

Exhibit No.: _____
Issues: Policy
Witness: Robert J. Hack
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2009-_____
Date Testimony Prepared: April 2, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-

FILED²

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Missouri Public
Service Commission

DIRECT TESTIMONY OF

ROBERT J. HACK

Jefferson City, Missouri

April 2009

MGE Exhibit No. 10
Case No(s). GR-2009-0355
Date 10-26-09 Rptr KF

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DIRECT TESTIMONY OF

ROBERT J. HACK

CASE NO. GR-2009-

April 2009

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

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

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the Chief Operating Officer of Missouri Gas Energy ("MGE" or "Company"), a
7 division of Southern Union Company.

8

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. I graduated from Southern Methodist University with a B.A. in English Literature and
11 from the University of Kansas School of Law with a law degree.

12

13 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

14 A. I have been in my present position since January 2006.

15

16 Prior to being named Chief Operating Officer of MGE, I served as MGE's Vice
17 President of Pricing and Regulatory Affairs beginning in October 1998. I joined the
18 Company in September of 1996 as a senior attorney.

1
2 Prior to my employment with MGE, I worked in the general counsel's office of the
3 Missouri Public Service Commission ("Commission", beginning in February of
4 1989), serving in various positions including assistant general counsel, deputy general
5 counsel and general counsel. My employment with the Commission ceased in July
6 1996.

7
8 Since 1989, therefore, my career has been focused on regulated public utilities
9 generally and, since 1996, on MGE as a regulated natural gas local distribution
10 company ("LDC").
11

12 **1. EXECUTIVE SUMMARY**

13 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

14 A. First, I will explain the fundamental business model my team continues to implement
15 at MGE, which is to be a low-cost local distributor of natural gas with quality
16 customer service while appropriately balancing the interests of our primary
17 stakeholder groups. In the course of this explanation I will reiterate the emphasis
18 MGE has placed, and will seek to continue to place, on quality customer service. I
19 will also provide examples of how MGE has implemented this business model.
20

21 Next, I will provide an overall perspective on the impact of the ratemaking process
22 that MGE has experienced historically, with particular emphasis on improvements
23 resulting from recent regulatory and legislative initiatives. Even with these, however,

1 MGE has not been able to achieve its Commission-authorized rate of return through
2 regulated distribution rates due to a variety of factors. As a result, I will suggest
3 additional enhancements to the ratemaking process. In so doing, I will address certain
4 fundamental business challenges faced by MGE and the related critical policy issues
5 that I believe the Commission should address in setting rates for MGE.

6
7 Finally, I will discuss the major reasons for the Company's decision to file a general
8 rate case at this time: 1) MGE's continued inability to achieve our Commission-
9 authorized rate of return, driven primarily by a) environmental remediation costs
10 incurred in connection with former manufactured gas plant ("FMGP") sites, b) rising
11 employee-related costs, largely in relation to recently approved agreements with our
12 collective bargaining units, and c) steadily increasing uncollectibles; and 2) the need
13 for MGE to obtain an authorized rate of return from the Commission that is
14 competitive in the industry and commensurate with the risks borne by the
15 shareholders who invest in MGE. I will also introduce the other MGE witnesses
16 presenting direct testimony.

17
18 **2. MGE IS COMMITTED TO BEING A LOW-COST LOCAL DISTRIBUTOR**
19 **OF NATURAL GAS WITH QUALITY CUSTOMER SERVICE**
20

21 **Q. PLEASE EXPLAIN THE FUNDAMENTAL BUSINESS STRATEGY YOU**
22 **ARE CONTINUING TO IMPLEMENT AT MGE.**

23 **A.** Our fundamental business strategy is to be a low-cost local distributor of natural gas
24 with quality customer service. When I began my work as MGE's Chief Operating

1 Officer in January of 2006, this overall direction was already in place. Implementing
2 this strategy requires a balance of cost management and quality customer service.

3
4 **Q. WHAT GUIDING PRINCIPLES DO YOU USE IN FURTHERANCE OF**
5 **MGE'S FUNDAMENTAL BUSINESS STRATEGY?**

6 A. Safety is our first priority. Natural gas is safe when contained, but it is a combustible
7 commodity and can be hazardous if not contained. We take very seriously the need to
8 safeguard our customers and employees as well as the public generally. We also
9 emphasize safety throughout the business in everyday activities like driving vehicles,
10 lifting objects, and other day-to-day undertakings.

11
12 For a business to be a lasting success, its management must successfully balance the
13 interests of three key constituencies: employees, customers and shareholders. We try
14 to keep this fact in mind whenever we make decisions.

15
16 In my opinion, shareholders are not likely to be satisfied if customers are not pleased,
17 and customers are not likely to be pleased if employees are unhappy. Therefore,
18 MGE places heavy emphasis on employee and customer satisfaction.

19
20 **Q. CAN YOU PROVIDE EXAMPLES OF HOW MGE HAS EMPHASIZED**
21 **EMPLOYEE SATISFACTION?**

22 A. We continue to strive for a constructive and non-adversarial working relationship
23 with our bargaining unit employees through periodic meetings to address issues of

1 mutual concern and to help build a more efficient and effective company. I am
2 pleased to report that in January of this year, our collective bargaining units voted to
3 approve a new contract that had been negotiated over several weeks from October
4 through December of 2008. This five-year contract (our third five-year contract in a
5 row) was approved nearly four months prior to the expiration of the existing contract,
6 allowing both collective bargaining unit employees and management to avoid the
7 anxiety and instability that can result from uncertain last-minute negotiations.

8
9 We also devote substantial efforts to ensuring effective communication with
10 employees. The MGE senior management team conducts "all-employee" meetings
11 two times a year throughout our service territory. We have also instituted bi-annual
12 "leadership forum" meetings, during which virtually all professional and supervisory
13 employees are provided with in-depth information concerning critical company
14 activities so they may provide effective responses to questions from the employees
15 who report to them or with whom they may otherwise interact.

16
17 We also conduct employee surveys, typically every twelve to eighteen months, to
18 obtain feedback from employees.

19
20 **Q. HOW DO YOU RATE MGE'S EMPLOYEE SATISFACTION EFFORTS?**

21 **A.** I think we have done a good job, although new challenges are always on the horizon.
22 In order to meet these challenges successfully, we need employees who understand

1 where we are going, who believe in that direction and who are motivated to get there.

2 Thus, MGE will continue to emphasize employee communication and satisfaction.

3

4 **Q. CAN YOU PROVIDE EXAMPLES OF HOW MGE HAS EMPHASIZED**
5 **CUSTOMER SATISFACTION?**

6 A. MGE's customer satisfaction efforts were well under way upon my promotion in
7 January of 2006. Financial resources permitting, I intend to continue those efforts.
8 We encourage our employees to work with the "mind of a customer and the pride of
9 an owner," and most of them are doing so. We are continually striving to make it
10 easier for our customers to do business with MGE. Examples include efforts to
11 enhance the functionality of MGE's website and interactive voice response system.
12 As shown more specifically in the direct testimony of MGE witness Ron Crow, the
13 Company has achieved and generally maintained high quality customer service
14 performance levels. Technology deployment and process improvement efforts go
15 hand in hand with appropriate staffing levels to support customer satisfaction. During
16 the most recent contract negotiations with our collective bargaining units, we were
17 able to reach agreement on an apprentice program which will enable a more robust
18 training program for new employees hired in the field after April 30, 2009. As
19 explained in more detail below, MGE has achieved this high quality performance in a
20 very cost-effective fashion.

21

22 Since MGE's last rate case order took effect in April 2007, MGE has also embarked
23 upon energy efficiency and education initiatives unprecedented in MGE's history.

1

2 **Q. PLEASE SUMMARIZE THOSE EFFORTS.**

3 A. Those energy efficiency and education efforts were made possible by implementation
4 of a new rate structure which relied solely on a fixed monthly rate element for
5 recovery of distribution costs for MGE's residential customer class. These efforts
6 commenced in earnest in August 2007 and initially took the form of energy efficiency
7 education and a high efficiency water heater incentive program. Funding for these
8 programs at \$750,000 annually was included in MGE's rates.

9

10 As described in the direct testimony of MGE witness David Hendershot, as of March
11 30, 2009, 573 qualifying applications had been processed by MGE, with a total
12 incentive pay-out of \$87,400. Installation of these high-efficiency units is expected to
13 conserve natural gas usage by 244,830 Ccf and reduce carbon dioxide emissions by
14 4.5 million pounds over the expected lifetime of the units. Program success has
15 primarily been the result of strategic marketing and bill inserts, along with some radio
16 advertising. I am very proud of our efforts on these programs and I believe the
17 momentum that has been established will continue in the future.

18

19 A significant reason to believe that the success of MGE's high-efficiency water heater
20 incentive program will continue into the future is that the program has already begun
21 to attract new participants to the western Missouri tankless water heater market.
22 MGE initially partnered with a vendor, One Hour Shower, who dealt exclusively in
23 tankless water heaters as a Noritz representative. Largely as a result of the visibility

1 of One Hour Shower, which was assisted by the presence of MGE's high-efficiency
2 water heater program, other tankless vendors – Rinnai and Rheem - have begun to
3 increase their presence in the western Missouri market. This is an exciting
4 development that promises to bring the benefits of increased competition to MGE
5 customers.

6
7 **Q. DOES MGE ALSO SUPPORT THE COMMUNITIES IT SERVES?**

8 A. Yes. In addition to efforts to secure and increase appropriations for utility assistance
9 funding (LIHEAP at the national level and Utilicare at the state level) through our
10 own actions and action in concert with the American Gas Association, MGE
11 continues to support a number of community efforts designed to build capacity for the
12 support of citizens, who may be MGE customers, in need. As a founding member of
13 KC Cash, MGE has contributed to this organization's ability achieve 501(c)3 status,
14 hire staff and promote economic self-sufficiency through tax credits. This
15 organization has established numerous Volunteer Income Tax Assistance ("VITA")
16 sites and through the end of the 2007 tax year has seen more than 19,000 clients who
17 have received \$8.1 million in earned income tax credits ("EITC"). Partly as a result
18 of these efforts, the percentage of returns filed with EITC in Missouri is now 17%,
19 which is above the national average according to the Tax Policy Center Urban
20 Institute and Brookings Institution. Exit surveys of VITA site participants indicate
21 that a majority of individuals utilizing the sites and receiving tax credits, utilize the
22 dollars for bill payment, including utility and grocery bills.

1 MGE is actively involved in the communities we serve to collaborate, inform, and
2 enhance customer solutions through participation with numerous community
3 organizations, including: the Committee to Keep Missourians Warm ("CKMW"),
4 MidAmerica Assistance Coalition, Area Agencies on Aging, Housing Services
5 Coalition, social service agencies, National Fuel Funds Network, and Chambers of
6 Commerce.

7
8 **Q. HOW DO YOU RATE MGE'S CUSTOMER SATISFACTION EFFORTS?**

9 A. Although more work and improvement in this area will always be possible, I think we
10 have done a good job, especially when appropriate consideration is given to MGE's
11 consistent earnings shortfalls.

1 Q. DO YOU HAVE ANY INFORMATION SHOWING HOW MGE'S COSTS
2 COMPARE TO OTHER REASONABLY COMPARABLE NATURAL GAS
3 LOCAL DISTRIBUTION COMPANIES IN MISSOURI?

4 A. As shown in the direct testimony of MGE witness Michael R. Noack, MGE provides
5 service cost-effectively. The following chart, which is based on Mr. Noack's
6 analysis, compares MGE's annual per customer operations and maintenance
7 ("O&M") costs to other reasonably comparable Missouri LDCs (i.e., larger LDCs
8 with a meaningful proportion of their customer base that is served in urban or
9 suburban areas).

	<u>MGE</u>	<u>Laclede</u>	<u>AmerenUE</u>	<u>MoPub/Empire</u>
10 1998	\$116.85	\$166.35	\$167.82	\$185.21
11 1999	\$115.37	\$162.00	\$167.01	\$180.30
12 2000	\$119.81	\$164.89	\$184.86	\$212.23
13 2001	\$141.59	\$188.43	\$215.26	\$224.42
14 2002	\$117.35	\$193.29	\$274.22	\$252.15
15 2003	\$141.04	\$212.95	\$237.04	\$204.56
16 2004	\$150.58	\$216.96	\$197.07	\$214.26
17 2005	\$142.95	\$225.02	\$224.90	\$217.56
18 2006	\$148.69	\$231.59	\$222.73	\$193.78
19 2007	\$179.68	\$242.51	\$259.47	\$264.49
20				
21				

22 Also as shown in the direct testimony of MGE witness Noack, a comparison of
23 annual residential bills on the basis of margin rates (the sum of the fixed monthly rate
24 element plus volumetric delivery rates, as applicable, and excluding PGA rates)
25 shows that MGE is lower-priced than these companies. The following chart, based on
26 Mr. Noack's analysis, shows that MGE is the lowest price provider.

	<u>MGE</u>	<u>Laclede</u>	<u>AmerenUE</u>	<u>Empire</u>
27				
28				
29	\$295.44	\$373.33	\$378.55	\$339.58
30				

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Q. AS SOMEONE WITH SUBSTANTIAL EXPERIENCE IN THE AREA OF UTILITY REGULATION AND LDC OPERATIONS, HOW WOULD YOU CHARACTERIZE RELIANCE ON MR. NOACK'S ANALYSIS FOR THE PURPOSE OF COMPARING MGE'S COSTS AND PRICES TO OTHER MISSOURI LDCs?

A. I consider it reasonable to rely on his analysis for this purpose.

Q. PLEASE EXPLAIN.

A. Yes. The purpose of these cost and price comparisons is not to establish that MGE is identical to these other companies or that these other companies are identical to MGE or one another; they are clearly not identical to one another. However, I believe it is reasonable to make these comparisons because they are based only on LDC operations in Missouri that have at least some meaningful urban or suburban service territory and are therefore subject to similar, if not always identical, economic and operating conditions and regulatory requirements. Perhaps more pertinent, though, increasing MGE's residential margin (i.e., non-gas cost) revenues by \$3.66 per month (or \$44 per year, which would produce an annual revenue increase of more than \$19 million) would still leave MGE's residential customers paying less than the residential customers of those other Missouri companies.

1 Q. MR. HACK, IS MGE COMMITTED TO ACHIEVING CUSTOMER
2 SERVICE PERFORMANCE LEVELS IN THE FUTURE SIMILAR TO
3 THOSE WHICH HAVE BEEN ACHIEVED IN THE PAST FEW YEARS?

4 A. Yes, provided we have the financial resources to do so. Performance metrics such as
5 average speed of answer ("ASA") and abandoned call rate ("ACR"), which indicate
6 the quality of customer service being provided, are substantially driven by the
7 relationship between the number of customer phone calls and the number of
8 employees available to handle those calls. Call volumes seem to be sustaining at
9 historically high levels, likely due to high wholesale commodity prices that had been
10 prevailing through the summer of 2008, and since then due to the economic turmoil
11 that appears to have significantly affected the payment practices of our customers.
12 Contact center employee turnover is high compared to other parts of MGE's
13 operation, so regular hiring in that area is typically necessary just to maintain a
14 relatively constant number of employees. Making the decision to hire contact center
15 employees in an effort to maintain service quality metrics like ASA and ACR in the
16 face of revenue shortfalls is very difficult; nevertheless, MGE has done so over the
17 last several years. Over the longer term, however, choosing to hire employees when
18 earnings are inadequate is not a sustainable proposition.

19
20 So while we are committed to providing high quality service, we are also committed
21 to providing service at a reasonable cost to the customer. At the same time, our
22 shareholders are entitled to a reasonable opportunity to achieve the return authorized
23 by the Commission. The bottom line is that service quality must be balanced with

1 cost and earnings considerations. I firmly believe that the Commission needs to
2 demonstrate the value it places on service quality by fairly compensating MGE and by
3 providing MGE a real opportunity through the ratemaking process to realize its
4 Commission-authorized return.

5
6 **Q. CAN YOU PROVIDE EXAMPLES OF HOW MGE HAS EMPHASIZED**
7 **SHAREHOLDER SATISFACTION?**

8 A. In addition to significant and consistent cost control efforts (as evidenced by the cost
9 comparisons to peer companies in Missouri discussed earlier), the filing of this rate
10 case is another example of the emphasis MGE places on shareholder satisfaction. It
11 troubles me that MGE finds it necessary to make this rate increase filing so soon after
12 MGE's most recent rate order took effect in April of 2007. The filing of a general
13 rate case, while necessary and a part of doing business as a regulated public utility, is
14 not something we take lightly. It is an expensive and time consuming process that
15 diverts substantial management attention away from the Company's primary mission,
16 which is to provide safe and reliable gas service to its customers. Nevertheless,
17 without revenues sufficient to generate a return that is competitive in the marketplace,
18 the Company will be in no position to provide the quality of service our customers
19 expect and deserve. Therefore, MGE has decided to file this rate case.

20
21 **Q. HOW DO YOU RATE MGE'S SHAREHOLDER SATISFACTION EFFORTS?**

22 A. Just fair, because while improvement has definitely occurred in recent years, more
23 improvement needs to occur. I cannot characterize our efforts as successful in this

1 area primarily because, as shown in the direct testimony of MGE witness Michael R.
2 Noack, MGE has continued to not achieve its Commission-authorized rate of return
3 from regulated operations.
4

5 **3. RATEMAKING PRACTICE, POLICY AND IMPACTS**

6 **Q. WHAT IS YOUR UNDERSTANDING OF THE OVERALL OBJECTIVE OF**
7 **THE RATEMAKING PROCESS AND THE ROLE AND RESPONSIBILITY**
8 **OF THE COMMISSION?**

9 A. My understanding is that rates should be set so as to provide the utility with a
10 reasonable opportunity to achieve its authorized return. The authorized return itself
11 must be sufficient to compensate shareholders for the risk they bear while enabling
12 the attraction of capital on reasonable terms in the competitive marketplace. The
13 Commission's responsibility is to balance the multitude of sometimes conflicting
14 interests that arise through this process (e.g., enhanced service levels vs. lower rates;
15 small customer interests vs. large customer interests; customer interests vs.
16 shareholder interests; etc.) and set rates that are just and reasonable.
17
18

19 **Q. IN YOUR OPINION, HAVE MGE'S RATES BEEN JUST AND**
20 **REASONABLE?**

21 A. No, the interests of the Company's shareholders have not been adequately addressed
22 through the rate setting process as evidenced by the fact that MGE's inability to
23 achieve its Commission-authorized rate of return has continued.

1

2 **Q. CAN YOU EXPLAIN WHY MGE HAS CONSISTENTLY FAILED TO**
3 **ACHIEVE ITS COMMISSION-AUTHORIZED RETURN?**

4 A. First, although the historical pattern of MGE failing to achieve its Commission-
5 authorized return has continued since its last rate order took effect in April 2007,
6 some improvement in MGE's earnings performance has occurred. This improvement
7 is largely attributable to two factors: 1) legislation, known as the Infrastructure
8 System Replacement Surcharge, which permits MGE to implement rate elements
9 without a general rate proceeding to recover costs (return, income taxes, depreciation
10 expense and property taxes) associated with certain governmentally mandated, non-
11 revenue producing capital expenditures; and 2) an improved rate structure, effective
12 in April 2007, for MGE's residential customer.

13

14 **Q. PLEASE DISCUSS THE IMPROVED RESIDENTIAL RATE STRUCTURE.**

15 A. Prior to April 2007, MGE relied heavily on volumetric rate elements to recover
16 distribution costs for the residential class, a customer group whose consumption is
17 weather-sensitive and has been declining on an average use per-customer basis
18 (considering the impacts of weather) over time. These factors combined with warm
19 weather in the years prior to 2007 had contributed to the significant revenue and
20 earnings shortfalls MGE experienced from 1996-2006. However, with its new
21 residential rate structure (along with colder than normal weather in the winter of
22 2007-2008 and nearly normal weather in the winter of 2008-2009) MGE's revenue
23 streams have been considerably more stable.

1
2 The transition to the new residential rate structure occurred in the Spring and Summer
3 of 2007 was smooth, as there was no significant customer outcry. And while MGE
4 shareholders benefited from its new residential rate structure, MGE residential
5 customers benefited as well. These residential customer benefits came in the form of
6 lower winter-time bills than would have occurred under the volumetric-reliant rate
7 structure previously in place, and the energy efficiency and education initiatives
8 described earlier. As described in the direct testimony of MGE witness Russell A.
9 Feingold, MGE customers enjoyed winter-time margin revenue savings of
10 approximately \$30 million during the winters of 2007-2008 and 2008-2009, in the
11 aggregate, as a result of MGE's new residential rate structure in comparison to the
12 previous volumetric-reliant rate structure. In my opinion, this is a "win-win"
13 scenario, with MGE residential customers and MGE shareholders both being better
14 off under the new residential rate structure.
15

16 **Q. WHY THEN HAS MGE'S INABILITY TO ACHIEVE ITS COMMISSION-**
17 **AUTHORIZED RETURN CONTINUED?**

18 A. There are a number of reasons. First, while unanticipated expenditures, which impair
19 achieved returns, do crop up from time to time, the incidence of such events is
20 relatively infrequent in MGE's history. Overall, I believe MGE has effectively
21 managed its operating and maintenance ("O&M") expenses while at the same time
22 delivering high quality service to our customers. Effective management of O&M
23 expenses serves the dual interests of customers (through rates lower than they would

1 otherwise experience) and shareholders (through reduced earnings erosion).
2 Notwithstanding this, however, MGE's inability to achieve its authorized return has
3 continued primarily because of the way in which its rates have been set in the past.
4

5 **Q. PLEASE EXPLAIN.**

6 A. The regulatory process has resulted in rates for MGE based on assumptions that have
7 not reasonably reflected the reality of MGE's operations. For example, in each of
8 MGE's last two rate cases, MGE requested establishment of a mechanism to address
9 costs associated with former manufactured gas plant ("FMGP") sites in MGE's
10 service territory. The Commission denied MGE's request in each of those cases and,
11 more recently, also denied MGE's request for authority to defer FMGP costs. As
12 explained in the direct testimony of MGE witness Michael R. Noack, MGE incurred
13 significant FMGP costs in 2008 and 2009, but MGE's rates include no provision for
14 those costs. In addition, as shown in the direct testimony of MGE witness Michael R.
15 Noack, MGE's actual uncollectibles expense has exceeded the rate case allowance by
16 approximately \$1.45 million annually, on average over the past 13 years. Ever-
17 increasing uncollectibles expense has been exacerbated by the extraordinarily high
18 natural gas commodity prices until late in 2008 and by economic turmoil experienced
19 since then. It is becoming increasingly apparent that high uncollectibles expense
20 contributes significantly to higher call volumes being experienced by MGE's
21 customer contact center, straining resources in this area as well.
22

1 Q. PLEASE ELABORATE ON YOUR POINT ABOUT UNCOLLECTIBLES
2 EXPENSE.

3 A. As shown in the direct testimony of Mr. Noack, uncollectibles expense varies
4 considerably from year to year. The following chart, which is based on Mr. Noack's
5 analysis, shows the relationship between actual uncollectibles expense experienced by
6 the Company and the allowance for uncollectibles included in rates for the past
7 thirteen years:

	<u>Actual Uncollectibles</u>	<u>Uncollectibles in Rates</u>
8		
9	FY96	\$3,906,455
10	FY97	\$3,409,662
11	FY98	3,409,662
12	FY99	3,409,662
13	FY00	4,325,000
14	FY01	4,325,000
15	FY02	4,325,000
16	FY03	4,323,292
17	FY04	4,323,292
18	FY05*	4,323,292
19	FY06	7,042,000
20	FY07	7,042,000
21	FY08	8,231,555
22		8,628,073

23 * MGE's fiscal year end changed from June 30 to December 31 in 2005.
24

25 The foregoing shows that actual uncollectibles expense varies dramatically from year
26 to year, so much so that it is difficult – if not impossible – to identify a “normal” level
27 of uncollectibles expense. On average – over that thirteen-year period – MGE's
28 actual uncollectibles expense exceeded its uncollectibles allowance in rates by more
29 than \$1.45 million per year. This has also directly contributed to MGE's inability to
30 achieve its authorized rate of return.

31

1 **4. THE MAJOR REASONS FOR MGE'S RATE CASE FILING**

2 **Q. WHY HAS THE COMPANY DECIDED TO FILE A GENERAL RATE CASE**
3 **AT THIS TIME?**

4 **A.** The Company has made the difficult, but necessary, decision to file a general rate case
5 at this time for the following principal reasons:

6 1. MGE's continued inability to achieve its Commission-authorized
7 return on investment;

8 2. MGE's continued need to obtain an authorized return level sufficient
9 to compensate the Company's shareholders for the investment risks
10 they bear while enabling MGE to attract capital on reasonable terms in
11 the competitive financial marketplace; and

12 3. MGE's need for a ratemaking solution to FMGP costs.

13 Although other factors, such as higher than expected bad debt levels, increased costs
14 associated with newly approved collective bargaining agreements and justification for
15 higher authorized depreciation rates, have contributed to MGE's insufficient earnings
16 situation, the foregoing represent the driving factors of this rate case filing.

1 **Q. PLEASE INTRODUCE THE OTHER WITNESSES PRESENTING DIRECT**
2 **TESTIMONY ON MGE’S BEHALF IN THIS RATE CASE.**

3 A. The other witnesses providing direct testimony, and the subject matter of that
4 testimony, are as follows:

- 5 • Robert O’Brien – cash working capital, lead/lag study;
- 6 • Ron Crow – customer service;
- 7 • R. Jay Cummings – class cost-of-service;
- 8 • Russell A Feingold – rate design and ratemaking proposals;
- 9 • Frank Hanley – cost of capital;
- 10 • David Hendershot – energy efficiency and education initiatives;
- 11 • Robert Livezey – measure of “normal” weather;
- 12 • Larry Loos – revenue adjustments, including weather normalization and
13 customer annualization;
- 14 • Michael R. Noack – other revenue requirement items; and
- 15 • Thomas J. Sullivan – depreciation expense and capital recovery schedule.

16
17 **Q. DO YOU HAVE ANY RECOMMENDATIONS FOR THE COMMISSION IN**
18 **CONNECTION WITH THIS CASE?**

19 A. Yes. The Commission should re-examine the way in which it sets rates for MGE.
20 Simply taking a “business as usual” approach will not work because an examination
21 of past results establishes that MGE has not been afforded a reasonable opportunity to
22 achieve its authorized return. In particular, the Commission needs to address FMGP
23 cost recovery, as recent experience shows these projects can require significant

resources that have the potential to drive the filing of a rate case in and of themselves. In addition, the Commission should also take a close look at the uncollectibles expense allowance proposed for MGE's rates to ensure that such allowance actually has some reasonable likelihood of being sufficient. If a meaningful solution to these issues is not implemented as a result of this rate case, then the unfortunate fact is that the Company's only real alternative will be to file another general rate proceeding soon after this one. I do not believe such a result to be in the best interest of any of MGE's primary stakeholders. Simply filing additional rate cases is not the answer. The focus should be on the present situation and consideration of whether the rates authorized in this case will allow MGE to earn its Commission-authorized return on a going forward basis in the future.

Q. WHAT DO YOU MEAN BY SOON?

A: Ideally, an LDC like MGE should not be required to file a general rate case more frequently than twice a decade. This time period would give the company a meaningful chance to generate efficiencies, while at the same time providing reasonable assurance that cost of service and customer rates are not significantly misaligned. These efficiencies would benefit the Company and its shareholders in the near term and would then be captured in the rate setting process to the benefit of customers over the longer term. Reducing rate case frequency would also reduce the significant transaction costs of all rate case participants (i.e., the Company, the Commission, the Office of the Public Counsel and intervenors) that ultimately are borne by customers.

1

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

3 **A. Yes, at this time.**

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-2009-____

AFFIDAVIT OF ROBERT J. HACK

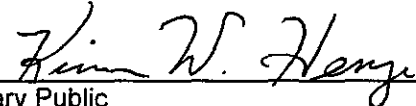
STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

Robert J. Hack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct 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 1st day of APRIL 2009.



Notary Public

My Commission Expires: 2-3-11

