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DEC 18 2009

Missouri Public
Service Commission

Exhibit No.:

Issues: *Prepaid Pension Asset,
Rate Case Expense*

Witness: *Keith D. Foster*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *True-up Rebuttal Testimony*

Case No: *GR-2009-0355*

Date Testimony Prepared: *December 3, 2009*

**MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION**

TRUE-UP REBUTTAL TESTIMONY

OF

KEITH D. FOSTER

**MISSOURI GAS ENERGY,
a Division of Southern Union Company**

CASE NO. GR-2009-0355

*Jefferson City, Missouri
December 2009*

Exhibit No. 113
Case No(s). GR-2009-0355
Date 12/8/09 Rptr MM

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OF

KEITH D. FOSTER

MISSOURI GAS ENERGY,
a Division of Southern Union Company

CASE NO. GR-2009-0355

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1 **TRUE-UP REBUTTAL TESTIMONY**

2 **OF**

3 **KEITH D. FOSTER**

4 **MISSOURI GAS ENERGY,**
5 **a Division of Southern Union Company**

6 **CASE NO. GR-2009-0355**

7 Q. Please state your name and business address.

8 A. Keith D. Foster, 200 Madison Street, Suite 440, Jefferson City, Missouri
9 65101.

10 Q. Are you the same Keith D. Foster who participated in the preparation of the
11 Staff's Cost of Service Report, filed August 21, 2009; rebuttal testimony, filed September 28,
12 2009; and surrebuttal testimony, filed October 14, 2009, for this case?

13 A. Yes.

14 Q. What is the purpose of your true-up rebuttal testimony?

15 A. My true-up rebuttal testimony addresses the true-up direct testimonies of
16 Missouri Gas Energy (MGE or Company) witness Michael R. Noack regarding Prepaid
17 Pension Asset, and Office of the Public Counsel (OPC) witness Ted Robertson regarding Rate
18 Case Expense.

19 **PREPAID PENSION ASSET**

20 Q. What is MGE's recommended rate base level of Prepaid Pension Asset (PPA)
21 for true-up in this case?

22 A. MGE is recommending \$18,430,238 be included in the Rate Base to account
23 for its computed value of the PPA, per True-Up Schedule MRN-2 attached to Mr. Noack's
24 true-up direct testimony.

True-up Rebuttal Testimony of
Keith D. Foster

1 Q. Does Staff agree this is the correct amount to be included in Rate Base for
2 MGE's PPA?

3 A. No. The Staff's true-up valuation of the PPA is \$14,008,810 per the Staff's
4 True-up Accounting Schedule 2, Rate Base.

5 Q. Why are the Staff's and the Company's recommendations different for this
6 item?

7 A. Based upon discussions with MGE, one reason is that, in this case, the
8 Company believes the amortization of the PPA balances previously established in MGE's
9 previous GR-2004-0209 and GR-2006-0422 cases should be assumed to begin after the
10 effective date of the order for each respective case.

11 Q. When does Staff believe the amortization should begin?

12 A. The month after the established PPA balance was "frozen." For example, the
13 PPA balance from Case No. GR-2004-0209 represented an accumulation of the amount of
14 MGE's pension fund contributions in excess of its pension expense rate recoveries that ended
15 at April 30, 2004, the end of the true-up period for that case. Given that this asset
16 balance was frozen at April 30, 2004, Staff believes the monthly amortization of this balance
17 should begin in May 2004. Similarly, a new PPA/regulatory asset tracker was
18 established in Case No. GR-2004-0209 to receive rate treatment in MGE's next rate case,
19 Case No. GR-2006-0422. The new PPA/regulatory asset tracker balance established in that
20 case was frozen at June 30, 2006. Staff believes the monthly amortization of this balance
21 should begin in July 2006.

22 Q. Has the Staff taken this approach consistently since amortization of PPAs
23 began in MGE's 2004 rate case?

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Keith D. Foster

1 A. Yes, it has.

2 Q. When does MGE assume the start of the amortization of these two PPA
3 balances for this case?

4 A. For Case No. GR-2004-0209, the effective date of the order was October 2,
5 2004, so the Company proposes to begin the amortization with October 2004. For Case No.
6 GR-2006-0422, the effective date of the order was March 30, 2007, so the Company proposes
7 to begin the amortization with April 2007.

8 Q. Is MGE's current proposal for treatment of amortization consistent with the
9 Company's position in past rate case filings?

10 A. No. That is what is puzzling about MGE's current position on this issue. Case
11 No. GR-2006-0422 was the first time the PPA established in GR-2004-0209 was amortized in
12 a rate case. Case No. GR-2004-0209 established a PPA balance of \$7,975,171 to be
13 amortized over seven (7) years, or 84 months, at a rate of \$94,942.51 per month.

14 Q. Did MGE assume that the amortization of the GR-2004-0209 PPA started in
15 October 2004 in its rate filing in Case No. GR-2006-0422?

16 A. No, it did not. MGE's 2006 rate case filing included a PPA balance in rate
17 base that assumed the amortization of the 2004 PPA balance started in May 2004, consistent
18 with Staff's approach in this case. Schedule E-5, Prepaid Pension, attached to the
19 November 21, 2006 Rebuttal Testimony of Michael R. Noack, line 3, shows an "amortization
20 since GR-2004-0209" of \$2,468,508 deducted from a balance at 4/30/04 of \$7,974,181 in
21 computing a new balance at June 30, 2006. The \$2,468,508 amount is equal to 26 months of
22 amortization. The period from May 1, 2004 to June 30, 2006 represents exactly 26 months.

23 Q. Why does it matter when the PPA amortization period starts?

True-up Rebuttal Testimony of
Keith D. Foster

1 A. Amortization of the PPA has the effect of reducing the rate base value of the
2 PPA. Therefore, the later it is assumed that the amortization period starts, the higher the
3 amount of the Prepaid Pension Asset to include in rate base.

4 Q. What is Staff's position on when amortization of the PPA should begin?

5 A. Once the Company has stopped accumulating an asset subject to amortization,
6 and has "frozen" the balance, the amortization should take effect immediately in most cases.
7 The Company should not attempt to "time" the recognition of its expenses so as to maximize
8 its rate recovery in a rate proceeding. It is inappropriate to attempt to synchronize the starting
9 point of expense amortizations with the start of a rate recovery period, when it is highly
10 doubtful that the expiration of the amortization expense will coincide with a new rate
11 recovery period in which the decrease in revenue requirement could be immediately passed on
12 to customers in rates. This situation, if allowed, could lead to guaranteed over-recovery of the
13 amortization expenses in rates by the utility.

14 Q. Besides using Staff's approach to quantification of the Prepaid Pension Asset
15 in Case No. GR-2006-0422, has the Company submitted any other evidence that supports the
16 Staff's PPA amortization approach?

17 A. Yes, it has. The Company submitted workpapers in support of its initial filing
18 for this case. As part of its pension workpapers, the Company provided a New Pension
19 Numbers 2009.xls file, a copy of which I have attached to this testimony. The "Sheet2" tab in
20 this workpaper contains a month-by-month amortization of both the \$7,975,171 prepaid
21 pension asset established in the GR-2004-0209 case and the \$4,016,500 pension tracker
22 balance established in the GR-2006-0422 case. Note the first amortization of the balance for
23 the 2004 Prepaid Asset at April 30, 2004 is shown on this worksheet on May 31, 2004, the

True-up Rebuttal Testimony of
Keith D. Foster

1 month after the balance was established in that rate case. Also note the first Amortization for
2 the 2006 Prepaid Pension Asset at June 30, 2006 on this worksheet is shown at July 31, 2006;
3 again, the month after the balance was established in that rate case. Neither of these
4 amortization tables shows the monthly amortization of these assets beginning the month after
5 the effective date of the order for each respective rate case. So, MGE is advocating a position
6 on this issue for ratemaking purposes that is inconsistent with what its own workpapers show
7 on this question.

8 Q. Does Staff believe that MGE is raising its concerns regarding the Prepaid
9 Pension Asset on a timely basis?

10 A. No, the Staff believes that these issues do not belong in the true-up phase of
11 the case. Please refer to the true-up rebuttal testimony of Staff witness Mark L. Oligschlaeger
12 of the Auditing Department for a full explanation of this position.

13 **RATE CASE EXPENSE**

14 Q. What is OPC's position in this case regarding the appropriate level of rate case
15 expense to include for true-up?

16 A. Based upon the true-up direct testimony of Mr. Robertson, OPC advocated
17 exclusion of all costs incurred in the true-up period for legal representation and outside
18 consultants.

19 Q. Does Staff agree with this position?

20 A. No, for the same reasons previously stated in my rebuttal testimony filed
21 September 28, 2009.

True-up Rebuttal Testimony of
Keith D. Foster

1 Q. What is OPC's position in this case regarding the allowance of the additional
2 estimated costs for rate case expense?

3 A. Again, based upon Mr. Robertson's true-up direct testimony, OPC does not
4 believe the company should be allowed to recover an estimate of the additional rate case
5 expenses MGE will incur past the cut-off point for the true-up.

6 Q. Does Staff agree with this position?

7 A. No. This position appears to be inconsistent with the terms of the Partial
8 Stipulation and Agreement (Stipulation) filed November 5, 2009, to which OPC is a signatory
9 party. The Stipulation states on page 4, item 8.b. that "the following items will be a part of
10 the true-up in this case in regard to total operating expenses:" "iii. Rate case expense (to be
11 updated through September 30, 2009 and *to include an estimate for remainder of the case.*"
12 (emphasis added)

13 Q. Does the Staff normally recommend including in rates an allowance for rate
14 case expense incurred after the cut-off date for a test year, test year update period or true-up?

15 A. Yes. The Staff has made this recommendation in a number of cases.

16 Q. Does this conclude your true-up rebuttal testimony in this case?

17 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy and Its)
Tariff Filing to Implement a General Rate) Case No. GR-2009-0355
Increase for Natural Gas Service)
)

KEITH D. FOSTER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

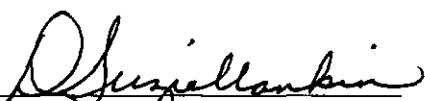
Keith D. Foster, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Rebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing True-Up Rebuttal Testimony were given by 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.



Keith D. Foster

Subscribed and sworn to before me this 3rd day of December, 2009.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 08, 2012 Commission Number: 08412071
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Notary Public

Prepaid Pension Asset 2,658,391 12/31/2008

Cash contribution per actuary report	
1/15/2008	1,182,131
4/15/2008	3,300,000
7/15/2008	3,300,000
10/15/2008	3,300,000
	<u>11,082,131</u>

Expense Ratio 80.5444%

To reflect the amortization of MGE's prepaid pension asset amount (\$7,975,171 at 4/30/2004) over 7 years 1,139,310

To reflect the amortization of MGE's prepaid pension asset amount (\$4,016,500 at 6/30/2006) over 5 years 803,300

Table with 7 columns: Date, Deferral, Amortization, Balance, Deferral, Amortization, Balance, Deferral, Amortization, Balance, Deferral, Amortization, Balance. Rows include dates from 4/30/2004 to 8/31/2009 and values for Prepaid Asset from 04/30/2004, Prepaid Asset from 05/30/2006, Prepaid Asset from 06/30/2008, and Net Prepaid Asset.

Prepaid Asset from 04/30/2004				Prepaid Asset from 08/30/2006				Prepaid Asset from 08/30/2008				Net Prepaid Asset			
	Deferral	Amortization	Balance		Deferral	Amortization	Balance		Deferral	Amortization	Balance		Deferral	Amortization	Balance
9/30/2009	(94,942.50)		1,803,908.50	9/30/2009	(66,941.67)		1,405,774.87	9/30/2009			0.00	9/30/2009			(506,616.63)
10/31/2009	(94,942.50)		1,708,966.00	10/31/2009	(66,941.67)		1,338,833.20	10/31/2009			0.00	10/31/2009			(668,700.60)
11/30/2009	(94,942.50)		1,614,023.50	11/30/2009	(66,941.67)		1,271,891.53	11/30/2009			0.00	11/30/2009			(1,130,584.97)
12/31/2009	(94,942.50)		1,519,081.00	12/31/2009	(66,941.67)		1,204,948.86	12/31/2009			0.00	12/31/2009			(1,292,469.14)
1/31/2010	(94,942.50)		1,424,138.50	1/31/2010	(66,941.67)		1,138,006.19	1/31/2010			0.00	1/31/2010			(1,454,353.31)
2/28/2010	(94,942.50)		1,329,196.00	2/28/2010	(66,941.67)		1,071,063.52	2/28/2010			0.00	2/28/2010			(1,616,237.48)
3/31/2010	(94,942.50)		1,234,253.50	3/31/2010	(66,941.67)		1,004,120.85	3/31/2010			0.00	3/31/2010			(1,778,121.65)
4/30/2010	(94,942.50)		1,139,311.00	4/30/2010	(66,941.67)		937,178.18	4/30/2010			0.00	4/30/2010			(1,940,005.82)
5/31/2010	(94,942.50)		1,044,368.50	5/31/2010	(66,941.67)		870,241.51	5/31/2010			0.00	5/31/2010			(2,101,889.99)
6/30/2010	(94,942.50)		949,426.00	6/30/2010	(66,941.67)		803,298.84	6/30/2010			0.00	6/30/2010			(2,263,774.16)
7/31/2010	(94,942.50)		854,483.50	7/31/2010	(66,941.67)		736,356.17	7/31/2010			0.00	7/31/2010			(2,425,658.33)
8/31/2010	(94,942.50)		759,541.00	8/31/2010	(66,941.67)		669,413.50	8/31/2010			0.00	8/31/2010			(2,587,542.50)
9/30/2010	(94,942.50)		664,598.50	9/30/2010	(66,941.67)		602,470.83	9/30/2010			0.00	9/30/2010			(2,749,426.67)
10/31/2010	(94,942.50)		569,656.00	10/31/2010	(66,941.67)		535,528.16	10/31/2010			0.00	10/31/2010			(2,911,310.84)
11/30/2010	(94,942.50)		474,713.50	11/30/2010	(66,941.67)		468,585.49	11/30/2010			0.00	11/30/2010			(3,073,195.01)
12/31/2010	(94,942.50)		379,771.00	12/31/2010	(66,941.67)		401,642.82	12/31/2010			0.00	12/31/2010			(3,235,079.18)
1/31/2011	(94,942.50)		284,828.50	1/31/2011	(66,941.67)		334,700.15	1/31/2011			0.00	1/31/2011			(3,396,963.35)
2/28/2011	(94,942.50)		189,886.00	2/28/2011	(66,941.67)		267,757.48	2/28/2011			0.00	2/28/2011			(3,558,847.52)
3/31/2011	(94,942.50)		94,943.50	3/31/2011	(66,941.67)		200,814.81	3/31/2011			0.00	3/31/2011			(3,720,731.69)
4/30/2011			0.00	4/30/2011	(66,941.67)		133,872.14	4/30/2011			0.00	4/30/2011			(3,882,615.86)
				5/31/2011	(66,941.67)		66,941.47	5/31/2011			0.00	5/31/2011			(3,949,558.53)
				6/30/2011	(66,941.67)		0.00	6/30/2011			0.00	6/30/2011			(4,016,500.00)

**Missouri Gas Energy
Pension Recovery in Rates**

	<u>FAS 87 from R&W</u>	<u>Allowed in Rates</u>	<u>Expensed per Books</u>	<u>Deferred Unrecovered</u>	<u>Cash Fundings</u>	<u>18230026 Activity</u>	<u>18230026 Deferral</u>
Balance @ 12/31/2004							3,838,205
2005	7,183,909	1,139,311	1,139,311	6,044,598	3,832,137	1,035,757	10,918,560
2006	8,849,757	1,139,311	1,139,311	7,710,446	4,016,500	(471,147)	18,157,859
2007	9,608,472	8,023,568	8,023,568	1,584,904	17,210,627	0	19,742,763
2008	7,590,097	10,318,319	10,318,319	(2,728,222)	11,082,131		17,014,541
2009	10,818,000	10,318,319	10,318,319	499,681	3,300,000		17,514,222
3 Year Avg	28,016,569	28,660,206	28,660,206		31,592,758		
	9,338,856	9,553,402	9,553,402		10,530,919		

	<u>FAS 87 - 3 Year Average</u>	<u>3 Year Avg Cash Fundings</u>	<u>Average of the 2 Options</u>
7 Year Amortization of Deferred Asset	9,338,856	10,530,919	9,934,888
	2,919,037	2,919,037	2,919,037
Rate Recovery Amount	<u>12,257,893</u>	<u>13,449,956</u>	<u>12,853,925</u>

Would stop deferring any difference between FAS 87 amount and amount in rates as of December 31, 2009.
Start recording in 2010 the FAS 87 amount plus the amortization of the deferral until fully amortized.

company	account	amount	month_num	month_peri	header_name	header_description
230	18230026	4,808,012.00	200509	46	230-06101-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	1,110,534.25	200509	46	230-06101-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	534,224.00	200511	16	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	534,224.00	200511	31	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	534,229.00	200512	32	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200601	54	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200602	24	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200604	25	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200605	31	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200606	43	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200607	40	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200608	52	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200609	15	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200610	36	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	661,030.58	200611	29	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	2,704,269.00	200612	117	230-21400-JDLASSMAN	ADJUSTMENTS TO FAS 87 & 106
230	18230026	661,030.62	200612	50	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	709,224.00	200701	33	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	709,224.00	200702	45	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	(12,043.97)	200703	114	230-20900-JDLASSMAN	FAS 158 True-up
230	18230026	709,224.00	200703	68	230-06100-EMCHAMBERS	Accrue Pension - FAS 87
230	18230026	705,209.33	200704	67	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	705,209.33	200705	60	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(1,176,540.00)	200705	102	230-06101-JDLASSMAN	TRUE-UP PENSION EXPENSE PER RATE ORDER
230	18230026	116,939.33	200706	49	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	116,939.33	200707	34	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	116,939.33	200708	55	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	280,516.17	200709	80	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(561,032.34)	200710	40	230-20100-EMCHAMBERS	Misc
230	18230026	(280,516.17)	200710	38	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(280,516.17)	200711	52	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	6,644.00	200712	128	230-04001-JDLASSMAN	TRUE-UP THE FAS 158 AMOUNT OF FAS 87 AND FAS 106
230	18230026	(280,516.17)	200712	65	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,859.00)	200801	101	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,859.00)	200802	69	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,859.00)	200803	41	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,859.00)	200804	42	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,859.00)	200805	43	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,860.00)	200806	35	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,860.00)	200807	40	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,860.00)	200808	42	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,860.00)	200809	41	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,860.00)	200810	32	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,860.00)	200811	75	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	(234,860.00)	200812	52	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	90,097.00	200812	121	230_04001_JDLASSMAN	TO RECORD TRUE-UP OF FAS 87 AND FAS 106
230	18230026	41,641.00	200901	91	230-04000-EMCHAMBERS	Record FAS 158
230	18230026	41,641.00	200902	28	230-04000-EMCHAMBERS	Record FAS 158