

Exhibit No.: _____
Issue: Policy
Witness: Robert J. Hack
Exhibit Type: Surrebuttal Testimony
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

SURREBUTTAL TESTIMONY

OF

ROBERT J. HACK

ON BEHALF OF MISSOURI GAS ENERGY

Jefferson City, Missouri

December 2006

**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)	Case No. GR-2006-0422
for Gas Service in the Company's Missouri)	
Service Area.)	

AFFIDAVIT OF ROBERT J. HACK

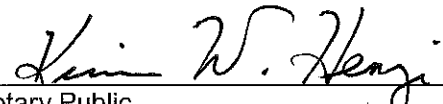
STATE OF MISSOURI)	
)	ss.
COUNTY OF JACKSON)	

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 5th day of December 2006.



Notary Public

Kim W. Henzl
Notary Public - Notary Seal
State of Missouri
Jackson County
My Commission Expires Feb. 3, 2007

My Commission Expires: Feb. 3, 2007