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Exhibit No.: _____
Issues: Weather Normal and Rate Design
Witness: Russell A. Feingold
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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

RUSSELL A. FEINGOLD

Jefferson City, Missouri

December 11, 2006

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CASE NO. GR-2006-0422

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DECEMBER 11, 2006

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Russell A. Feingold and my business address is Four PPG Place, Pittsburgh, Pennsylvania 15222.

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

A. I am a Managing Director of Navigant Consulting, Inc. ("NCI") and co-leader of the Litigation, Regulatory & Markets Group within the firm's Energy Practice.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") IN THIS PROCEEDING?

A. Yes. I previously submitted direct and rebuttal testimony in this proceeding on behalf of Missouri Gas Energy ("MGE" or the "Company") concerning its: (1) proposed weather normal for purposes of adjusting its base rates for the effect of weather; (2) revenue adjustments to weather normalize its gas volumes and to annualize its current level of customers; (3) class revenue allocation; and (4) various rate design proposals.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my surrebuttal testimony is to further respond to the position of the Missouri Public Service Commission Staff (the "Staff") on the appropriate weather normal for MGE, and to the position of the Office of Public Counsel ("OPC") on the appropriate rate design for the Company's customers. I will specifically respond to the rebuttal testimonies of Staff witnesses Curt Wells and OPC witness Barbara A. Meisenheimer.

1. WEATHER NORMAL

Q. PLEASE SUMMARIZE THE POINTS THAT STAFF WITNESS WELLS' MAKES IN HIS REBUTTAL TESTIMONY AS THE BASIS FOR HIS REJECTION OF THE COMPANY'S PROPOSED WEATHER NORMAL.

A. Staff witness Wells claims that the Company's use of a 10-year Heating Degree-Days ("HDD") average is inconsistent with: (1) international meteorological convention; (2) Commission rulings; and (3) the purpose of adjusting volumes to normal HDDs in Missouri PSC rate cases."

Q. WHAT REASONS DOES MR WELLS PROVIDE FOR HIS PREFERENCE TO USE THE NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

("NOAA") 30-YEAR WEATHER DATA TO ESTABLISH THE COMPANY'S WEATHER NORMAL?

A. Mr. Wells states that the NOAA 30-year normal is a more stable weather measure compared to the Company's proposed 10-year normal. He also states that the 30-year HDD data has gone through a "correction process" that adjusts the data, where necessary, to correct for any inconsistencies in observational practices and to be serially complete (i.e., no missing values." He contends that "one-half" of MGE's data used in its 10-year average in this case has not gone through this "correction process."

Q. DO YOU AGREE WITH MR. WELLS' FIRST POINT THAT STABLITY IS AN IMPORTANT CONSIDERATION IN CHOOSING A WEATHER NORMAL FOR A UTILITY SUCH AS MGE?

A. No. In my opinion, Mr. Wells relies far too heavily upon the concept of stability when it comes to choosing a weather normal for the Company. His reliance on stability as an important consideration in choosing a utility's weather normal is shortsighted since he has sacrificed the ability of the weather normal to properly reflect the best measure of normal weather during the time the utility's rates will be in effect. I believe Mr. Wells is effectively saying to the Commission that it should blindly adhere to the same NOAA 30-year average as a weather normal, for as long as up to ten years after the average has been computed, to achieve the goal of stability rather than to have a weather normal that is best reflective of more recent trends in weather, and thus, more reflective of the expected

use per customer of the Company's customers upon which its future base rates should be set.

Q. WILL USE OF A 10-YEAR AVERAGE FOR THE COMPANY'S WEATHER NORMAL CAUSE THE COMPANY TO ADJUST ITS RATES EVERY YEAR, OR WILL IT CAUSE MORE FREQUENT RATE CHANGES THAN UNDER A 30-YEAR AVERAGE?

A. No. Whenever a utility such as MGE decides to file a rate case, it is to be expected that its rates will change after completion of the case. One of the elements that will cause rates to change is the normalization of revenues for weather. However, there is an equal expectation that such an adjustment will occur in each and every rate case whether the normalization process is based on a 30-year average or 10-year HDD average simply because normal weather seldom, if ever, occurs.

Q. HOW HAVE OTHER STATE UTILITY REGULATORS RESPONDED TO MR. WELLS' EXPRESSED CONCERN ON MAINTAINING STABILITY IN THE WEATHER NORMAL CHOSEN FOR A UTILITY?

A. In my opinion, the clear trend in the gas utility industry is towards shorter periods of time for purposes of establishing a utility's weather normal. To illustrate this trend, the following gas utilities have proposed and had approved by their regulators a shorter time period than 30 years:

- *25-Year Normal* – Union Light Heat & Power (one observation).
- *20-Year Normal* – Bay State Gas, Boston Gas, Wisconsin Gas, South Jersey Gas, New Jersey Natural Gas, Northwestern Utilities (Alberta), Reliant Energy, and Xcel Energy (North Dakota) – (eight observations).
- *10-Year Normal* - Public Service Company of New Mexico, Centra Gas (Manitoba), Cinergy, Terasen Gas (British Columbia), Nicor Gas, Northern States Power, Questar Gas (Wyoming), and Vermont Gas Systems, Southern Union Gas, New England Gas, Southwest Gas, and Citizens Utilities (twelve observations).

Q. HOW DO YOU RESPOND TO MR.WELLS' CLAIM THAT THE COMPANY'S PROPOSED 10-YEAR HDD AVERAGE HAS NOT BEEN SUBJECTED TO THE SAME "CORRECTION PROCESS" AS NOAA'S 30 YEAR AVERAGE?

A. Mr. Wells' claim is irrelevant because the quality of data is not an issue with the Company's proposed 10-year HDD average. First, to be clear, all daily HDD data used by the Company in its assessment of an appropriate weather normal and the establishment of its proposed weather normal for this rate case are generated by NOAA. Specifically, the HDD data I used were consistent from the perspective of the underlying observational practices and the daily HDD data were serially complete. Moreover, it is my understanding that to the extent any corrections have been made over the years by NOAA to its historical weather data as a result of its "correction process," such

corrections have never been material in nature. This view makes intuitive sense considering that any corrections to a select number of isolated daily readings would have little impact upon the roughly 3,650 daily weather readings that comprises a 10-year average or the almost 11,000 daily weather readings that comprises the 30-year average.

Q. PLEASE EXPLAIN HOW MR. WELLS CLAIMS HIS CHOICE OF A WEATHER NORMAL FOR THE COMPANY IS AFFECTED BY HOW GAS RATES IN MISSOURI ARE SET USING TEST YEAR DATA.

A. To support the use of a 30-year average, Mr. Wells claims that the use of a historical test year in Missouri to set a utility's gas rates means that "Staff does not attempt to predict weather." On that basis alone, he believes that predictive capabilities of the chosen weather normal during the future period in which rates will be in effect should not be a factor in choosing an appropriate weather normal for MGE. In his rebuttal testimony, Mr. Wells continues to reject the forward-looking nature of establishing a utility's rates, and the importance of deriving the utility's revenue requirement and associated rates for its recovery using a test year that is reflective of costs and sales levels that will be experienced.

Q. DO YOU AGREE WITH MR. WELLS' VIEWS ON THIS ISSUE?

A. No. I believe Mr. Wells' views here are based on nothing more than semantics on how he defines a test year and how he perceives its purpose within the context of a utility's

rate case. Although Missouri uses a historical test year, the Commission also permits "updates" and a "true-up process" to the test year presumably to reflect the most recent actual information available to the parties based on the utility's current operational situation. Clearly, an update or a true-up to the test year is a forward-looking concept. As such, the adjustment to the Company's revenues for normal weather should be treated no differently. The resulting adjustment should be based on the best available weather data so that it can be as representative as possible of weather actually experienced during the time in which MGE's rates will be in effect.

Q. SHOULD THE MANNER IN WHICH THE REGULATOR DEFINES A UTILITY'S TEST YEAR HAVE A BEARING ON HOW THE WEATHER NORMAL IS ESTABLISHED?

A. No. Whether the regulator utilizes a historical or future (i.e., forecasted) test year should not affect the choice of the utility's weather normal. The choice should be based upon how representative the measure is of the weather during the period in which rates will take effect – which is in the future, not in the past. A similar viewpoint was expressed in the "Rate Case and Audit Manual" prepared by the NARUC Staff Subcommittee on Accounting and Finance (dated Summer 2003) in the section dealing with determining the appropriateness of the test year. As stated at page 10 of the Manual, "Whether using a future or historical test year, the auditor should judge the appropriateness of the test

year that has been proposed. Is it representative, after adjustments, of the period in which rates take effect?"

1. RATE DESIGN

A. Primary Proposal

Q. BEFORE ADDRESSING THE SPECIFIC POINTS IN MS. MEISENHEIMER'S REBUTTAL TESTIMONY, PLEASE COMMENT ON THE OPC'S OVERALL POSITION ON RATE DESIGN IN THIS PROCEEDING.

A. In my opinion, through its rate design recommendations, the OPC has effectively ignored the serious problems the Company has consistently experienced for more than a decade and continues to face related to its customers' declining gas use, weather variability, and the resulting inability to recover its fixed cost of service previously approved by this Commission. Ms. Meisenheimer's rejection of the Company's primary and alternate rate design proposals leaves this Commission with no alternative whatsoever to address these problems because the OPC's position on rate design for the residential class in this proceeding - increases only to volumetric rates - is heavily biased in favor of the low usage residential customer at the expense of higher than average usage residential customers and the Company's financial condition. This situation is untenable for the Company. As a result, it is critical that the Commission address these problems that are continuing to negatively impacting the Company's financial performance by approving

the Company's primary rate design proposal, or its alternate proposal.

Q. OPC WITNESS MEISENHEIMER CONTENDS THAT THE RESIDENTIAL RATE DESIGN PROPOSALS OF THE COMPANY AND STAFF WILL INCREASE THE NON-GAS RATES PAID BY LOW-USE RESIDENTIAL CUSTOMERS? HOW DO YOU RESPOND?

A. Ms. Meisenheimer's contention is misleading because the number of customers that will experience such increases is very small relative to MGE's total residential customer base. In addition, by only presenting in Table 1, contained at page 6 of Ms. Meisenheimer's rebuttal testimony, the percentage change in non-gas bills rather than also providing the absolute dollar impact, she has masked the relatively small increases, in dollars and cents, these customers will experience under either the Company's or Staff's rate design proposals.

Page 3 of Schedule RAF-11 indicates that in January - the month of highest consumption – there are only 8,239 customers that use 25 Ccf or less, which is the level Ms. Meisenheimer characterizes as "low use." This represents a little over 2 percent of the Company's total residential customers served in its Kansas City service area. Therefore, the remaining roughly 98 percent of customers are not "low use" customers, and they will receive rate increases under the proposals of the Company and Staff that are far less than 43 percent, or rate decreases in some cases. In fact, as depicted on Page 3 of Schedule

RAF-11, only a very small portion (less than 10%) of the Company's total residential customers (in its Kansas City service area) will experience non-gas bill increases greater than approximately $7.50 per month in January. Finally, referring to Table 1 of Ms. Meisenheimer's rebuttal testimony, customers who consume 25 Ccf per month will see their bills increase by only $6.50.

Q. WON'T A LARGER NUMBER OF CUSTOMERS WHO USE HIGHER AMOUNTS OF GAS IN WINTER MONTHS BUT USE LOWER AMOUNTS OF GAS IN THE SUMMER MONTHS EXPERIENCE LARGE BILL INCREASES DURING THOSE SUMMER MONTHS UNDER THE RATE DESIGN PROPOSALS OF THE COMPANY AND THE STAFF?

A. Yes, but those large percentage increases in the summer months will be offset by the bill decreases in most of the winter months when gas usage is higher. Schedule RAF-17 demonstrates that while averaged size customers will experience relatively larger bill increases in the summer months when their gas usage is lowest (an average increase of $7.06 per month during the months of May through September), under the rate design proposals of the Company and the Staff, these customers will experience a much more moderate total increase of $9.01, or 3.6 percent, on an annual basis. The bills of customers will decrease in the winter months when bills are their highest, and bills will increase in the summer months when customers' bills are their lowest – which is one significant benefit of a Straight Fixed-Variable ("SFV") rate design. It should be noted

that for consistency purposes, the proposed rate levels contained in Schedule RAF-17 are identical to those used by Ms. Meisenheimer in Table 1.

Q. MS. MEISENHEIMER CLAIMS THAT THIS COMMISSION HAS DETERMINED IT IS APPROPRIATE FOR THOSE WHO USE MORE NATURAL GAS TO PAY MORE. WILL THE RATE DESIGN PROPOSALS OF THE COMPANY AND STAFF PERPETUATE THIS CONCEPT FOR RESIDENTIAL CUSTOMERS?

A. Yes. This concept will continue under the proposed SFV rate design of the Company and Staff except that now, the customers who pay more for natural gas will do so because it truly does cost more to serve them. Under the Company's current rate design, customers who use more pay additional charges for delivery and gas commodity services. This is despite the fact that the Company incurs the fixed costs of delivery service whether customers take no service or a maximum level of service. Under the Company's rate design proposal, customers will pay more as they use more because gas commodity costs will increase as the Company purchases additional volumes of gas to serve these customers.

Q. MS. MEISENHEIMER ARGUES THAT UNDER THE RATE DESIGN PROPOSALS OF THE COMPANY AND THE STAFF CUSTOMERS WILL NO LONGER BE ABLE TO AVOID NON-GAS VOLUMETRIC CHARGES AS

THEY REDUCE GAS CONSUMPTION. HOW DO YOU RESPOND TO THIS ARGUMENT?

A. In my opinion, her argument is flawed because the Company cannot reduce its fixed costs of delivery service, with reductions in customer usage, as long as it is required to stand ready to serve the full delivery service requirements of its customers. Up to now, customers have been able to avoid paying MGE's non-gas volumetric charges because of its rate structure. Unfortunately, customers' ability to avoid these charges is precisely the reason the Company continues to under-recover its approved level of non-gas revenues with its customers' reduced gas consumption caused by declining use per customer from energy efficiency and conservation and warmer than normal weather. Perpetuating this undesirable situation makes no sense from a ratemaking standpoint and will be fully addressed if the rate design proposal of the Company or the Staff is implemented.

Q. DO YOU AGREE WITH MS. MEISENHEIMER'S CONTENTION THAT "NEITHER OF THE COMPANY'S RATE DESIGN PROPOSALS NOR THE STAFF'S DELIVERY CHARGE PROPOSAL IS CONSISTENT WITH THE PURPOSES OF UTILITY REGULATION?"

A. No. Ms. Meisenheimer believes that these proposals somehow provide MGE with an "entitlement' for it to earn a Commission determined return that fully compensates the utility for its cost of service. She is wrong in her claim. None of the rate design

proposals presented by the Company or by Staff address the cost side of MGE's approved revenue requirement. Each of these rate design proposals address only the Company's revenue side to ensure that the approved level of revenues can be recovered despite the uncontrollable and unpredictable changes in use per customer. The Company must still manage its costs to the levels approved by the Commission if it is to have a reasonable opportunity to achieve its allowable ROE.

Q. MS. MEISENHEIMER BELIEVES THAT THE RATE DESIGN PROPOSALS OF THE COMPANY AND STAFF WILL "ELIMINATE EARNINGS UNCERTAINTY." DO YOU AGREE WITH HER BELIEF?

A. No. The SFV rate design proposals of the Company and Staff only enable the recovery of fixed costs previously recoverable through the variable or volumetric charge of the Company's residential rate structure. This rate design does not "eliminate earnings uncertainty." The only way certainty of earnings could be achieved is if the Commission approved a cost or earnings tracking mechanism for the Company.

Q. MS. MEISENHEIMER CRITICIZES THE RATE DESIGN PROPOSALS OF THE COMPANY AND THE STAFF FOR NOT PROVIDING MEANINGFUL PROTECTION FOR MANY CUSTOMERS FROM THE UPWARD VOLATILITY OF GAS COMMODITY PRICES. DO YOU AGREE WITH HER CRITICISM?

A. No. Her criticism on this issue is misplaced. In my opinion, rate design considerations in this proceeding that address the Company's non-gas cost of service are not able to address the relief desired by customers from the price volatility and uncertainty that are inherent characteristics of today's gas commodity market. The Company continues to address this important ratemaking issue through its ongoing efforts to stabilize gas commodity prices through its gas supply portfolio management initiatives and gas hedging programs.

B. Alternate Proposal

Q. MS. MEISENHEIMER CONTENDS THAT THE COMPANY'S PROPOSED WEATHER NORMALIZATION ADJUSTMENT ("WNA") MECHANISM WILL ADJUST RATES FOR CHANGES IN GAS CONSUMPTION DUE TO BOTH WEATHER VARIATIONS AND CONSERVATION. DO YOU AGREE WITH HER CONTENTION?

A. No. The Company's proposed WNA mechanism only adjusts rates for the difference in customers' gas consumption under actual and normal weather conditions. It does not link the rate adjustment back to the consumption level used to set rates in the Company's most recently completed rate case. For example, if a residential customer actually used 160 Ccf in January, and the weather was warmer than normal, the WNA mechanism would adjust the customer's consumption upward (say to 170 Ccf) so it is weather

normalized, but it would not increase it further (say to 176 Ccf) to account for any energy conservation efforts on the part of the customer. The margin loss associated with the difference between a customer's weather normalized actual gas consumption and the "baseline" use per customer used in the Company's sales claim in its rate case would not be accounted for under the Company's proposed WNA mechanism.

Q. DO YOU AGREE WITH MS. MEISENHEIMER'S CLAIM THAT THE WNA PROPOSAL WILL SEND A WRONG PRICE SIGNAL TO CUSTOMERS AND THAT IT WOULD HAVE A NEGATIVE IMPACT ON A CUSTOMER'S INCENTIVES TO CONSERVE ENERGY?

A. No. To the contrary, in the absence of the Company's proposed WNA mechanism, I believe customers will be "overpaid" for their energy efficiency and conservation efforts, as they will pay less fixed delivery costs under the Company's current volumetric rates in addition the reduction in their gas commodity costs. Under the OPC's rate design proposal, this situation will be exacerbated because a greater level of fixed costs will be recovered through variable or volumetric charges.

Of course, as I pointed out in my direct testimony, MGE's gas commodity prices, representing upwards of 70 percent of the customer's total bill, will drive customers' decisions to use more or less gas.

Q. MS. MEISENHEIMER CLAIMS THAT UNDER THE COMPANY'S PROPOSED WNA MECHANISM CUSTOMERS WILL EXPERIENCE FREQUENT RATE CHANGES WHEN THE WEATHER IS NOT NORMAL. HOW DO YOU RESPOND TO THIS CLAIM?

A. I take issue with her claim and believe that not all customers will see such rate changes to the extent they are served under the Company's Average Bill Calculation ("ABC") Plan. In addition, I do not share Ms. Meisenheimer's view that periodic rate changes under the WNA mechanism will be viewed negatively, especially since MGE's customers already receive periodic rate changes under its Purchased Gas Cost Adjustment ("PGA") mechanism. My experience with how customers respond to rate design changes is that customers are more sensitive to changes in their total monthly bill – not to changes in a particular component of the utility's rate structure.

Q. MR. FEINGOLD, DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

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.	))))	Case No. GR-2006-0422

AFFIDAVIT OF RUSSELL A. FEINGOLD

STATE OF Pennsylvania)
) ss.
COUNTY OF Allegheny)

Russell A. Feingold, 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.

RUSSELL A. FEINGOLD

Subscribed and sworn to before me this 8th day of December 2006.

Sandra L. Tomazich
Notary Public

My Commission Expires: 10/29/09

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Sandra L. Tomazich, Notary Public
City Of Pittsburgh, Allegheny County
My Commission Expires Oct. 29, 2009
Member, Pennsylvania Association of Notaries

MISSOURI GAS ENERGY

SCHEDULE RAF-17

Estimated Average Monthly Bill Under Present and Proposed Rates (Staff Revenue Requirement)
Residential (RS)

Line No.	(a)	(b)	(c)	(d)	(e)	(f)
		Present Rates		**Proposed Rates**		
1	**Customer Charge**	$11.65		$21.45		
2	**All usage**	$0.13187		$0.00000		
3	**PGA Rate**	$0.00000		$0.00000		
		AVERAGE CCF PER CUSTOMER	REVENUE AT PRESENT RATES	REVENUE AT PROPOSED RATES	MONTHLY BILL CHANGE AMOUNT	MONTHLY BILL CHANGE PERCENT
4	Jan-05	176	$34.85	$21.45	($13.40)	-38.45%
5	Feb-05	155	$32.05	$21.45	($10.60)	-33.06%
6	Mar-05	115	$26.83	$21.45	($5.38)	-20.06%
7	Apr-05	74	$21.41	$21.45	$0.04	0.17%
8	May-05	32	$15.89	$21.45	$5.56	35.00%
9	Jun-05	23	$14.69	$21.45	$6.76	45.99%
10	Jul-05	17	$13.87	$21.45	$7.58	54.63%
11	Aug-05	15	$13.64	$21.45	$7.81	57.24%
12	Sep-05	17	$13.84	$21.45	$7.61	54.94%
13	Oct-05	27	$15.15	$21.45	$6.30	41.62%
14	Nov-05	57	$19.17	$21.45	$2.28	11.88%
15	Dec-05	116	$26.98	$21.45	($5.53)	-20.51%
16	Total	823	$248.39	$257.40	$9.01	3.63%