates	December 31, 2013  MGE reflected the recommended lower depreciation rates
Property Insurance and other insurance	December 31, 2013	April 30, 2013	December 31, 2013
Injuries and Damages	December 31, 2013	April 30, 2013	December 31, 2013
Property Taxes	December 31, 2013	April 30, 2013	December 31, 2013

2

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Q. Why is it important to update rate cases beyond the test year?

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A. I addressed the need to update rate cases past the test year at pages 13 through

5

17 of my direct testimony. Updating rate cases is important to mitigate regulatory lag to the

6

fullest extent possible. Using the latest information possible is essential to the determination

1 of rates so that those rates are based a level of plant and expenses to serve current customers.  
2 Regulatory lag represents the time between when events occur that affect the cost structure of  
3 the Company's operations and when those events are reflected in customers' rates. Simply,  
4 regulatory lag is when the Company starts to recover incurred or expected costs from its  
5 customers for the provision of gas service. It is important to eliminate the negative effects of  
6 regulatory lag and include any positive effects of regulatory lag by using the most recent  
7 updated information as close as possible to when rates are going to go into effect, in order to  
8 ensure those rates are accurate and as current as possible considering the time it takes to  
9 implement the rates once the Commission authorizes a change in the rate structure.

10 An example of negative effect of regulatory lag is when the Company experiences cost  
11 increases, such as when payroll costs increase prior to the inclusion in customer rates for gas  
12 service. A positive effect of regulatory lag is when there are cost declines for employee work  
13 force reductions. The Company enjoys the benefits of those cost reductions until they are  
14 reflected in customer rates. Staff attempts to capture cost increases and cost reductions as  
15 close as possible to the time when rates take effect.

16 Q. Does this conclude your rebuttal testimony?

17 A. Yes, it does.

