DEC 1 8 2009

Exhibit No :

Rate of Return, Capital Structure

Issues: Witness:

David Murray

Sponsoring Party: MoPSC Staff
Type of Exhibit: True-Up Rebuttal Testimony
Case No.: GR-2009-0355

December 3, 2009

Missouri Public
Service Commission

Case No.:

Date Testimony Prepared:

MISSOURI PUBLIC SERVICE COMMISSION UTILITY SERVICES DIVISION

TRUE-UP REBUTTAL TESTIMONY

OF

DAVID MURRAY

MISSOURI GAS ENERGY, a Division of Southern Union Company

CASE NO. GR-2009-0355

Jefferson City, Missouri December 2009

| 1 | | TRUE-UP REBUTTAL TESTIMONY |
|-----|--|--|
| 2 | | OF |
| 3 | | DAVID MURRAY |
| 4 5 | | MISSOURI GAS ENERGY, a Division of Southern Union Company |
| 6 | ı | CASE NO. GR-2009-0355 |
| 7 | Q. Ple | ease state your name. |
| 8 | A. My | y name is David Murray. |
| 9 | Q. Ar | e you the same David Murray who earlier filed rebuttal, surrebuttal and |
| 1.0 | true-up direct tes | stimony in this proceeding on behalf of the Staff of the Missouri Public |
| 1.1 | Service Commission (Staff) and, in addition, was responsible for the section of the Staff's | |
| 12 | Cost of Service Report (COS Report) filed August 21, 2009 concerning cost of capital issues? | |
| 13 | A. Ye | es, I am. |
| 14 | Q. In | the COS Report, did you recommend a fair and reasonable rate of return |
| 15 | (ROR) for the Missouri jurisdictional natural gas utility rate base for Missouri Gas Energy, a | |
| 16 | Division of Southern Union Company (MGE)? | |
| 17 | A. Ye | es, I did. |
| 18 | Q. W | hat is the purpose of your true-up rebuttal testimony? |
| 19 | A. Th | ne purpose of my true-up rebuttal testimony is to reply to Company Witness |
| 20 | Mike Noack's True-up Direct Testimony, which did not include a true-up of Company | |
| 21 | Witness Frank J. Hanley's recommended hypothetical capital structure and hypothetical | |
| 22 | embedded costs. | |
| 23 | Q. W | hy didn't MGE true-up the hypothetical capital structure and the embedded |
| 24 | costs associated with this capital structure? | |

2.22.3

- A. Mr. Noack maintains that MGE is not requesting a true-up of capital structure and embedded costs of capital because the Company's rate-of-return (ROR) witness recommended using a hypothetical capital structure and embedded costs.
- Q. Should the type of methodology used to estimate a fair ROR be the primary driver in determining whether to true-up ROR costs?
- A. No. Costs of capital and capital structures continually change due to changes in the capital markets. This point is equally true regardless of whether a party advocates for a hypothetical capital structure or an actual company-specific capital structure. If the parties agreed to perform a general true-up of cost of service items in this case, then the ROR costs (both capital structure and debt rates) should be trued-up as well.
- Q. Is there a specific reason in this case that emphasizes the need to evaluate ROR information through the true-up date?
- A. Yes, because short-term debt costs are generally more volatile than long-term capital costs and the revenue requirement difference between the Staff's trued-up cost of short-term debt and MGE's updated cost of short-term debt is material in this case (approximately \$1.5 million). For these reasons, the use of the true-up period in evaluating evidence on the current cost of short-term debt is very valuable.
- Q. What did the evidence on the cost of short-term debt that you provided in your true-up direct testimony prove?
- A. It proves that natural gas companies continue to benefit from an environment of low cost of short-term debt. This should be reflected in MGE's cost of service.
 - Q. Does this conclude your prepared true-up rebuttal testimony?
 - A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

| In the Matter of Missouri Gas Energy and It Tariff Filing to Implement a General Rat Increase for Natural Gas Service | | | |
|--|------------------------------|--|--|
| AFFIDAVIT OF DAVID MURRAY | | | |
| STATE OF MISSOURI)) ss. COUNTY OF COLE) | | | |
| David Murray, 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 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. | | | |
| | David Murray | | |
| Subscribed and sworn to before me this | 3 day of December, 2009. | | |
| D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cote County My Commission Expires: December 08, 2012 Commission Number: 08412071 | Dunellankin Notary Public | | |