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Issue: Policy  
Witness: Robert J. Hack  
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Sponsoring Party: Missouri Gas Energy  
Case No.: GR-2006-0422  
Date Testimony Prepared: December 11, 2006

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

FILED<sup>2</sup>

FEB 07 2007

Missouri Public  
Service Commission

SURREBUTTAL TESTIMONY

OF

ROBERT J. HACK

ON BEHALF OF MISSOURI GAS ENERGY

Jefferson City, Missouri

December 2006

MGE Exhibit No. 10  
Case No(s). GR-2006-0422  
Date 1-8-07 Rptr pf

**SURREBUTTAL TESTIMONY OF ROBERT J. HACK  
ON BEHALF OF  
MISSOURI GAS ENERGY**

1   **Q.    PLEASE STATE YOUR NAME.**

2   A.    My name is Robert J. Hack.

3

4   **Q.    DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?**

5   A.    Yes.

6

7   **Q.    WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8   A.    From my vantage point as the Chief Operating Officer of Missouri Gas Energy ("MGE" or  
9        "Company"), a division of Southern Union Company ("Southern Union"), I will address  
10       certain aspects of the policy testimony of Staff witness Oligschlaeger.

11

12   **Q.    IN YOUR DIRECT TESTIMONY, YOU STATED YOUR BELIEF THAT THE**  
13       **COMMISSION NEEDS TO RE-EXAMINE THE WAY IT SETS RATES FOR MGE.**  
14       **HAS THE STAFF REBUTTAL TESTIMONY CAUSED YOU TO CHANGE YOUR**  
15       **BELIEF IN THIS REGARD?**

16   A.    No. In fact, Mr. Oligschlaeger seems to agree with the two fundamental bases of that belief,  
17        namely: 1) that MGE has been consistently unable to achieve its authorized rate of return and  
18        2) that the Missouri utility regulatory process is a primary driver of MGE's consistent  
19        inability to achieve its authorized rate of return. For example, on pages 12 and 13 of his  
20        rebuttal testimony, Mr. Oligschlaeger states:

1 Q. Your last point notwithstanding, do you disagree that MGE has had a  
2 tendency to underearn in its short history to date?  
3

4 A. **No. Given** the fact that MGE has added much plant in service to its rate base  
5 in recent years, and **the nature of the ratemaking process in Missouri, that**  
6 **phenomenon is not unexpected.**  
7

8 (emphasis supplied)  
9

10 Mr. Oligschlaeger goes on to state at page 13 of his rebuttal testimony:

11 A. In Missouri, the traditional ratemaking process gives a utility an opportunity  
12 to recover its costs and earn a reasonable return on its investment. To the  
13 extent a utility's costs increase above the level upon which rates were set, all  
14 other things being equal, the utility's earnings will then decline. If the  
15 decline in earnings were significant enough, the utility would be expected to  
16 file for rate relief to have the opportunity to restore its earnings to a  
17 reasonable level.  
18  
19

20 Q. **CAN YOU RECONCILE THE TWO STATEMENTS MADE ABOVE BY MR.**  
21 **OLIGSCHLAEGER, i.e., 1) THAT MGE'S HISTORY OF UNDEREARNINGS IS**  
22 **NOT UNEXPECTED GIVEN THE NATURE OF THE RATEMAKING PROCESS IN**  
23 **MISSOURI; AND 2) "IN MISSOURI, THE TRADITIONAL RATEMAKING**  
24 **PROCESS GIVES A UTILITY AN OPPORTUNITY TO RECOVER ITS COSTS**  
25 **AND EARN A REASONABLE RETURN ON ITS INVESTMENT"?**

26 A. No; the statements directly contradict one another. If MGE's history of underearnings is not  
27 an unexpected phenomenon, then it is simply not possible for MGE to have had a reasonable  
28 opportunity to recover its costs and earn a reasonable return on its investment.  
29

1    **A.    MR. OLIGSCHLAEGER SEEMS TO BELIEVE THAT MGE SHOULD SIMPLY**  
2       **FILE RATE CASES MORE FREQUENTLY. DO YOU BELIEVE THIS IS A GOOD**  
3       **SOLUTION FROM A POLICY PERSPECTIVE?**

4    A.    No. We understand that as a regulated enterprise, the filing and processing of rate cases is a  
5       part of doing business. However, we also understand that our customers do not like rate  
6       increases. The filing and processing of a rate case requires a significant amount of  
7       management time and attention that could otherwise be devoted to our primary purpose,  
8       which is providing gas service to our customers. In view of these considerations, therefore,  
9       MGE has used its best efforts to make its existing rates work by trying to find and implement  
10      efficiencies first before looking to the regulatory process for earnings relief.

11  
12      Perhaps more important, however, is that history – as can be seen in the surrebuttal testimony  
13      of MGE witness Noack – establishes that MGE's actual earnings have consistently fallen  
14      short of authorized earnings even in those years during, or immediately after, which a rate  
15      increase has been authorized. Therefore, I do not believe that filing rate cases more  
16      frequently would solve the earnings problem MGE has identified and which the Staff does  
17      not apparently dispute.

18  
19      Additionally, the rate case process is time consuming and expensive, not just to MGE, but to  
20      all of the other participants, including the Commission and its Staff. Ultimately, customers  
21      bear the brunt of these costs and, in an effort to prevent customers from bearing needless  
22      costs, it makes sense to take steps in this rate case which are designed to limit the frequency

1 of future MGE rate filings while providing MGE with a real opportunity to achieve a  
2 reasonable earnings level.

3  
4 **Q. IS THERE ANOTHER ALTERNATIVE TO SIMPLY FILING MORE FREQUENT**  
5 **RATE CASES?**

6 A. Yes. I am pleased that the Staff has endorsed the residential rate design MGE has proposed  
7 in this case. Adoption of that rate design by the Commission will significantly improve –  
8 while in no way guaranteeing – MGE’s ability to achieve its Commission-authorized  
9 earnings level. That being said, other significant issues also remain to be resolved by the  
10 Commission in terms of overall revenue requirement, and the Commission must decide those  
11 issues in a reasonable way if MGE is to have a meaningful opportunity to compete for the  
12 capital it needs to continue to operate, maintain and extend its facilities for the benefit of its  
13 gas service customers.

14  
15 Ultimately, the Commission resolution of this case 1) must provide MGE with a reasonable  
16 opportunity to achieve its Commission-authorized return and 2) that Commission-authorized  
17 return must be sufficient to enable MGE to compete in the capital markets. If the resolution  
18 of this case does not meet these two fundamental criteria – both of which are within the  
19 Commission’s span of control – MGE will be left with no choice but to file another general  
20 rate proceeding closely on the heels of this one. I do not believe such a result to be in the  
21 best interest of any of MGE’s primary stakeholder groups (customers, employees or  
22 shareholders).

1

2 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

3 A. Yes, at this time.

4

5

6

7

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's  
Tariff Sheets Designed to Increase Rates  
for Gas Service in the Company's Missouri  
Service Area.

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Case No. GR-2006-0422

AFFIDAVIT OF ROBERT J. HACK

STATE OF MISSOURI )

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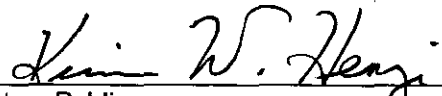
ss.

COUNTY OF JACKSON )

Robert J. Hack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

  
\_\_\_\_\_  
ROBERT J. HACK

Subscribed and sworn to before me this 5<sup>th</sup> day of December 2006.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: Feb. 3, 2007

