Exhibit No.:	______________
Issues:	Policy
Witness:	Robert J. Hack
Sponsoring Party:	Missouri Gas Energy
Case No.:	GR-2009-0355
Date Testimony Prepared:	October 14, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

SURREBUTTAL TESTIMONY OF

ROBERT J. HACK

Jefferson City, Missouri

October 2009

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INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Robert J. Hack, and my business address is 3420 Broadway, Kansas City, Missouri 64111.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. Yes. I filed direct testimony in April of 2009 and rebuttal testimony in September of 2009.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. I will respond to certain portions of the rebuttal testimony of Staff witness Mark Oligschlaeger regarding regulatory policy.

RESPONSE TO REBUTTAL TESTIMONY OF M. OLIGSCHLAEGER

Q. HAS MR. OLIGSCHLAEGER DISPUTED THE FUNDAMENTAL PREMISE UNDERLYING YOUR DIRECT TESTIMONY, NAMELY, THAT MGE'S EARNINGS LEVELS CONSISTENTLY FALL SHORT OF THE COMMISSION-AUTHORIZED EARNINGS LEVEL EVEN THOUGH MGE PROVIDES HIGH QUALITY CUSTOMER SERVICE AT PRICES AND COSTS THAT COMPARE FAVORABLY TO PEER COMPANIES?

A. No. While Mr. Oligschlaeger offers a number of caveats and concerns at a detailed level, he does not deny my general assertion that MGE has routinely failed to achieve the Commission-authorized earnings level even though MGE provides high quality customer service at prices and costs that compare favorably to peer companies.

Q. DOES MR. OLIGSCHLAEGER ACKNOWLEDGE THAT THE ECONOMIC REGULATORY PROCESS AS PRACTICED AT THE MISSOURI PUBLIC SERVICE COMMISSION MAY CONTRIBUTE TO MGE'S CONSISTENT EARNINGS SHORTFALLS?

A. It appears that Mr. Oligschlaeger believes this to be true, because he testifies (at p. 21, line 21 through p. 22, line 4 of his rebuttal testimony) that

> [I]n Missouri, the traditional ratemaking process gives a utility an opportunity to recover its costs and earn a reasonable return on its investment. To the extent a utility's costs increase above the level upon which rates were set, all other things being equal, the utility's earnings will then decline. If the decline in earnings were significant enough, the utility would be expected to file for rate relief to have the opportunity to restore its earnings to a reasonable level. The Staff continues to believe that general rate proceedings are the best mechanism to determine whether a utility's rate levels are excessive, adequate

> or insufficient; and that single-issue ratemaking measures are inappropriate in most circumstances.

Q. IN YOUR DIRECT TESTIMONY ADDRESSING REGULATORY POLICY, DID YOU PROPOSE TO DO AWAY WITH GENERAL RATE PROCEEDINGS FOR MGE?

A. No. I expressed a desire to extend the period between MGE general rate proceedings to twice a decade, or once every 60 months. The reasons for this are simple: reduce regulatory costs borne by customers with little risk that MGE's rates will become excessive.

Q. HOW WOULD EXTENDING THE PERIOD BETWEEN MGE GENERAL RATE PROCEEDINGS REDUCE REGULATORY COSTS BORNE BY CUSTOMERS?

A. Since its inception on February 1, 1994, MGE has filed a general rate case about once every 32 months. MGE's cost for each of these proceedings have averaged about $684,000. So effectively doubling the time period between rate cases (from 32 months to 60 months) would cut almost in half the MGE rate case costs included in customer rates.

While this cost reduction would be beneficial to customers, it is not the only cost reduction that would accrue to the benefit of customers if the time period between MGE rate cases could be extended. The Commission and its Staff, who also dedicate significant resources to the processing of MGE rate proceedings, would be able to work on matters other than MGE rate cases, likely reducing the assessment from the Commission that is included in MGE's rates. The Office of the Public Counsel also devotes its resources to MGE rate cases, which resources could be re-allocated to other uses if the time period between MGE rate cases is extended. Other parties to MGE cases – including the Midwest Gas Users Association and MDNR – also devote resources to MGE rate cases the costs of which I presume are borne by customers either directly in the form of payments to service providers or indirectly in the form of tax revenues.

Q. WHY DO YOU BELIEVE THAT EXTENDING THE TIME PERIOD BETWEEN MGE RATE CASES FROM 32 MONTHS TO 60 MONTHS PRESENTS LITTLE RISK THAT MGE'S RATES WOULD BECOME EXCESSIVE?

A. First, I am unaware of any Commission ruling finding that a natural gas local distribution company's distribution rates were excessive and needed to be reduced. Even the existence of allegations of over-earning by a natural gas local distribution company is exceedingly rare, having occurred only once in Missouri, to the best of my knowledge.

Second, MGE's experience since 1994 shows that even with regular rate case filings, MGE's actual earnings consistently fall short of the Commission-authorized level.

Given the nature of MGE's business, cost, revenue and investment patterns, a reasonable view of the future would be generally consistent with the past, with revenue requirement increasing over time. Technology is not presenting material new revenue sources or cost reduction opportunities for MGE that would be likely to significantly outpace the generally increasing trend of revenue requirement increases for MGE.

Q. HOW WOULD IT BE POSSIBLE TO EXTEND THE TIME PERIOD BETWEEN MGE RATE CASES FROM 32 MONTHS TO 60 MONTHS?

A. The ratemaking process as applied to MGE would need to change significantly to mitigate the earnings-eroding effect of regulatory lag. Even with the meaningful improvements MGE has experienced in the recent past (ISRS since 2004 and straight fixed-variable rate design since 2007), MGE's actual earnings have continued to fall short of Commission-authorized levels and we have still been required to file general rate cases with a high degree of frequency to ensure that our rates keep some semblance of pace with our cost of service.

In this proceeding, we have offered some ideas for change to mitigate the earnings-eroding effect of regulatory lag on MGE (expanding straight fixed-variable into the small commercial customer class; making use of a tracker for uncollectible gas costs; making use of a tracker for FERC regulatory costs, etc.), but other approaches certainly exist and could be considered.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.