

# EXHIBIT

Exhibit No.:  
Issue(s): Infinium S2K Software Amortization/  
Unrecovered Revenue Deficiency  
Witness: Ted Robertson  
Type of Exhibit: Surrebuttal  
Sponsoring Party: Public Counsel  
Case Number: GR-2006-0422  
Date Testimony Prepared: December 11, 2006

## SURREBUTTAL TESTIMONY

OF

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**FILED<sup>2</sup>**

FEB 07 2007

Missouri Public  
Service Commission

**MISSOURI GAS ENERGY**

Case No. GR-2006-0422

December 11, 2006

*OPC* Exhibit No. *206*  
Case No(s). *GR-2006-0422*  
Date *1-8-07* Rptr. *pf*

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Missouri Gas Energy's     )  
Tariffs Increasing Rates for Gas Service     )  
Provided to Customers in the Company's     )  
Missouri Service Area.                     )

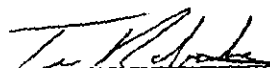
Case No. GR-2006-0422

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI     )  
                                   ) ss  
COUNTY OF COLE     )

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ted Robertson, C.P.A.  
Public Utility Accountant III

Subscribed and sworn to me this 11<sup>th</sup> day of December 2006.



  
\_\_\_\_\_  
Kathleen Harrison  
Notary Public

My commission expires January 31, 2010.

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**SURREBUTTAL TESTIMONY  
OF  
TED ROBERTSON**

**MISSOURI GAS ENERGY  
CASE NO. GR-2006-0422**

**I. INTRODUCTION**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, P. O. Box 2230, Jefferson City, Missouri 65102.

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED  
DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to address the positions taken by Missouri Gas Energy's ("MGE" or "Company") witness, Mr. Michael R. Noack, and the Missouri Public Service Commission's ("MPSC") witness, Ms. Paula Mapeka, regarding their proposal that Company be allowed to include in rates costs associated with various enhancements to an accounting software system which has been effectively abandoned. I also intend to rebut Mr. Noack's testimony on his proposal that the Company be allowed to recover in rates an alleged unrecovered revenue deficiency of a prior year.

1     **II.     INFINIUM S2K SOFTWARE AMORTIZATION**

2     Q.     WHAT IS THE ISSUE?

3     A.     OPC opposes the Company's request for recovery of software enhancement costs previously  
4           incurred for an accounting operating system that was abandoned on or about December  
5           2004. Company requests to amortize over five years the unamortized balance of the  
6           software enhancements. On page 3, lines 26-28, of Mr. Noack's rebuttal testimony, he states:

7  
8                   MGE and Staff both have included the remaining unamortized balance of  
9                   MGE's accounting software (also know as Infinium) in rates through a five-  
10                  year amortization period...

11  
12  
13    Q.     WHAT IS THE TOTAL UNAMORTIZED BALANCE AMOUNT AND WHAT DOES IT  
14           REPRESENT?

15    A.     The total balance is shown on Schedule H-13 of Mr. Noack's direct and rebuttal testimony  
16           as \$1,225,756. It represents the total unamortized balance of costs for the Infinium S2K CSS  
17           enhancements for SUC and MGE as of June 30, 2006 (source: response to OPC Data  
18           Request Nos. 1017 and 1023).

19  
20    Q.     WHEN WAS THE SOFTWARE RETIRED?

21    A.     Company's response to OPC Data Request No. 1017 identifies that in December 2004 the  
22           Infinium S2K software was retired. The entry recording the retirement shows that plant was  
23           reduced by \$6,774,072.64, accumulated depreciation was reduced by \$4,475,754.91, and a

1           \$2,298,317.73 loss on the disposition of the property was booked to Uniform System of  
2           Accounts ("USOA") Account No. 421.

3  
4       Q.     WHAT COSTS ARE BOOKED TO USOA ACCOUNT NO. 421?

5       A.     USOA Account No. 421 - Miscellaneous Nonoperating Income states, in part, that gain on  
6           disposition of investments and reacquisition and resale or retirement of utility's debt  
7           securities and investment are booked to the account.

8  
9       Q.     DOES THE \$6,774,072.64 REPRESENT THE TOTAL PLANT COST BOOKED THAT  
10           WAS ASSOCIATED WITH THE INFINIUM S2K SOFTWARE AND RELATED  
11           ENHANCEMENTS?

12      A.     Yes, it does. Company's response to MPSC Staff Data Request No. 71.3 identifies that that  
13           amount represents the total booked plant cost for the Infinium S2K software and  
14           enhancements.

15  
16      Q.     WAS THE SOFTWARE'S RETIREMENT DATE OUTSIDE THE TEST YEAR OF THE  
17           INSTANT CASE?

18      A.     Yes, it was.

19  
20      Q.     HAS MGE ALSO ALLEGED THAT THE INFINIUM S2K SOFTWARE WAS NOT  
21           ACTUALLY RETIRED?

1 A. Yes, it has. Though MGE's more recent response to OPC Data Request No. 1017 clearly  
2 identifies the property retirement, and provides a copy of the accounting journal entry  
3 effectuating the transaction, in an earlier response to MPSC Staff Data Request No. 71.4  
4 Company stated the following:

- 5
- 6 1. **The infinium software was not retired.** The infinium software was  
7 reclassified as non-utility plant since it's sole purpose after the  
8 conversion to Oracle in January 2005 was to provide a resource for  
9 time entry. It is no longer being used for General Ledger and Plant  
10 Accounting. However, it is still being used for time entry.
  - 11 2. MGE was the only entity that was utilizing Infinium in the Company.  
12 **The remainder of the Southern Union organization was**  
13 **converting to Oracle so that on a consolidated basis the company**  
14 **could be more efficient in performing consolidations and**  
15 **providing consistent reports across the enterprise to**  
16 **management.**
  - 17 3. **It was a corporate direction to convert to Oracle for the benefit**  
18 **of the entire company. It would not be appropriate for MGE to**  
19 **maintain investment in 2 General Ledger systems and therefore**  
20 **the Infinium investment was reclassified as non-utility plant.**

21 (Emphasis added by OPC.)  
22  
23  
24  
25  
26

27 Q. IS NONUTILITY PLANT USUALLY INCLUDED IN THE DETERMINATION  
28 OF RATES FOR A REGULATED PUBLIC UTILITY IN THE STATE OF  
29 MISSOURI?

30 A. No, it is not.  
31

1 Q. DID MGE'S RESPONSE TO YET ANOTHER OPC DATA REQUEST ALLEGE THAT  
2 THE PROPERTY HAS NOT BEEN RETIRED?

3 A. Yes. Company's response to OPC Data Request No. 1023 states:  
4

5 The book cost associated with the remaining Infinium investment is residing  
6 in FERC account 101.2.  
7

8 And,  
9

10 ...the remaining balance is being requested for accelerated amortization  
11 treatment. Subsequent to March 2007 when MGE is expected to convert  
12 entirely to ADP time entry, MGE will no longer be utilizing the Infinium  
13 software. The asset is not being treated as being retired now.  
14  
15

16 Q. IS USOA ACCOUNT 101 UTILIZED TO BOOK PLANT ASSOCIATED WITH THE  
17 UTILITY'S REGULATED PLANT?

18 A. Yes, it is.  
19

20 Q. WHEN DID MGE IMPLEMENT THE NEW SOFTWARE SYSTEM?

21 A. Company's response to OPC Data Request No. 1020 identifies the date as:  
22

23 MGE migrated to Oracle and Powerplant in January 2005. MGE recorded  
24 the asset in October 2005 when the allocations were finalized and then  
25 recorded amortization effective back to January 2005.  
26  
27  
28

1 Q. SINCE MGE MIGRATED TO THE ORACLE AND POWERPLANT SYSTEMS IN  
2 JANUARY OF 2005 SHOULDN'T IT HAVE BEEN REQUIRED TO WRITE DOWN  
3 THE BOOK VALUE OF ITS INFINIUM ASSETS TO THE LEVEL OF ACTUAL  
4 USAGE THAT EXISTED AT THAT TIME?

5 A. Yes. It is my understanding that Generally Accepted Accounting Principles ("GAAP")  
6 would have required the utility to write down the booked value of the asset to a level that  
7 approximates its actual continued usage within the Company. Company's response to OPC  
8 Data Request No. 1017 shows that the entire asset was retired in December of 2004 which is  
9 just prior to MGE's stated timeframe for its migration to the new system. MGE did not  
10 record the cost of the new asset until October 2005 when the allocations were finalized.  
11 Subsequently, MGE alleges that it has booked the remaining Infinium investment to a utility  
12 plant account - FERC Account 101.2.

13  
14 Q. HAS OPC VERIFIED THE VALUE OF THE PLANT ALLEGEDLY BOOKED TO FERC  
15 ACCOUNT 101.2?

16 A. No. I have contacted Company seeking the information, but Company's response has not yet  
17 been provided. However, the Company's proposed recovery of the unamortized balance  
18 entails the entire unamortized balance of all the Infinium S2K software enhancements and  
19 not just those costs associated with the time entry function MGE alleges is still being  
20 utilized. Given that most of the functions of the Infinium S2K software have been  
21 abandoned, I believe it unlikely that the post write down value for the remaining cost of the

1 still utilized time entry system would require recovery of the entire unamortized balance of  
2 all the Infinium S2K enhancements as the Company has requested.

3  
4 Q. IS YOUR POSITION ON BOOKING THE RETIREMENT OF THE ENTIRE INFINIUM  
5 S2K SYSTEM CONSISTENT WITH MPSC RULES?

6 A. Yes. USOA Utility Plant Instructions 10(D) states that:

7  
8 The book cost of utility plant retired shall be the amount at which such  
9 property is included in the utility plant account, including all components of  
10 construction costs. The book cost shall be determined from the utility's  
11 records and if this cannot be done, it shall be estimated. **When it is**  
12 **impracticable to determine the book cost of each unit, due to the**  
13 **relatively large number or small cost thereof, an appropriate average**  
14 **book cost of the units, with due allowance for any differences in size and**  
15 **character, shall be used as the book cost of the units retired.**

16  
17 (Emphasis added by OPC.)  
18  
19

20 Q. WHAT AUTHORITATIVE REFERENCES DID COMPANY PROVIDE TO SUPPORT  
21 ITS PROPOSED RATE RECOVERY OF THE UNAMORTIZED BALANCE?

22 A. Company's response to OPC Data Request No. 1022 provided account definitions from the  
23 Federal Energy Regulatory Commission ("FERC") USOA Account No. 182.2 and extracts  
24 from a Missouri Commission order in a Mid-Missouri Telephone Co. case.

25  
26 Q. IN YOUR OPINION, DO EITHER OF THE REFERENCES SUPPORT THE COST  
27 RECOVERY THAT THE COMPANY IS SEEKING?

1 A. No. FERC Account No. 182.2 refers to potential recovery of plant facility costs for  
2 cancelled construction or plant which has been prematurely retired, but in each case the costs  
3 booked to Account No. 182.2 require prior approval by the Commission and Company did  
4 not ask for or obtain that permission. Furthermore, the Mid-Missouri Telephone Co. case  
5 reference is to equipment which was not fully depreciated because its past depreciation life  
6 exceeded the useful/used life of the equipment. In the instant case, Company has made no  
7 allegation that the depreciation life of the Infinium S2K software was too long. To the  
8 contrary, it has stated the that the primary reason the software was replaced was so that the  
9 larger SUC organization could on a consolidated basis become more efficient in performing  
10 consolidations and providing consistent reports across the enterprise to management.

11  
12 Q. WHAT INFINIUM S2K SOFTWARE FUNCTIONS DID THE NEW SOFTWARE  
13 REPLACE?

14 A. Company's response to OPC Data Request No. 1019 states:

- 15  
16 1. Infinium was utilized for time entry, fixed asset accounting, general  
17 ledger, accounts payable processing, budgeting (budget input and  
18 tracking), and reporting.  
19  
20 2. Oracle is now being used for general ledger, accounts payable,  
21 budgeting and reporting; Powerplant is being utilized for fixed assets;  
22 Infinium is only being used for time entry and it is anticipated that  
23 MGE will convert to ADP for time entry in early 2007.  
24  
25

1 Q. IS IT ACCURATE THAT THE ENTIRE SOUTHERN UNION COMPANY ("SUC")  
2 ORGANIZATION CONVERTED TO THE ORACLE SYSTEM FOR ALL ITS  
3 FUNCTIONS?

4 A. No. Company's response to OPC Data Request No. 1020 identifies that not all SUC  
5 affiliates converted as stated by MGE in its response to MPSC Staff Data Request No. 71.4.  
6 In fact, the response identifies that the SUC affiliate, Panhandle Eastern Pipeline ("PEPL"),  
7 was allocated only a portion of the HR/PR (i.e., human resources and payroll) functions of  
8 the new system since it apparently continues to maintain its on own set of financial books.  
9

10 Q. HAS COMPANY ALLEGED THAT THE ORACLE COSTS IT NOW INCURS ARE  
11 SUBSTANTIALLY LESS THAN THE INFINIUM COSTS IT WAS EXPERIENCING  
12 DUE TO THE PIPELINE BEING INCLUDED IN THE COST POOL UTILIZED TO  
13 ALLOCATE ITS COST?

14 A. Yes. Company's response to OPC Data Request No. 1024 states the following:  
15

16 However, we do know that the allocation of Oracle costs to MGE was  
17 substantially less than the prior allocation of Infinium costs which is a  
18 testament to MGE being allowed to take advantage of spreading the cost pool  
19 over a larger organization which now includes the pipelines.  
20  
21

22 Company's response to OPC Data Request No. 1020 also states that the Infinium S2K  
23 software was replaced because it could not support the larger organization and it was more  
24 costly to maintain. What the response leaves out is the fact that prior to the reallocation of  
25 the corporate portion of the new software's cost, and excluding the HR and PR functions

1           which were fully allocated to all affiliates, had PEPL been required to also convert entirely to  
2           the Oracle system, as was MGE, its share of the cost would have been 50.66% of the total  
3           cost rather than the 8.29% it was actually assigned. Conversely, MGE's share of the cost  
4           would have been lowered to 12.60% rather than the 23.41% it was actually assigned - a  
5           reduction of almost one-half.

6  
7           Clearly, the benefits would have been greater for MGE had all of the SUC affiliates been  
8           required to convert to all the Oracle functions. As it was, even though MGE alleges that the  
9           remainder of the SUC organization was converting to Oracle so that on a consolidated basis  
10          the company could be more efficient in performing consolidations and providing consistent  
11          reports across the enterprise to management, that efficiency was not extended to PEPL and  
12          as a result MGE has been assigned nearly twice the amount of the Oracle cost that it would  
13          have been assigned had PEPL also been required to fully convert to the Oracle system.

14  
15        Q.    DID THE MPSC STAFF ADDRESS THIS ISSUE IN ITS DIRECT OR REBUTTAL  
16              TESTIMONY?

17        A.    At the time of the direct testimony filing, Staff was not convinced that the cost should be  
18              recovered by MGE; however, in the rebuttal testimony of MPSC Staff witness, Ms. Paula  
19              Mapeka, page 6, lines 17 and 18, she states:

20  
21                       The Staff is now recommending a five-year amortization on the unrecovered  
22                       portion of the Infinium software enhancements.  
23  
24

1 Q. WHY IS THE MPSC STAFF NOW RECOMMENDING THAT THE COMMISSION  
2 AUTHORIZE THE AMORTIZATION?

3 A. Staff's current position is provided in Ms. Mapeka's rebuttal testimony beginning on page 6,  
4 line 21, as:

5  
6 The entire Southern Union Company switched to the use of the Oracle  
7 software system in 2005 a decision which led to MGE's discontinuation of  
8 the Infinium software at that time. The Staff believes that it is more efficient  
9 for Southern Union and MGE to use the same software for such tasks as  
10 performing financial consolidations and in providing consistent reports  
11 across the organization. The Staff believes that it would have been time  
12 consuming and costly for Southern Union and MGE to maintain two general  
13 ledger systems.  
14  
15

16 Q. IS STAFF'S STATEMENT THAT THE ENTIRE SOUTHERN UNION COMPANY  
17 SWITCHED TO THE USE OF THE ORACLE SOFTWARE ENTIRELY CORRECT?

18 A. No. As I previously discussed, PEPL was not required to switch because it continues to  
19 maintain its financial books separately from the new Oracle based system.  
20

21 Q. WHY DID STAFF RECOMMEND A FIVE YEAR AMORTIZATION?

22 A. Ms. Mapeka addresses this point on page 7, lines 6-8, of her rebuttal testimony. She states:  
23

24 The Staff believes this is a more reasonable time frame for spreading the  
25 costs of this remaining software to MGE's customers than the Company's  
26 initial proposal to amortize it over three years.  
27  
28

1 Q. WHY DOES THE PUBLIC COUNSEL OPPOSE THE COMPANY AND STAFF  
2 POSITION?

3 A. My opposition is based on the following reasons, 1) as I discussed in my direct testimony,  
4 the primary functions previously provided by the Infinium S2K software have been replaced  
5 by MGE with its implementation of the new Oracle and Powerplant software, 2) ratepayers  
6 should not be required to pay a duplicate charge (i.e., pay twice) for the same service, 3)  
7 ratepayers do not receive gains from the disposal of assets; therefore, fairness dictates that  
8 they should not be required to reimburse the utility for its loss on the disposal of Infinium  
9 S2K software, and 4) the implementation of the new software (and abandonment of the  
10 Infinium S2K software) was a management decision which originated with the parent of  
11 MGE (i.e., Southern Union Company); thus, SUC should have performed a certain amount  
12 of appropriate financial analysis to determine whether the benefits of implementing the new  
13 software outweighed the costs - one of which would have been the level of unamortized cost  
14 of the Infinium S2K software enhancements. Since the new software was actually obtained  
15 and implemented, it is my belief the SUC's management thought that the costs (cost which  
16 include the Infinium S2K software enhancements unamortized amount) of the new software  
17 did not outweigh its benefits. If that is the case, then SUC's management should be  
18 commended for performing the job they were hired to do. They made a business decision  
19 that provides for more efficient and effective utilization of the SUC operations and that  
20 improvement should naturally flow through to MGE's ratepayers. However, if the opposite  
21 is true and the costs actually outweighed the benefits, then the new software should never  
22 have been obtained and implemented. MGE's ratepayers should not have to reimburse the

1 utility for costs associated with unreasonable and inappropriate operating decisions passed  
2 down from the nonregulated parent company.

3  
4 Q. WAS A COST/BENEFIT ANALYSIS PREPARED TO SUPPORT THE  
5 IMPLEMENTATION OF THE NEW ACCOUNTING SYSTEM?

6 A. No. Company's response to OPC Data Request No. 1025 states:

7  
8 **There was no cost/benefit analysis prepared for the replacement.** The  
9 replacement came as a result of corporate direction and it benefited MGE in  
10 that MGE received a smaller allocation of costs than what it had previously  
11 with Infinium. Prior to the conversion to Oracle, MGE received an allocated  
12 investment in Infinium of \$6.8 million. In addition, MGE was paying for a  
13 full time programmer to support this system as well as paying approximately  
14 \$1,000,000 in annual maintenance and license fees to support the annual  
15 requirements. MGE received a \$2.6 million allocation related to the Oracle  
16 implementation and \$0 allocation of annual maintenance and license fees.

17  
18 (Emphasis added by OPC.)  
19  
20

21 Q. WERE ANY CAPITAL BUDGETING ANALYSES PREPARED TO DETERMINE IF  
22 THE REPLACEMENT OF THE INFINIUM SOFTWARE WOULD BE APPROPRIATE?

23 A. That is a good question, but the answer is unknown to me and apparently to MGE also. In  
24 OPC Data Request No. 1024 I asked Company to provide me with copies of the capital  
25 budgeting analyses that were prepared in conjunction with the ultimate implementation of  
26 the new accounting software. Company replied:  
27

1                   **MGE was not provided this analysis.** However, we do know that the  
2                   allocation of Oracle costs to MGE was substantially less than the prior  
3                   allocation of Infinium costs which is a testament to MGE being allowed to  
4                   take advantage of spreading the cost pool over a larger organization which  
5                   now includes the pipelines.  
6

7                   (Emphasis added by OPC.)  
8  
9

10           Q.     SHOULD SUC HAVE PREPARED ONE OR MORE CAPITAL BUDGETING  
11           ANALYSES PRIOR TO SWITCHING THE NEW ACCOUNTING SYSTEM?

12           A.     Yes, I believe that they should have. The costs and responsibilities that are associated with  
13           an operating system as critical as an accounting system require that sound financial  
14           management techniques be utilized by organizations such as MGE, and its parent SUC, in  
15           order to maintain an efficient and effective operation. Capital budgeting analyses such as net  
16           present value, internal rate of return, discounted cash flow and payback period are all  
17           examples of modern financial techniques utilized by large and small businesses to help them  
18           determine the costs and benefits of proposed investment options. However, MGE was  
19           unable to provide me with documentation supporting that any of these analyses were actually  
20           developed.  
21

22           Q.     HAS PUBLIC COUNSEL BEEN ABLE TO AUDIT AND VERIFY THE  
23           REASONABLENESS OF THE ALLEGED ACTUAL COST OF THE NEW  
24           ACCOUNTING SYSTEM?

25           A.     No. I prepared and presented several data requests to MGE seeking various information  
26           regarding the costs of the new software systems. For example, OPC Data Request No. 1026

1 sought information concerning the capital budgeting of SUC, and all its affiliates, for all  
2 periods wherein the replacement of the systems was identified. Company's response to this  
3 data request stated:

4  
5 **MGE does not have that information.**  
6

7 (Emphasis added by OPC.)  
8  
9

10 Q. IS THE PUBLIC COUNSEL RECOMMENDING ANY ADJUSTMENT TO THE MGE  
11 BOOKED COST FOR THE NEW SOFTWARE SYSTEMS?

12 A. Public Counsel is unable, at the moment, to determine if the booked cost of the new software  
13 systems is reasonable since Company has not yet fully responded to our requests for  
14 information concerning their implementation. I would request that the Commission  
15 recognize that an adjustment to reduce their cost may be required, and that Public Counsel  
16 will address this issue further, as appropriate, once I have had time to review and analyze  
17 Company's responses to the outstanding data requests. However, regardless of whether or  
18 not an adjustment to the cost of the new software systems is recommended, Public Counsel  
19 does not believe that the unamortized balance of the Infinium S2K software should be  
20 allowed recovery in the determination of MGE's rates in the instant case.  
21

22 **II. UNRECOVERED REVENUE DEFICIENCY**

23 Q. WHAT IS THE ISSUE?

1 A. Schedule H-21 of Mr. Noack's rebuttal testimony shows an alleged cost of service revenue  
2 shortfall of \$15,635,784 for the period January 2006 through June 2006. Company proposes  
3 to amortize the shortfall to expense over five years.  
4

5 Q. IS IT YOUR BELIEF THAT THE COMPANY'S PROPOSAL CONSTITUTES  
6 IMPERMISSIBLE RETROACTIVE RATEMAKING?

7 A. Yes, based on my understanding of the issue, and the advice of counsel, I believe that it does.  
8

9 Q. IS MGE OPPOSED TO ACTS OF RETROACTIVE RATEMAKING?

10 A. It would appear that the Company is selective in its opposition to Commission authorization  
11 of retroactive ratemaking. If Company, and shareholders, will benefit from the Commission  
12 ignoring the retroactive ratemaking aspects of an issue, it supports the impermissible act.  
13 The current issue being a good example of the Company's position since MGE wants the  
14 Commission to authorize it to recover in future expense revenue from an alleged prior  
15 shortfall (i.e., lost earnings or return on equity). However, if the Company, and  
16 shareholders, will not benefit, MGE quickly raises a protectionist wall concerning the  
17 illegality of the impermissible act.  
18

19 For example, in Mr. Noack's rebuttal testimony, pages 6-9, he defends the Company's  
20 position that Staff has erred in its adjustment to amortize property tax refunds to expense  
21 over five years. Interestingly, on page eight, lines 7-18, of his rebuttal testimony, he uses the  
22 following language to support the Company's position on the property tax refund issue:

1  
2 Rates are set based on estimates of the levels of revenue, expense, and  
3 investment that a utility will experience in the future. Generally, the  
4 estimates of individual elements of the costs of service are not precisely  
5 accurate and, therefore, can be either too high or too low. Seldom, if ever, do  
6 the estimates match a utility's actual experience during the period the rates  
7 are in effect. Unexpected gains in some expense categories - such as these  
8 property tax refunds - are offset by unexpected shortfalls in others. So the  
9 tax refund must be considered in context with other categories of expense  
10 where amounts collected from customers were less than (sic) the costs  
11 actually incurred by MGE to provide service. **And just as it would be**  
12 **wrong to allow the Company, when it incurs a shortfall, to attempt to**  
13 **recoup that shortfall through future rates,** it would be equally wrong to  
14 require the Company, when it realizes an unexpected gain, to return that gain  
15 to customers.  
16

17 (Emphasis added by OPC.)  
18

19 Q. DO YOU AGREE WITH MR. NOACK'S STATEMENT IN THE PRIOR Q&A THAT IT  
20 IS WRONG TO ALLOW A REGULATED UTILITY TO RECOUP THROUGH FUTURE  
21 RATES AN ALLEGED REVENUE SHORTFALL OF A PRIOR PERIOD?

22 A. Yes, I do. Therefore, it is the Public Counsel's recommendation that the Commission  
23 disallow the Company's very unusual request for amortization of the alleged revenue  
24 shortfall of prior periods (i.e., unusual in the sense that Mr. Noack himself has stated he  
25 believes it would be wrong for the Company to recoup the amount in future rates while at the  
26 same time he presses the Commission for authorization to do that wrong to ratepayers).  
27

28 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

29 A. Yes, it does.