BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

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TRANSCRIPT OF PROCEEDINGS

HEARING

January 10, 2007

Jefferson City, Missouri

Volume 7

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In the Matter of Missouri Gas Energy's Tariffs Increasing Rates for Gas Service Provided to Customers in the Company's Missouri Service	))Case No.)GR-2006-0422)

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SENIOR REGULATORY LAW JUDGE.
CONNIE MURRAY,
STEVE GAW
LINWARD "LIN" APPLING,
DAVID CLAYTON,
COMMISSIONERS.

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P R O C E E D I N G S

JUDGE JONES: Let's go ahead with Case No. GR-2006-6422. Yesterday we ended with questions from the Chairman of the Commission of Mr. Robert Hack. Staff indicated they wished to conduct some recross-examination and we will begin with that. Mr. Hack, you remain under oath.

MR. FRANSON: Your Honor, after some reflection on my notes and further review, I have found I have no questions for Mr. Hack.

JUDGE JONES: Okay. Mr. Hack, you're excused. Oh, Commissioner Murray has questions.

ROBERT HACK testified as follows:

QUESTIONS BY COMMISSIONER MURRAY:

Q. Good morning, Mr. Hack.

A. Good morning.

Q. I hate to let you off that easy.

A. I'm here so I'm happy to answer questions.

Q. All right. And I haven't thought this through very much this morning, but just briefly, since you're here on policy, can you state what the company's policy is regarding conservation and energy efficiency efforts?

A. In past, Commissioner -- and I'll set aside the low-income weatherization program -- we have been not only reluctant, but very resistant to implementing energy conservation initiatives because of the detrimental impact

those initiatives would have on our earnings and our revenues because our rate design -- our current rate design is so heavily reliant on volumetric rates for cost recovery.

The low-income weatherization program, which has certainly a conservation aspect to it has been in effect for MGE I think since -- since we began operations in 1994. I would view that program as more of a uncollectible prevention device rather than a conservation program.

The benefits there are really on the bad debt side. There's been a study of the effectiveness, the cost effectiveness of that program and it really studied, you know, the dollars that went out and the bad debts that relatedly reduced and that's how the -- the efficacy of that program is judged, not through, quote, conservation.

Q. And you're aware of what this -- Mr. Jackson has recommended in his testimony, are you not, in terms of the amount of --

A. Yes.

Q. -- money that would be --

A. Yes. And we have -- in our initial filing in this case we recommended that -- that rates include an additional $100,000 for low-income weatherization throughout our service territory. What Mr. Jackson has recommended is $250,000 specifically for the Kansas City aspect of the program.

We have indicated our disagreement with that recommendation based on our view that he doesn't have a lot of backlog for his program in Kansas City. I think where it stands right now, my understanding is that the Staff has asked for another $20,000 to be added on top of the 100,000 we have recommended to accomplish another study of the efficacy of the program. So as I would kind of position the issue, there's a recommendation of $120,000 a year increase on MGE's part and the City of Kansas City has recommended $250,000 for the city itself.

You know, our -- our opposition to that isn't strong, it's just our belief that -- that, you know, a 20, 25 percent increase in funding for the program makes sense at this time.

Q. Okay. So in your opinion then, is that at this time enough of an effort toward conservation and energy efficiency?

A. Enough from a societal perspective?

Q. Well, enough combined with the fact that the company would, if we adopt the rate design proposed here, be assuming less risk and that there would be a decoupling of those revenues from --

A. The -- actually on top of our proposal for basically $620,000 in funding for the low-income weatherization program, we have also proposed $750,000 in

funding for specific natural gas conservation initiatives in the form of education and water heater -- you know, energy efficient water heater rebate program.

From my perspective, you know, what I -- one of my primary responsibilities is to make sure that the company has the resources it needs to be able to do -- accomplish its objective, its commitments effectively. We don't have any appliance-type programs today. $750,000 annual program from my perspective, is a -- is a big step. We want to make sure we can do it, we want to make sure we can do it properly, effectively and successfully.

My concern is that if that program is expanded beyond what we've proposed, that we don't have the capacity presently, as an organization, to effectively implement that -- that large of a program or program of greater scope.

But with those two elements together, $620,000 in low-income weatherization, $750,000 in specific non-income qualifying natural gas conservation initiatives, I believe that's a very significant aggressive material step in the right direction conservation-wise.

Q. And how much of that is directed to the water heater replacement?

A. I believe 705,000 of the 750.

Q. All right. And the educational portion of that, what is --

A. That's 45,000 of it.

Q. But I mean, what is actually involved in that?

A. It would be website information, it would be an energy calculator that the consumer -- as I understand, it's a link to the Department of Energy that would allow a consumer to input the square footage of his home, the BTU ratings of -- and age of his equipment, whether they have double-, single-, triple-pane windows and assess the cost effectiveness of changing out equipment, caulking, insulation, that kind of stuff.

Q. So is that what's called an online audit?

A. I -- I would not be -- it sounds sort of like that, but that -- it's called an energy calculator, as I recall.

Q. Okay. And refresh my memory, if you would, regarding the company's automated meter reading. I mean, what is the status of that?

A. We rolled out or -- rolled out automated meter reading beginning in 1997. All meters were, you know -- 100 percent coverage was accomplished by year end of 1998.

As a consequence, we had I believe 70-some-odd meter readers either contract or, you know, company employees, union employees who -- union employees began doing different work following the implementation of AMR.

We have seen not only cost savings from that

project, but customer service benefits. Estimated meter reads are well under 1,000 a year since 2000, 2001. I haven't looked back further than that. The employees who have moved onto other jobs have basically better paying jobs, jobs that are more demanding, jobs that -- good jobs.

Q. And do those meters allow for any kind of demand side management?

A. The -- the -- it's -- we don't have real time metering capability right now. What we have is basically we drive around in vans, our -- our -- we have five meter readers who drive the system in vans along meter reading routes. We have 21 billing cycles, so we get meter reads once a month for customers.

There is a way to install what's called a fixed network with the units we have today. It would basically put computers on telephone poles out there and you could theoretically, with additional investment, eliminate the vans and get real-time meter reads, which I think would move towards what you're talking about. We don't have any -- any imminent plans to do that.

Q. But the meters that you did install are compatible with upgrading to that?

A. Yeah. Actually, we didn't change any meters at all. We put what are called ERTS onto the meters, Encoder Receiver Transmitters. And those -- those -- basically you

turn them on from the van, they send the information electronically to the van and this fixed network system would replace the van with a computer on a telephone pole in a neighborhood.

Q. So it wouldn't be replacing something you've already upgraded, it would be an additional upgrade; is that right?

A. It would be replacing the computers in five vans with computers placed throughout the network. So it would be -- I haven't looked at the dollars, but it would not be an inconsiderable capital outlay.

Q. And you say that has not been a consideration at this point?

A. It is not something we plan to do. It's something that -- that we've sort of looked at, but -- but it's not in our imminent plans, no.

Q. Now, if you went to that step, tell me again what that would allow.

A. Boy, I may be beyond my -- my -- my understanding here. It's my -- it's my belief that it would allow the company to basically access meter reading information for a particular customer on a real-time basis. So we could -- without driving past the premise.

So we could call up the computer say, I want to know what usage is like at, you know, 3131 Mockingbird Lane

and we could find that out.

Q. Would that allow the customer to see anything on a real-time basis or does that -- would that require additional upgrades?

A. That would require probably some linkage through a website. And I'm definitely beyond my abilities here.

Q. All right. From my personal perspective, I think that is something that is timely for utilities to be looking at and I'd sure be interested in seeing that pursued.

A. Well, we will take a look at the information, have a conversation about it, Commissioner, and see what -- what we can find out and whether -- whether it is practical and -- and makes sense given -- given our system.

Q. Great. Thank you very much.

A. You're welcome.

QUESTIONS BY COMMISSIONER APPLING:

Q. Mr. Hack --

A. Yes, sir.

Q. -- good to see you this morning.

A. Thank you. It's good to be here.

Q. Well, it's good to be any place here with your head still up.

A. Yes, sir.

Q. We had Anne on the stand for a long time

yesterday. And my colleagues talked about conservation, weatherization, low-income and all of that. And I think my question this morning -- I apologize to you and I apologize to Commissioner Murray that I wasn't here to hear exactly what you all started talking about this morning so I assume you're talking about the company policy and what you all do --

A. Uh-huh.

Q. -- and all that. But I think you all talked a little bit about decoupling. And yesterday my colleague was leaning forward in the foxhole on those three or four items that I talked about.

What you all have proposed -- just talk to me just a little bit. Is that the best you can do or is that a --

A. Yeah.

Q. Hold on just a second. Is that the best you think you can come up with? Because several of my colleagues don't feel that it is. So I want you to talk a little bit about it this morning because I want to be clear about your policy, what you're doing, what you plan to do and what you can afford to do here.

A. Right.

Q. Okay.

A. Right. Certainly. Certainly. I'll speak first to the rate design itself.

Q. Good.

A. We have -- over time it has become increasingly clear to me that the way our rates have been set, in particular, our residential rates -- and our residential customers comprise about 90 percent of our total customer base -- has produced substantially -- contributed substantially to the company's consistent inability to earn its Commission authorized return.

This past year, calendar year '06, the weather was 7-- heating degree days, which is how we measure weather in the natural gas business, were 77 percent of the 30-year normal.

As a consequence of that, our customers used considerably less gas than they would have had the temperatures been colder. As a consequence of the weather and the reduced volumes of consumption, our revenues fell short of our budgeted expectations by something on the order of $15 million.

We do our best under those circumstances to find savings so that we can achieve our budgeted earnings targets. We try to spend money smartly, not spend money where we don't have to.

But in the course of operating our business, for example, customer contact consultants who work in our phone center, we have a fair bit of turnover there. In order

to maintain service quality measures, answer the phone quickly enough, we had to hire at least one and perhaps actually two classes, about 15 employees in total, once in February, once in I think August or September, even though we knew that our revenues were going to be off the mark by many millions of dollars.

Under those circumstances, I have a lot of hard questions to answer to my corporate management. They ask me, why are you hiring these people, your revenues are down, your earnings are down and please justify why you're hiring people. And the answer really is simple. We have some obligations we need to meet, we have some customers we need to serve and we hired the people.

The rate design, which in concert with the weather, produced that revenue shortfall is a -- basically what I'll call a three-part rate design. One piece is the PGA. That's the gas cost, the interstate transportation costs, the storage costs on the interstate pipeline system. Our proposal in this case does nothing to change the way the PGA is treated. So we can set that item to the side.

The other two elements of our current bill, our current rate design for the residential class are a fixed monthly charge called the customer charge, which is $11.65 a month and a volumetric rate element, which is applied on a per CCF consumed basis by each customer, and that charge is right

now about 13 cents per CCF.

On an aggregate basis for the residential class, we currently derive about 55 percent of our costs of serving that class from fixed rate elements and 45 percent from volumetric rate elements assuming the weather is normal. The costs of serving our customers -- our residential customers in particular, do not vary with the amount of gas the customer consumes.

Now, remember, I'm setting aside the PGA. Every unit of gas they consume is attached to it a PGA charge, but the cost of the delivery service that we provide, the meter to the home, the service regulator, none of that changes whether a customer uses 10 CCF in a month or 100 CCF in a month.

So, for example, in the wintertime if it's very warm in the wintertime, MGE doesn't lay off any employees because it's warm. If it's cold in the wintertime, we don't hire any more employees. Our insurance costs don't go up or down with the weather. Our -- our -- we don't sell trucks or buildings or buy trucks or buildings whether it's warm or cold respectively.

So where we see ourselves today, we're recovering -- attempting to recover fixed costs of service through a combination of fixed and volumetric rate elements. The volumetric rate elements and cost recovery depends

significantly on the weather.

In addition, the -- the -- the customers have been using less gas on an annual basis on average over time irrespective of weather impacts because of energy efficiency gains through housing construction -- improved housing construction practices, changing out of old water heaters for new water heaters that are more efficient, changing out of old furnaces from new furnaces that are more efficient. And sometimes these are conservation measures, sometimes it's just I have an old water heater that's broken, I need to replace it, I can't physically buy one today that is as inefficient as the one I'm replacing.

So our actual per customer consumption has dropped about 20 percent irrespective of weather in the past 10 years. And we're -- we are relying on that volumetric throughput to recover our costs.

We have -- there are a number of alternatives, alternative rate designs that can be put in place to address this mismatch between fixed cost of service and volumetric cost recovery. One is called weather normalization adjustment mechanism. We have proposed that as an alternative in this case. It has been, as I understand the record, uniformly opposed by all who have taken a position on it except for the company. That is our secondary recommendation as to rate design.

Another potential solution to the problem I just described is what is called full revenue decoupling through an adjustment mechanism which deals with both the impacts of weather and declining usage per customer attributable to impacts other than weather such as conservation, energy efficiency, etc.

That mechanism, which we have not proposed in this case, has been discussed publicly in a number of forums and it's my belief, based upon conversations that I've observed and been a part of, that that kind of mechanism would meet with at least as much opposition, if not more, than the weather normalization mechanism we have proposed in this case.

Another alternative to deal with the -- the problem I just described of fixed cost of service being recovered through volume -- combination of fixed and volumetric rate elements is to move completely away from volumetric rate elements. In other words, to eliminate the -- the volumetric rate piece for recovery of fixed costs. It would still be in place for the recovery of commodity costs, which do vary with the amount consumed. And that is what we proposed in this case.

That is a rate design which has been variously called a straight fixed variable rate design, a flat rate, a monthly bas-- basic delivery charge. It's basically the way cable services are priced today, it's the way online access

services are priced today. It's the way many services -- consumer services are priced today.

That kind of pricing proposal and our proposal in this case only does that for the residential class. It would maintain the traditional rate design for the SGS, the large -- the smaller commercial customers as well as the larger business customers. I lost my train of thought.

That would -- the effect of that kind of rate design for the residential class would be to make the company indifferent -- financially indifferent as to the level of volumes our customers consume. That is, our earnings would not be and our revenues would not be dependent upon customers using more or less, the cus-- the weather being warmer than normal or colder than normal. Simply, it would be a function of customers being attached to the system.

I'm getting to the conservation point now. Because our current rate structure is heavily dependent on volumetric consumption by the customer to generate revenues in company -- and earnings for the company, it's in our interest, our financial interest, the company's financial interest that those customers use as much gas as possible so that we can apply as many of those 13 cents per CCF charges as we can, because that produces cost recovery for us and earnings for us.

And because of that incentive, it is -- it

is -- it is against our financial interest to promote conservation for any of our customers which would tend to reduce the volumes of gas that our customers use. Because of that, we have resisted conservation programs in the past, we resisted conservation programs in the last case.

We do have a low-income weatherization plan that had been in place since about 1994. There are certainly conservation aspects to that program, but as I was discussing with Commissioner Murray, the primary purpose of that program is to reduce bad debt for low-income customers so that the cost to serve everybody is lower.

That is the way that that program had been assessed when it was assessed I believe in 1998 by a third-party consultant. It was proved to be cost effective at that time even with the lower commodity prices that were prevailing then. I'm sure it would be even more cost effective today in this high-priced natural gas commodity environment that we find ourselves.

But, under a straight fixed variable rate design, the rate design the company proposed when it filed this case and the Staff has endorsed with its rate design recommendation, as to the residential class, the company would be financially indifferent to the level of throughput by our residential customers.

As such, we, under that rate design, would be

willing and financially -- would not financially harm us to implement natural gas conservation programs. So in recognition of that, in recognition of the fact that natural gas is a scarce non-renewable resource that should be used wisely, we have, as a part of our filing in this case, proposed basically three things with respect to conservation related areas.

The first is to increase the low-income weatherization funding by about 25 percent from $500,000 a year to $620,000 a year. The second is a set of natural gas conservation initiatives, which we propose to include in rates in the amount of $750,000 a year to be basically allocated to two different discreet pieces.

$45,000 of that would be applied to customer communication, customer education on the benefits of conservation, how to conserve, a website portal that would take customers who use it through to the Department of Energy calculator through which the customer could input some information, find out the costs and respective benefits of conservation measures for their particular premise.

And then the second piece of -- of the program we have proposed is a water heater rebate program to the -- to be funded in the amount of $705,000 a year, which would provide an incentive for customers to purchase water heaters that are more -- that are in the top quartile of energy

efficiency available today.

Water heat is something that almost all residential customers need and use on a seasonal bas-- on a year-round basis. Water heaters as opposed to furnaces are considerably more affordable. I think I heard testimony yesterday that an average -- or an energy efficient 40-gallon water heater was about $350; whereas, a 90 percent energy efficient furnace was about 2000, 2,500 dollars.

We -- our program is designed, we hope, to provide benefits to a larger number of customers rather then a smaller number of customers. And we -- we also try to develop and -- kind of the scope of the program, try to make certain that we believed we have the resources, the capabilities to actually administer the program successfully.

We don't have any program of that type in our business operation today. It's -- it's going from scratch for us. Part of my responsibilities are to make sure that we undertake our obligations in a way that they can be achieved and achieved successfully and a way that we have the resources to achieve them.

It's my belief, based on my understanding of our operation, that expanding the conservation programs we have proposed considerably beyond what we've proposed is likely going to impede or impair the success of those programs, biting off more than we can chew in the colloquial.

It's not that we're opposed to that. We want to make sure that what we do is successful. I think it's aggressive, I think it's meaningful, I think it's material, I think it's sustainable, I think it will be cost effective.

Do we have all the answers, Commissioner? I can't tell you we do. This is something we haven't done before. But our program was developed based on a survey of what's out there across the country today and we think it makes sense. We think it will benefit all of our residential customers whether they participate or not over the long haul.

Q. Mr. Hack, thank you. But as you know, when the headlines in this state or in this country is dominated by companies like yours with over-earning, big bonuses and all of that, I think what I'm saying and what I'm asking of your company today is to make sure that your rate design is designed in a way that this Commission, as well as your company, can defend to the public what it is that we are doing here.

Because the time of -- and you know it as well as I know it. You and I have talked about this on many different occasions in the past, but we know that those kind of things are not going to be sustainable because people are going to continue to turn over leaves and expect you to do more with less or whatever the case is.

So that's why I'm asking you this morning and

appreciate your comments to the fact that before I cast a vote on this rate increase, what we're doing here that we are in a position to be able to defend what we are saying and what we are doing. It would not be in your interest nor would it be in the interest of this Commission to go out there and do something that is not sustainable, something that we can't explain, something that the public cannot benefit from.

So that was my main reason for asking that question this morning. And I think you understand that very well and I hope that the company understand that, but I'm sure you'll hear from some other people here today and later on expecting to stretch you a little bit more than you're being stretched right now.

A. Well, if I could just briefly add perhaps, the -- there are many benefits to changing the rate design as we've suggested. The -- currently cost recovery, volumetric cost recovery is concentrated in the winter months when consumption is highest and when bills are already highest due to gas prices and gas usage.

This rate design proposal smooths out the impact of that cost recovery across the year and actually lowers wintertime gas bills.

In addition, we have come forward with an acknowledgment -- financial acknowledgment that this rate design does reduce the risk to be expected to be experienced

by the company and the overall revenue requirement under that acknowledgment would fall by over a million dollars annually under the straight fixed variable rate design. So there are clear financial benefits to customers in addition to energy conservation that I just described.

So it's -- it is a change. And I agree with you. You -- you must believe in the change in order to be able to explain it, in order to be able to tell customers that it does make sense. And I believe it does.

Q. Well, we probably have gone on long enough on this --

A. All right.

Q. -- on the policy end. We probably need to continue to move here. I didn't mean to throw in a dissertation here this morning, but I want to be clear before we march too far down the road on this rate design and whether we're doing the right thing for the people that pay you and I for being here.

COMMISSIONER APPLING: So, Judge, that's my final question. Thank you very much.

JUDGE JONES: Any recross-examination from the Office of Public Counsel? Staff?

MR. FRANSON: Briefly, your Honor.

RECROSS-EXAMINATION BY MR. FRANSON:

Q. Mr. Hack, as part of your conservation

programs that you've been talking about, do you contemplate meeting with other parties, for example, Staff, Office of Public Counsel, the City of Kansas City to implement the details of it?

A. Certainly.

Q. Okay. And the other question would be, in the future would you be willing to consider other programs for part of these funds if that was agreed upon by parties?

A. I think we need to be flexible and assess -- assess programs as we go forward and learn more information. So that's certainly a possibility.

Q. Okay. And then one of the things about a program like this is an assessment of it. Would you agree with that?

A. Certainly.

Q. And would you be willing to, to the best of MGE's ability, provide information to assist in such an assessment if it was ordered by the Commission?

A. We will be assessing the program regardless of whether it is ordered or not.

MR. FRANSON: Okay. Thank you very much. No further questions.

JUDGE JONES: Any questions from Office of Public Counsel?

MR. POSTON: Yes. Thank you.

RECROSS-EXAMINATION BY MR. POSTON:

Q. Good morning.

A. Hello.

Q. In response to a question from Commissioner Appling, you said that usage for MGE has dropped 20 percent irrespective of weather?

A. Yes.

Q. Over what time frame is that?

A. It's in the testimony of Mr. Noack. I could find it. Maybe it's Mr. Feingold.

MR. BOUDREAU: I believe it's in the testimony of Mr. Feingold.

THE WITNESS: Okay. 1997 to 2005.

BY MR. POSTON:

Q. And what are you looking at right now?

A. Schedule RAF-7, page 1 of 4 to Mr. Feingold's Direct Testimony.

Q. Is that the only data you're aware of in this case that supports your 20 percent number?

A. That's the only reference I can point to right now.

Q. And are you aware of Mr. Feingold's testimony where he points to an American Gas Association study which found usage is only declining 1 percent per year nationwide? Are you aware of that?

A. I'm aware that that's in his testimony, yes.
Q. And in response to a question from Commissioner Appling, you said a benefit of rate design is smoothing out or leveling of gas bills. And do customers of your company have that ability to level out their payments today?
A. I really spoke to bills, but we do have a level -- what's called an ABC program, yes.
Q. And in response to questions from Commissioner Murray, you talked about the energy calculator?
A. Yes.
Q. And how would that be made available to customers without access to a computer?
A. I don't know.
Q. And yesterday Chairman Davis asked you what MGE's earned return on equity was for 2006. Do you remember that question?
A. Yes.
Q. And what was your response?
A. I don't have that information yet.
Q. Didn't you also indicate that MGE does not calculate that?
A. For purposes of annual earnings, correct.
Q. So would you know MGE's earned ROE for 2005?
A. No.

Q. Is MGE able to determine on a monthly basis plant debt cost, expenses and revenues?

A. Yes.

Q. And can't you use these to determine earned ROE?

A. Like I said, I didn't say we weren't able to. I said we didn't.

Q. Okay. And there was extensive questions about MGE's lobbying efforts and your lobbying efforts. Did you personally lobby to get Senate Bill 179 passed?

A. No.

Q. Did MGE?

A. I believe some of our personnel did, yes.

MR. POSTON: Thank you. That's all I have.

JUDGE JONES: Mr. Hack, will you be around for the day or did you intend on leaving?

THE WITNESS: I'm hoping to catch a train at 10:51, but if I'm needed, I will stay.

JUDGE JONES: Commissioner Gaw, you may want to go ahead and ask your questions.

COMMISSIONER GAW: Let me just ask you. Are you coming back later in the week or are you not planning on doing that?

THE WITNESS: My intent was to leave. But I can catch a later train. I'd rather -- if I'm needed, I'll

stay.

COMMISSIONER GAW: The reason I'm asking is, I may be able to get the information I'm looking for from other witnesses and rather than make you miss your train, I was trying -- but if I can't get that information, then I might have some questions for you and that would be another day. So what --

THE WITNESS: I know I can't be back tomorrow. I have an 11:00 a.m. appointment in Kansas City tomorrow.

COMMISSIONER GAW: Okay.

THE WITNESS: If -- if I need to make myself available Friday, I'd be happy to do so.

COMMISSIONER GAW: Go ahead, Judge.

JUDGE JONES: It's on the issue of weather normalization and low-income weatherization and natural gas conservation?

COMMISSIONER GAW: Generally that's true, although I was -- I guess I'm curious about whether -- Mr. Hack, the information on the ROE, is that something that you all are going to calculate for this case after the questions that you got or is it something that's just -- I don't know how it was left with the questions yesterday so --

THE WITNESS: The reason we don't calculate an ROE --

COMMISSIONER GAW: And it's okay that -- I

don't need the explanation of why you haven't.

THE WITNESS: Right.

COMMISSIONER GAW: My question is whether it was left that you would provide that information or not?

THE WITNESS: It was not left that way.

COMMISSIONER GAW: Okay.

JUDGE JONES: The witnesses that are to testify on these issues that we've been primarily discussing --

THE WITNESS: Yes, sir

JUDGE JONES: -- they can answer the gambit of questions that could be asked?

THE WITNESS: I certainly hope so.

JUDGE JONES: What about Mr. Noack? Does he have pretty much the same information you have?

THE WITNESS: He provides me with the information I have.

JUDGE JONES: Okay.

COMMISSIONER GAW: Is he able to answer or are these witnesses able to answer questions in regard to what MGE's policy decisions might be on conservation programs?

THE WITNESS: That would probably be me.

COMMISSIONER GAW: Maybe I better ask you a few questions then.

THE WITNESS: I'm happy to --

QUESTIONS BY COMMISSIONER GAW:

Q. Can you tell me whether MGE has looked at -- besides those proposals that are presented in the testimony, has MGE looked at adopting any significant conservation or efficiency programs?

A. We have surveyed -- we've tried to survey the country to see what is out there. Frankly, most of the conservation programs out there are on the electric side. That is -- as we just explained, our customers have been using less per customer consistently over time without any conservation programs, aside from the low-income weatherization program.

So -- so we've -- we've surveyed what's available in the country, we tried to put together a program that was something we believe we could implement, something we believe would help as large a number of our customers as possible.

And, you know, we don't have all of the answers, but we believe it's a -- it's a strong first step, a material first step towards a program that can last and provide lots of benefits to lots of customers over time.

Q. Now you're back talking about the ones you're proposing. I'm interested in whether or not you've -- I asked this question at the last MGE rate case, if I recall or something similar to it, about whether or not you've examined

a program like the PAYS program?

A. We've looked at Pay As You Save and believe it has too many administrative entanglements for us to feel confident that we can administer or that we even want to embark upon administering it. There are loans. As you mentioned the other day, there's the possibility of liens. What happens when those loans go bad? You've got to worry about perhaps modifying the billing system to include amounts related to those loans on the bills.

And, you know, could it be something at some point in the future that we might conceivably be interested in? I can't rule that out, but as a first step, there's too much administrative stuff there for us to believe we could do it, do it successfully, do it quickly and make a lot of bang for the customer's buck.

Q. So it sounds like the answer is that you're not interested in it?

A. Not today.

Q. Well, that may -- if you're not interested in it today, is there another program that you might be interested in today besides the ones that you've proposed?

A. You know, like -- the ones we've proposed are the ones we've vetted internally and believe we can do, you know.

Q. The water heater program?

A. The water heater program and customer education.

Q. And are you willing to put in electric -- pay for electric water heaters --

A. No.

Q. -- to go in?

A. No. Electric water heaters are terribly inefficient ways to heat water.

Q. How about furnaces? Would you put furnaces in?

A. We have excluded furnaces from this program based on scope, one; and two, based upon a desire to maximize the number of customers who can be helped through the initial phase of the program.

Q. What's the difference in energy savings that you get out of replacing -- or going to efficient furnaces as opposed to efficient water heaters, do you know? Is there any measure of that?

A. I assume that there is. I would also assume that the magnitude of the savings or reduced consumption would be larger. I also --

Q. With the furnaces?

A. With furnaces than with water heaters. I also know that the -- that the capital outlay is considerably larger as well.

Q. Sure. The weatherization program that Kansas City has, do you think it's -- I assume MGE thinks it's of value?

A. It's a good program.

Q. Is there a way to look at that program or some sort of a similar program outside of Kansas City?

A. The -- the low-income weatherization program is available throughout our service territory. It's administered by the City of Kansas City in Jackson, Clay and Platte Counties. It is administered by other community action agency entities in the other parts of our service territory. So it's -- it is spread throughout the company's service territory.

Q. Okay. And the money -- the additional money that we're talking about going into that is just limited to Kansas City's itself?

A. Mr. Jackson has -- has -- his proposal is limited to Kansas City. The company's proposal would be spread across the surface territory as the dollars are currently allocated.

Q. Okay. Can you tell me the difference in the two proposals as far as expenditures -- total expenditure is concerned?

A. Mr. Jackson would propose adding $250,000 just to Kansas City. We have proposed adding $120,000 throughout

the service territory. Our -- our -- the basis of our -- what I would characterize mild opposition to his proposal is that -- or the city's proposal is that there's not a backlog or meaningful backlog of applicants. But as I think we've indicated in the testimony, if that is the Commission's will, we'll certainly do that. He runs a good program.

Q. Have you all looked at the possibility of having any difference in the amount of rate charged to customers based upon the individual or the businesses achieving certain efficiency standards? Has that ever been explored?

A. No. And I guess my view is that -- that customers who conserve, reduce their natural gas consumption, reduce their PGA and derive their conservation benefits that way.

Q. Oh, I understand that incentive exists. I'm asking, so -- I think you answered my question that you have never looked at it?

A. That is correct.

Q. Would you have a problem with it, that concept?

A. I guess when I -- when I step back and look at it, customers have been conserving for the past eight years already significantly without any regulatory intervention at all.

Q. So you don't think there's more that can be done on efficiency?

A. I think there's more that can be done. It's a question of how much is appropriate to do. And I think there's probably difficult -- reasonable minds can differ on that.

Q. So let's just talk about that.

A. Yeah.

Q. That's very curious to me. You think that there's not a reason to put in more efforts at conservation than what you're currently putting in?

A. No. That's not what I testified.

Q. Okay. Tell me what you think is an appropriate level of effort then.

A. What we have proposed in this case, a $1.37 million annual allocation.

Q. How much of that money is ratepayer money in your proposal?

A. All of it.

Q. There's no money being put in by the company toward this effort, is there?

A. There may be certainly administrative personnel costs on that. We haven't included that.

Q. Is the company willing to put in any money of its own if it gets what it wants on this customer charge?

A. Our view -- my view is that the conservation programs like the low-income weatherization program are specifically designed to benefit customers and that means it's entirely reasonable and appropriate for ratepayers to fund those programs.

Q. So the company isn't willing to do anything along that road to get this certainty of return that you're asking for in doing away with the volumetric component --

A. Commissioner --

Q. -- of rates is what you're telling me?

A. -- at this -- right now, we're not in a position to contribute money to those programs. The -- you know, we're willing to spearhead the programs, we're willing to coordinate with other parties to see that they're implemented successfully. That's the extent of it at this point. We believe that's a good faith commitment.

Q. If that's the extent of your commitment, I don't have any further questions.

COMMISSIONER GAW: Thank you.

JUDGE JONES: Any further recross? Any redirect?

MR. POSTON: I have one question. I'm sorry.

JUDGE JONES: Go right ahead.

RECROSS-EXAMINATION BY MR. POSTON:

Q. You just stated that the conservation programs

are meant to entirely benefit customers, is that correct, and -- is that correct?

A. They're meant to benefit customers.

Q. And for that reason you don't believe shareholders should pay?

A. I believe that it's appropriate for customers to pay for those programs, yes.

Q. Isn't the primary purpose that you want a straight fixed variable rate design to benefit shareholders?

A. No.

Q. What is the primary purpose?

A. The primary purpose, as I've explained in my testimony, is to really provide an appropriate balance of interest to shareholders, customers and employees

MR. POSTON: That's all I have. Thank you.

JUDGE JONES: Okay. Any redirect?

MR. BOUDREAU: Yes, please. Just one or two questions.

REDIRECT EXAMINATION BY MR. BOUDREAU:

Q. In response to -- I want to go back to some questions you got from Commissioner Gaw about the company's -- what the company's willing to do in terms of assisting customers in the event a straight fixed variable rate design proposal is --

A. Yes.

Q. -- adopted. And I wanted to come back to -- I mean, to something you testified to earlier, which is that the company has suggested that if that rate design proposal is adopted, that its recommendation on return on equity or -- would be adjusted?

A. That is correct. That's a million dollar a year per year benefit to customers.

Q. And that goes to all the customers of the company?

A. Yes.

MR. BOUDREAU: That's all I have. Thank you.

JUDGE JONES: Thank you, Mr. Hack. You may step down.

THE WITNESS: Thank you.

JUDGE JONES: And you're excused.

THE WITNESS: Thank you.

JUDGE JONES: And your train's on time, by the way. I checked that out for you.

THE WITNESS: Thank you.

JUDGE JONES: All right. Let's move onto MGE's Russell Feingold with weather normalization. Actually did you want to give an opening statement?

MR. BOUDREAU: I'll give a short opening statement.

JUDGE JONES: And just so you know for sake of

timing, we will take a break at eleven o'clock.

MR. BOUDREAU: May it please the Commission. As I noted in my opening statement introducing the issue of rate design, the company's decision to file this case was driven by the fact that MGE has, since at least 1999, been unable to earn its Commission authorized rate of return. And I told you a significant --

COMMISSIONER GAW: Let me ask a question real quick of counsel.

MR. BOUDREAU: Yes, sir.

COMMISSIONER GAW: Is counsel -- how many rate cases have been filed in that time frame?

MR. BOUDREAU: Since -- well, I think in -- since 19-- I think it's '97 -- since 1995, the company has filed, including this case, I think five rate cases. So --

COMMISSIONER GAW: Five rate cases. And how many of those cases have been settled?

MR. BOUDREAU: That I couldn't speak --

COMMISSIONER GAW: One case perhaps?

MR. BOUDREAU: That I couldn't speak to.

JUDGE JONES: Hack is indicating one.

COMMISSIONER GAW: And which case was that?

MR. BOUDREAU: Case No. GC-2001-292.

COMMISSIONER GAW: And in that case, during that time frame after that case, MGE, I assume, also didn't

earn its rate of return according to company's position?

MR. BOUDREAU: I think that's correct.

COMMISSIONER GAW: And is the company suggesting that every -- that in each of those occasions, it was unable to earn its rate of return because of something that was, in particular, associated with the weather portion of the case?

MR. BOUDREAU: I think that's been a factor in each case in that --

COMMISSIONER GAW: Even the one that MGE agreed to?

MR. BOUDREAU: Even in the settled case, yes, that's correct.

COMMISSIONER GAW: Okay. Thank you. I may ask some more questions about that later.

MR. BOUDREAU: Okay. Thank you.

At that time I told the Commission that a significant cause of this problem has been chronic volumetric revenue shortfalls caused by declining customer usage and actual weather being warmer than the Commission determined normal assumed as part of the rate setting process.

The use in the past by the Commission of the 30-year heating degree day average has contributed to the company's chronic and continuing volumetric revenue shortfalls. Just as crucial to MGE in this case is the issue

of the proper manner in which to normalize annual gas volumes for setting rates, particularly, if the Commission retains a volumetric element for the residential class.

In this case, MGE proposes the use of a 10-year heating degree day average to normalize annual gas revenues as the best predictor of the actual weather that can be expected during the period in which the new rates will be in effect. The use of this measure will result in better matching of assumed to actual gas sales.

The purpose of a weather normalization adjustment to test year volumetric revenues is to adjust base rates in order to produce the base revenue anticipated under normal temperature conditions. In summary, it is based on statistically determined relationships between gas usage and CCF and temperatures measured in heating degree days.

MGE's recommendation is based on an extensive analysis undertaken by Russell Feingold of Navigant Consulting. He examined 106 years of weather data and tested four alternatives a 30-year, 20-year, 10-year and a 5-year heating degree day average, each analysis ending in year 2005.

He adopted standard National Atmospheric Administration -- Oceanic and Atmospheric Administration definition for heating degree days and used weather stations at KCI, Kansas City Downtown Airport and Springfield Regional Airport.

His statistical analysis described in his testimony shows that over a 106-year period, the 10-year heating degree day average out performs the 30-day average in predicting weather two years out. In other words, the 10-year average produces more accurate forecast of heating degree days than does the 30-year average.

Under the company's proposal, the annualized normalized use per customer for the residential class is 834 CCF as compared to Staff's calculation of 868 CCF. In other words, Staff's calculations assume per customer usage to be fully 4 percent greater than does MGE, which means that MGE's volumetric delivery rates, if a straight fixed variable rate design is not adopted by the Commission, will be correspondingly lower.

Staff is producing its customary 30-year time -- 30-year time period used by NOAA, which is the acronym for the National Oceanic and Atmospheric Administration, and World Metrological Organization, which sure sounds like -- it sure sounds impressive, but, you know, at the end of the day it hasn't achieved the ultimate rate-making objective of matching expected gas sales with actual experience.

MGE's evidence will show that Staff's over-reliance on the NOAA 30-year weather normal does not withstand -- withstand a closer analysis. First of all, Staff embraces a 30-year statistic as a matter of faith, and I would

suggest to you that this loyalty is misplaced. The term "normal" as used by NOAA in its own words is simply an average of climatic -- of a climatic element over 30 years.

And further, when -- when the meteorologist talks about normal, it has nothing to do with a common event. Normal is just a simple point of departure or index. In other words, the NOAA 30-year heating degree day normal does not mean it represents weather -- or normal weather in the common sense in which you and I use the term. It is just a statistic or a starting point for a further analysis.

Another --

COMMISSIONER GAW: Counsel, just one more question. Would that same logic apply to all of the statistics that we have received in regard to low-income households and their usage of energy that have been floating around here the last couple of days?

MR. BOUDREAU: Well, I think --

COMMISSIONER GAW: What is normal or average doesn't necessarily reflect what happens individually to families who are out there trying to pay their gas bills?

MR. BOUDREAU: I'm not sure you can draw the same conclusion. Statistics -- I mean, you gather statistics --

COMMISSIONER GAW: Sort of the same thing, wouldn't you say?

MR. BOUDREAU: No, I think it's consistent with what I'm saying, which is you use the statistics and apply analysis to them. And what I'm suggesting is the statistic alone doesn't have independent significance, at least not the weather normal statistic.

COMMISSIONER GAW: Your logic should be applicable to most statistics of that kind, wouldn't you think?

MR. BOUDREAU: Well, I would agree, but I would also point out that --

COMMISSIONER GAW: That's okay. I don't want to interfere with your -- you can go ahead if you want to. And if you want to answer while you're going and stop -- I keep interfering with your remarks and I apologize.

MR. BOUDREAU: I don't mind the interference. I would just point out that statistics as far as low-income usage, were subject to analysis by Dr. Thompson. That was the purpose of his report.

Another deficiency with Staff's proposed 30-year heating degree -- heating degree day average is that it actually omits weather from the years 2001, 2002, 2003, 2004 and 2005 even though reliable NOAA data is available and even though the rates the Commission will be authorizing will be in effect starting in 2007 and likely will remain in effect through 2008 and beyond. At least that's MGE's hope.

In short, some of the most relevant current weather data has been ignored by Staff. I think the fundamental problem with Staff's recommendation for weather normal in this case is that Staff Witness Wells' view -- it's Staff Witness Wells' view, I believe, that the test year has nothing to do with determining circumstances that reasonably can be expected to occur in the future.

This, MGE submits, is just wrong in contrary to fundamental principles of rate-making. This is the same thing as saying that the weather next year will be the same as the weather last year, or more properly the weather as it occurred from 1971 through 2000. And we all know this to be incorrect.

In fairness, not all Staff witnesses share this view. In his Rebuttal Testimony, Staff Witness Robert Schallenberg stated one of the fundamental principles that has long governed rate making in this jurisdiction is the axiom rate-making is and should be a forward-looking and prospective process.

MGE agrees. These are not just theoretical concerns. You know, as an abstract proposition, if the weather normal is correctly applied, MGE should be in a situation of having an equal opportunity to gain or lose from the result. That is, some years actual sales should exceed expectations and some years will fall short.

But under the history or the method history historically used by the Commission and its Staff, a situation has been created where MGE virtually has been assured to lose each and every year.

MGE's -- and I pointed this out before. MGE's suffered volumetric shortfall in its revenue -- in its residential class every year from 1999 through 2006. I earlier put up this chart. I'll put it up again for a moment.

This is a chart, an appendix to Mr. Feingold's testimony. This also includes the very cold year -- cold winter, I should say, of 2000/2001 and has had the result of consistently understating actual heating degree days. And I believe this chart illustrates the point the company's trying to make as well as anything.

This is schedule -- this is --

COMMISSIONER GAW: Is there a way to sharpen that up? Perhaps it's my eyes.

MR. BOUDREAU: I don't think it's very sharp. I don't think it's your eyes.

THE WITNESS: Schedule RAF-7 page 1 of 4.

MR. BOUDREAU: Yes. Thank you.

COMMISSIONER GAW: I don't expect you to do that. Is there somebody that can mess with this machine?

MR. BOUDREAU: Janet, can you mess with this?

MS. WHEELER: I think this is as good as it

it's going to get.

MR. BOUDREAU: I'm sorry. I agree with you, Commissioner. It's not very clear.

The reason I put this chart up here, it's the chart that I think illustrates the fundamental point the company is making with the expected -- you have a connected dots connected by a line which is the expected or the anticipated amount which is the base line use per customer, which is built into rates, and then the actual experience is the bars beneath it.

And as you can see, although it's not very clear, about the only reason that's really come close in recent history is 2001 and even then it fell a little bit short. That's as good an encapsulation of what the company's trying to say as --

COMMISSIONER GAW: Again, counsel, this is what -- represents what?

MR. BOUDREAU: This represents -- this illustrates the comparison between the base line use per customer that was assumed in rates since 1997 and the actual experience for each of those years.

COMMISSIONER GAW: Now, is there -- and I'll ask the witness this in a little bit, but are you arguing that this is due just to weather shifts or also part of that is due to differences in usage by customer conservation efforts or

differences in drops of number of customers that are hooked up?

MR. BOUDREAU: I do not think that this is meant to illustrate just weather effects. This includes -- I believe you're correct in pointing out -- lesser use on a per customer basis irrespective of weather.

COMMISSIONER GAW: Thank you.

MR. BOUDREAU: Well, I guess I'll wrap up with this. In this -- with this issue, the theory underlying the policy should generate a result that has some relationship to reality; otherwise, what we do here is just a formality.

I should note at this point -- in fact, I will note at this point that there's an important interaction between this issue and that of rate design. If the Commission approves the straight fixed variable rate design proposed by MGE and endorsed in large part by Staff, the necessity of assuming a level of volumetric revenues that do not actually exist during the test year is no longer a consideration for the residential class, at any rate, which has both the largest and the most weather sensitive of all of MGE's customer classes. It accounts for two-thirds of the value of this issue.

Conversely, if the straight fixed variable proposal is not adopted by this Commission, this issue of the proper weather normal for setting rates is a crucial matter

for the company. The Commission should carefully consider the benefits of resolving two of these issues, frankly, in the discussion of this case. With that, I'll conclude my remarks and I'll tender the witness, Mr. Feingold, for cross-examination.

JUDGE JONES: Mr. Feingold, you remain under oath.

THE WITNESS: I understand.

MR. BOUDREAU: If I might, Mr. Feingold has some travel constraints. He's also filed a small bit of testimony in his Rebuttal Testimony, I believe it's pages 24, 25 and 26, dealing with the interaction of rate design and -- as it connects to the company's low-income proposal or the conservation proposal.

And I would ask the Commission's and counsel's indulgence if they have any further questions to ask Mr. Feingold on either this topic or the topic of natural gas conservation, that they do so at this time. I think he has a flight out a little bit later this afternoon and I'd like to, if possible, see that he can make his flight. With that, I'll tender him for cross. Thank you.

JUDGE JONES: Okay. We'll start with cross-examination from the Staff of the Commission.

MR. REED: May I stand, Judge, while I cross-examine?

JUDGE JONES: You can stand or sit.

RUSSELL FEINGOLD testified as follows:

CROSS-EXAMINATION BY MR. REED:

Q. Mr. Feingold, my name is Steve Reed. I don't know that we've met formally, but good morning.

A. Good morning, Mr. Reed.

Q. In this case, MGE proposes a 10-year heating degree days average to normalize their annual gas volumes. Is that the right way to describe it?

A. I would say that's a fair characterization, yes.

Q. And Staff proposes that the Commission retain the 30-year average?

A. Yes.

Q. The effect of using a 10-year average would be to reduce the number of heating degree days for weather normal?

A. I would agree with that.

Q. The 10-year average, by reducing the heating degree days, would result in lower base gas volumes for MGE?

A. When you say "base gas volumes," can I assume that to mean the use per customer established in the rate case for setting rates?

Q. Yes.

A. Then I would agree with you.

Q. All right. And I think that addresses my next questions, that when the base volumes are lower, than the rates would be set using lower base volumes?

A. Could you repeat that, please?

Q. Let's go to the next question. In a nutshell, using the 10-year period instead of the 30-year period, MGE wants the weather normal to be established warmer than that that would be established as proposed by Staff?

A. Well, warmer, but at the same time closer to what has been experienced in the past so there's less deviation going forward.

Q. In the past -- by "in the past" you mean the last 10 years?

A. The last 106 years.

Q. I see. If the baseline -- or if the base volumes are set based on warmer weather, that would mean that as the weather gets colder or colder than that normal that is established, MGE would generate more revenue. Correct?

A. Under the current rate design. Under straight fixed variable proposal, they would not.

Q. But under the volumetric charge, then they would, in fact, generate more revenue the colder it got?

A. Right. Just as they would generate less revenue the warmer it got.

Q. The 30-year average proposed by Staff is

consistent with prior Commission rulings?

A. It is.

Q. And you're familiar with the Laclede Gas case GR-92-165?

A. Is that a case that Mr. Wells cited in his testimony?

Q. Mr. Wells cited.

A. Then I have reviewed that, yes.

Q. In that case the Missouri state climatologist Dr. Wayne Decker testified. You're familiar with that?

A. Yes, I am.

Q. He recommended the 30-year average and the Commission agreed?

A. Yes.

Q. You're also familiar with MGE's own rate case, GR-96-285 that was decided in 1997?

A. I am.

Q. There the Commission found that the NOAA 30-year normal is the more appropriate benchmark?

A. Ten years ago they did, yes.

Q. The Commission also found that the 10-year moving average offered by MGE at that time would needlessly cause frequent rate changes based upon the introduction of new data every year?

A. I did read that.

Q. You're also familiar with Laclede Gas Company Case No. GR-99-315?

A. Is that also a case that Mr. Wells cited?

Q. Mr. Wells cited that as well.

A. Then I have reviewed that.

Q. And there again, a Missouri state climatologist testified, Dr. Steve Qi Hu. Correct?

A. Yes.

Q. And he again recommended the 30-year average?

A. For that company.

Q. The 30-year average -- the 30-year period to establish normal weather, is that used by the National Oceanic and Atmospheric Administration?

A. Could you repeat that, please? I'm sorry.

Q. The 30-year period used to establish a weather normal, is that set by NOAA?

A. It is calculated by NOAA.

Q. And the World Metrological Organization requires the use of 30 years to describe climate normals?

A. Can you refer me to a specific section where they make that statement?

Q. Do you see agree with me or not?

A. I have not reviewed the WMO materials in that area.

Q. But you have reviewed Mr. Wells' Direct

Testimony?

A. Yes, I have.

Q. And Mr. Wells' Rebuttal Testimony?

A. Yes.

Q. And attached to Mr. Wells' Rebuttal Testimony is Schedule C1-1-1. Have you seen that?

A. I believe I've reviewed it, yes.

Q. All right. The very first sentence in that schedule describes the World Metrological Organization's description of climate normal.

MR. BOUDREAU: I think at this point I'm going to object on the grounds that is calling for hearsay. I think they're offering the testimony of a witness from another case to prove the matter asserted. It's one thing for the Staff witness to rely on that as a basis for his opinion. It's another thing for -- in this context.

JUDGE JONES: Mr. Reed? Mr. Reed?

MR. REED: I'm not asking the witness to establish the truth of it so it's not hearsay. It's to test the witness's opinion.

JUDGE JONES: Well, you referred to someone else's -- something else to which this witness refers to; is that correct?

MR. REED: I did. And this witness can verify or confirm whether it is reliable to him or not.

JUDGE JONES: Okay. The objection's overruled.

BY MR. REED:

Q. Have you had a chance to find that, Mr. Feingold?

A. Did you say that's Schedule CW-1-1, Mr. Reed?

Q. Yes.

A. And it's entitled US Climate Normals 1971-2000 products?

Q. That's correct.

A. I have that.

Q. Okay. Very first sentence. Read the first sentence, please. Not aloud but to yourself.

JUDGE JONES: I'd rather him go ahead and read it in the record so it's there in the transcript.

BY MR. REED:

Q. That's fine. Please read it.

A. A climate normal is defined, comma, by convention, comma, as the arithmetic mean of a climatological element computed over three consecutive decades, in parens, WMO, comma, 1989, closed parens, period.

Q. The current NOAA period for calculating a climate normal is the 30-year period between January 1, 1971 and December 31, 2000?

A. I would agree with that.

Q. The weather data that is used by NOAA is screened and processed for any inconsistencies and observational practices?

A. That is my understanding.

Q. The inconsistences would include changes in station location. Are you familiar with that?

A. Yes.

Q. Instrumentation used?

A. Yes.

Q. Time of observation?

A. Yes.

Q. It's also adjusted to account for missing values?

A. That's my understanding.

Q. In those two ways, the inconsistences are adjusted so that the data is homogenous and serially complete. Are you familiar with those terms?

A. Yes, I am.

Q. The periods that you've proposed or -- you've studied I think four different periods of time to determine the predictability of the weather data. Is it 30, 20 -- can you give me those years again? Thirty, twenty-five?

A. Thirty, twenty, ten and five.

Q. And in each of those calculations you've used data, including NOAA data, from 2001 to 2005?

A. Yes. That was the last five-year period of the 106 years.

Q. Okay. But the NOAA data that you used between 2001 and 2005 has not been processed and adjusted by NOAA?

A. It has not been processed and adjusted by NOAA if, in fact, it was even appropriate to adjust it for purposes of its calculating of the 30-year normal. But it does present weather data from each of those years.

Q. But NOAA has not made that data homogenous and serially complete as yet?

A. There have not been adjustments. We also don't know whether the data could already be homogenous and serially complete.

Q. Could be. Might not be?

A. Sure.

MR. REED: That's all.

JUDGE JONES: Thank you.

Mr. Poston, we're going to take a break at eleven o'clock. It's five 'til. I don't want you to start your recross and then have to start. Do you have more than five minutes worth of recross?

MR. POSTON: No. I can get done in five.

JUDGE JONES: Go ahead and proceed then.

CRSOS-EXAMINATION BY MR. POSTON:

Q. I'd just like to first talk for a moment about

this chart that's been placed up there. And when your counsel was up speaking during his opening, I believe he highlighted to your Schedule RAF-9, which I'm holding up. And I notice that one difference between this chart and that chart is that this chart appears to have left out the years '96, '97 and '98, which according to the chart that's being shown up here on the screen, which is -- what is that, RAF-7?

A. Yes.

Q. Consumptions seem to be high during those years; is that correct?

A. Yes.

Q. And is there a reason why those three years were left of off your RAF-9?

A. Yes. My original objective was to have 10 years worth of data for all of my schedules. Unfortunately, the margin data, which is revenue and rate related and specific to customer classes, was not available for those years.

Q. It just didn't happen to be available for the days that the consumption was high?

A. No. It was -- it was not anything more than a coincidence.

Q. Have you ever filed testimony supporting a 30-year average?

A. No.

Q. Have you always supported a 10-year average?
A. In cases where I've testified on the appropriate weather normal, I have testified to 10-year normal.
Q. And how many cases have you testified on weather normal?
A. One other proceeding.
Q. And on page 7 of your direct, you state that your forecasted year, doing your calculation to estimate the average annual HDD for a forecasted year and based on the first year in which the company's new rates will be in effect. Correct?
A. Where are you reading, Mr. Poston?
Q. Towards the bottom of page 7 of your direct.
A. I see it.
Q. Isn't it true that MGE's rates may be in effect for a period beyond the first year?
A. Sure.
Q. And MGE has claimed that its rate design proposal, if approved, would mean fewer rate case filings; is that correct?
A. That's correct.
Q. And on page 12, 13, there's a question that starts in the bottom of page 12 and continues to page 13. And it asks if the Commission adopts a 10-year average for

establishing its weather normal, couldn't the weather over the next five years jump back to the colder climatic conditions described by the 30-year average. And you did not provide a yes or a no answer like you had for some of your other questions. Would that answer be yes?

A. I think my answer is really on lines 17 through 19. I said, Therefore, the odds of returning back to the colder climatic conditions represented by the current NOAA 30-year average are very low.

Q. So then your answer to that question would be no?

A. No. My answer is it would be very low chance that that would happen.

Q. So you're saying you can't give me a yes or no answer to that question?

A. Based on the data that I reviewed, I believe that the chance of it happening is very low.

Q. And in your surrebuttal you identified 12 examples in the US and Canada that use less than a 30-year average?

A. No, I identified 21.

Q. And what page are you on?

A. Page 5.

Q. Okay. But you identified I guess 12 that used a 10-year normal then?

A. That is correct.
Q. Okay. So would you agree then that the majority of states use something more than a 10-year normal?
A. Something different than a 10-year normal, yes.
MR. POSTON: Thank you. That's all I have.
JUDGE JONES: Thank you. We'll go ahead and take a break and come back at 10 after the hour for questions from the Bench.
(A recess was taken.)
JUDGE JONES: We're back on the record with Mr. Feingold on the stand. And now we will move to questions from the Bench, Commissioner Murray.
COMMISSIONER MURRAY: Thank you.
QUESTIONS BY COMMISSIONER MURRAY:
Q. Good morning, Mr. Feingold.
A. Good morning, Commissioner.
Q. Can you tell me why the NOAA 30-year average for the current period stops at the year 2001?
A. Well, it actually stops at the year 2000.
Q. 2000?
A. It runs from 1971 through the end of 2000.
Q. All right. So how frequently is it adjusted then?
A. NOAA adjusts that 30-year normal every

10 years.

Q. And how frequently would a 10-year average such as you are proposing be adjusted?

A. Well, it would be adjusted as frequently or as infrequently as the cus-- as the company files rate cases. The way that the company proposed its weather normal is that it would use 10 years worth of data up through the test year. So, in other words, the -- the 10-year normal that the company has proposed includes weather up through December 31st, 2005.

Q. Okay. Which jurisdictions apply the 10-year average, if you know?

A. If you refer to my Surrebuttal Testimony on page 5, I indicate there that there are 12 companies that I am aware of that use a 10-year weather normal that has been approved by -- by their respective commissions, regulatory commissions.

Q. Page 5?

A. Page 5, that's correct. And then I indicate two other points of reference that show nine other companies that have been allowed to use a normal other than 30 years, shorter than 30; 25 and 20 years.

Q. If we adopt the straight fixed variable rate design in this case, that eliminates the need to guesstimate any adjustment for weather normalization; is that correct?

A. Well, it does in the residential class. And

the residential class would be the class that the straight fixed variable rate design would be applied to. You would still have the concern that gave rise to this 10-year proposal in the classes other than residential, specifically small general service, which Mr. Hack indicated had about 50,000 customers and, more importantly, over $30 million of margin revenues in that case. And then one of the larger volume classes as well has heat sensitivity.

Q. Okay. So it's still a very relevant issue even if we go with the straight fixed variable?

A. It is. Although as I indicated in my testimony, the importance is somewhat lessened because you're taking the weather sensitivity out of the rate design with -- with the straight fixed variable proposal.

Q. But the small general service class is affected by weather to a large extent -- not as large as residential, I'm assuming, but to a large extent. Is that what you're saying?

A. To a large extent -- I mean, both the company and the Staff weather normalize that class of customers and the volumes in that class recognizing that there is heat sensitivity. And as I indicated, because we are not proposing straight fixed variable for the small general service class, the company will continue to have volumetrically derived rates in that class, which is the connection with the weather issue.

As volumes change, the revenue recovery in that class would change as well.

Q. And that brings up another question. Why is the -- why is there not a proposal for straight fixed variable rate design for the small general service class?

A. I think there are two reasons. Number one, when the company evaluated or assessed the issues that were most critical in this case vis-a-vis rate design, the class that had the biggest impact on the utility's ability to recover margin revenues was the residential class. You have over $100 million of margin revenues embodied in that class of service.

The other is that there is a recognition that the small general service class is a more heterogenous class of customers compared to the residential class. So there's more variation in uses of gas, load characteristics. And as a result, there's more variations in cost characteristics. And the company wanted to do more work in that area to see whether straight fixed variable was an appropriate rate design mechanism there.

I might point out that in lieu of straight fixed variable for the small general service class, the company did propose an upward adjustment in the monthly customer charge for the small general service class to reflect the underlying customer-related costs that are contained in

the company's cost of service study.

Q. And do you recall whether Staff was in agreement with that adjustment or not?

A. We were in mild disagreement or mild agreement, depending on whether you look at the glass half full or half empty. Staff, as I recall, did not move the current monthly customer charge in the small general service class up as high as the company did in its proposal.

Q. Okay. And this is probably not something that you're familiar with, but do you recall the extent of the increase proposed overall for the general service class -- small general service class?

A. Well, that -- that element of the case was settled.

Q. Okay. That's all right then.

COMMISSIONER MURRAY: I think that's all I have. Thank you.

THE WITNESS: Thank you.

JUDGE JONES: Commissioner Gaw?

QUESTIONS BY COMMISSIONER GAW:

Q. Just continuing along that line, what would be -- do you know the amount that would cover the anticipated needed revenues from those classes that are not proposed to go to the straight fixed variable? Do you know the amount that it should be set at if the Commission were to just convert

everybody over to that straight fixed variable so the goose and the gander can live together in harmony?

A. I have the numbers that would allow me to calculate a straight fixed variable charge for small general service. I don't have it at my fingertips, Commissioner.

Q. Would that be possible to do though?

A. Yes.

Q. I mean, I could give you -- you could do that a little bit later if you want and -- maybe on break.

A. I can do that.

Q. And give me the reason why again that it was felt that that wouldn't be appropriate as far as the other entities of classes are concerned.

A. Well, there were -- I think I said to Commissioner Murray, there were two primary reasons. The first was recognizing the chronic under-recovery of volumetric revenues that the company has experienced over recent past, the class that had the largest level of margin revenues was the residential class.

And because of the high degree of heat sensitivity in that class, the company felt that that was the -- the most critical place to address rate design and to apply a straight fixed variable rate structure.

Q. Yes. But that's looking at it entirely from the company's viewpoint in regard to seeing what is it that we

could do to, from the company's viewpoint, stabilize revenues without justifying -- or using justification that this is the way it should be done as a matter of policy. From a policy standpoint --

A. Well --

Q. -- is there an argument that is -- that there's some difference between -- in these other classes that would justify treating them differently than the residential customers that the company is suggesting as a reason not to go ahead and just -- if the Commission were to make a policy decision, to agree with Staff on residential customers being treated in one way, just not treat everybody the same way?

A. Well, and I think that was really the second point that I raised with Commissioner Murray. And that was, it's my belief that the small general service class has a more heterogenous mix of customers, which gives you wider variation in load characteristics and, as a result, wider variation in cost characteristics. So there has to be more care taken to derive a monthly charge for delivery service that would apply to all customers.

Q. Well, explain that more. I heard your answer, but you have to get more detailed for me.

A. Okay. That would be fine. For example, if we were to look at the variation of size of customers in the small general service class compared to the average, we would

see a wider variation in use per customer in that class compared to residential.

Q. Why is the use important?

A. Well, the use --

Q. We're already -- the suggestion by the company and Staff is that use doesn't matter the residential class. You should just charge everybody the same amount for access to the -- to your system.

A. Use is very important because it drives the size of facilities that are necessary to provide delivery service to those customers.

Q. So it is relevant, the amount of volume that's being used in determining what a customer should be charged for access to the system?

A. And it's not really even volume. It's more the peak hour demand of the customer, which is the capacity needed to serve that customer.

Q. And why is that important?

A. Because that drives the sizing of facilities to serve delivery service for that customer.

Q. So it's the amount of usage and peak usage that both impact the amount of infrastructure that may be needed to serve particular class of customers or customers in general?

A. In my view, it's primarily the demand or

capacity and not the volume.

Q. And let's expand on that a little bit. Where does that -- what facilities are impacted by that and how is that related to the cost of service?

A. Well, for example, the service line that goes from the main to the house to the meter --

Q. Yes.

A. -- is sized based on the peak hour capacity of that facility that's going to be connected to that pipe.

Q. Yes.

A. And the peak hour is what engineers use, design engineers use for purposes of sizing to decide whether it's a one-and-a-half-inch service or two-inch service, whether it's low pressure, high pressure and so forth.

Q. Okay. And if you've got a set of lines, you need to set the capacity according to the significance of the volume of usage of those that create the highest demand on that set of lines?

A. Yes. I mean, it's good engineering practice to size that service line in a way that would satisfy the expected future demand of that customer.

Q. So there is some relevance then overall and significance to volume of usage and the cost of service?

A. I really don't see it that way because the volume -- when you say "volume" to me, it means monthly and

annual consumption.

Q. Okay. Well, phrase it in your own words. There is a tie between usage and the cost of service?

A. I think there is a tie between the peak hour demand of a customer --

Q. Okay.

A. -- and the costs.

Q. Okay. The peak hour demand within the -- does that vary significantly among industrial customers?

A. It can. And that's what I was getting at even with the small general service, that there's more heterogeneity in that class compared to residential.

Q. And give me some examples.

A. Well, for example, you could have a customer in the industrial class that is a process user. And that customer --

Q. Tell me what that means.

A. Could be a steel operation, aluminum, glass. And based on that type of operation, you would expect, especially if it's on a three-shift operation, that the demand of that customer and the load factor of that customer -- the load factor, in particular, is going to be pretty high or the load is going to be pretty level throughout the year so that when the utility installs facilities to meet that peak hour demand, they also have the same facilities to be able to serve

the other 364 days of demand.

Q. Yes. So with that type of customer that uses it consistently that has a levelized use, that capacity is being used very efficiently?

A. That's exactly right.

Q. So actually in use of that system, that kind of customer is attractive to have, is it not? Because generally they would be -- they would be using a system all of the time?

A. It is attractive and -- and from the -- from the -- from both the company's and the customer's point of view. Because from the customer's point of view, it lowers the overall unit cost to serve and from the company's point of view, it allows them to put in less pipe in the ground for every unit that they move.

Q. Yes. And when they have a volumetric component in the portion that's being paid to the company, that's very attractive to the company, isn't it? Because that is a very consistent and high level of revenues in that volumetric component.

MR. BOUDREAU: Judge, can I make an inquiry? It seems to me we've wondered back into the issue of rate design.

COMMISSIONER GAW: That's possible. Is that coming up or is that already covered?

MR. BOUDREAU: I think that's an issue --

JUDGE JONES: That was yesterday.

COMMISSIONER GAW: Well, you know, it's also today then too because I didn't get a chance to ask these questions yesterday.

MR. BOUDREAU: Well, I'd lodge the objection for the record, please.

COMMISSIONER GAW: I apologize, Judge, but if I need to call back witnesses for Commissioner questions, that has always been allowed. And if that's not going to be allowed in this case, I want to know it now.

MR. BOUDREAU: I guess my point is the company's cost of service witness, Mr. Amon, was on and he has been excused. So I'm a little -- I'm just wondering about the --

COMMISSIONER GAW: Do we need to call him back too? I'd ask for him.

JUDGE JONES: He's been excused. If Mr. Feingold finds himself outside of his purview, then he can just say I don't know.

COMMISSIONER GAW: Because I was not consulted about excusing that witness, Judge. So if that's a problem, I can make a request to have him called back. But as long as Mr. Feingold knows the answer to these questions, I don't see a reason not to let me ask them.

JUDGE JONES: If he knows the answer, he can answer. If he doesn't, say I don't know.

COMMISSIONER GAW: Maybe the court reporter could read the question back since I have now lost my train of thought.

THE COURT REPORTER: "Question: And when they have a volumetric component in the portion that's being paid to the company, that's very attractive to the company, isn't it? Because that is a very consistent and high level of revenues in that volumetric component."

THE WITNESS: For the customer that I just referred to, that high-load customer factor, if rates are designed properly, that customer should have a very low volumetric rate because they have a high load factor. So there's not this perception of revenues over and above that maybe others -- others see.

BY COMMISSIONER GAW:

Q. But if they're in a heterogeneous class that's set according to the average of that class, but they have a usage that's very -- that's levelized, those rev-- that revenue stream is attractive to the company, is it not?

A. It is. And it offsets the revenue streams that are not attractive to the company for low load factor customers and that's why we devise a class rate.

Q. Okay. But you've been describing heterogenous

class, so I was trying to understand how that customer -- whether that customer is attractive or not attractive to the company. And it is attractive. Correct?

A. It is attractive the way that I mentioned, which was in terms of utilization of the system. I wouldn't agree that it's attractive from the standpoint of revenues over and above what might be allowed.

Q. Why not?

A. Why not?

Q. Yes.

A. Because they're a part of that heterogenous class you refer to do and rates are set for the class average. So to the extent that revenues are higher for those high load factor customers, they're going to be lower for the low load factor customers. And on average, the company is going to be receiving revenues exactly at the level designed by the Commission.

Q. Okay. So the company doesn't object to moving all of these -- all of these classes to just non-volumetric rate?

A. Well, I can't speak for the policy of the company, but from a conceptual point of view, that would track costs. And, in fact, if -- if we took it to an extreme, Commissioner, we -- we should have one rate for each customer to exactly represent and resemble and recover the costs that

they're causing the utility to incur. That's not administratively feasible so we, out of necessity, group them into classes.

Q. That wasn't my question. My question is whether or not a customer charge that has no volumetric component is acceptable to the company as separated by the classes that currently exist?

A. And I don't know that.

Q. But that's what's being proposed for the residential class?

A. That's correct.

Q. And you're going to calculate for me what the amount of that customer charge would be for all of those classes at break. Correctly -- correct?

A. That is correct.

Q. Okay.

A. Just to clarify, Commissioner,

Q. Yes.

A. Did you mean customer charge or the -- the full straight fixed variable charge?

Q. Yes. The latter.

A. Okay.

Q. So that if the Commission were to say, we're going to this amount of a charge, fixed charge for the revenue stream from that class to the LDC, we would know what that

amount should be set at to derive approximately the same amount of revenue as what's anticipated to be derived by the company on the rates that are the -- the class charges that are proposed by the company and by Staff. That would be two different numbers, as I understand it.

A. I understand your request.

COMMISSIONER GAW: Counsel, when was your witness on yesterday, by the way, that you were referring to?

MR. BOUDREAU: Excuse me. I believe Mr. Amon was on probably first thing yesterday or in the morning anyway.

COMMISSIONER GAW: In the morning while we had agenda.

MR. BOUDREAU: I believe -- I don't know when you had agenda, but it was in the morning that Mr. Amon took the stand.

COMMISSIONER GAW: We had agenda yesterday morning.

MR. BOUDREAU: Okay.

COMMISSIONER GAW: Thank you.

MR. BOUDREAU: I should point out Mr. Feingold was on the stand yesterday as well on the topic of rate design.

COMMISSIONER GAW: Oh, okay. So it is appropriate for me to be asking him questions about rate

design.

BY COMMISSIONER GAW:

Q. Now, let me ask you -- I didn't quite understand, Mr. Feingold, earlier about when the -- when you were asked about how many times you had submitted testimony on the subject of weather normalization. Did you say in one other case?

A. Yes, I did.

Q. But have you submitted testimony regarding this topic in some other fashion or is this just the second time you've ever dealt with this topic in testimony?

A. Second time I've ever dealt with the topic of the weather normal.

Q. Okay. And tell me again -- and I know you've done some of this in your written testimony. Tell me again your experience in dealing with weather normalization.

A. Well, the experience that was applied to this particular instance was we looked at a statistical review of the weather data over a 106-year period to be able to look at the predictive capabilities of different averages relative to each year's actual weather that occurred to see the variation or the error, if you will, in using one average over another. And so there was statistical capabilities required to be able to do that analysis.

Q. So you've accumulated some statistics that

some others had done. Would that be accurate?

A. Well, no. The accumulation referred to the raw data from NOAA from over the last 106 years --

Q. Okay.

A. -- for MGE's service area.

Q. And then what did you do with that data?

A. Essentially what we did was to --

Q. When you say "we," who are you talking about?

A. My colleagues and I. Because I have staff that work for me as well at Navigant Consulting.

Q. Sure. Sure.

A. We took that data and constructed different averages, weather averages 30-year, 20-year, 10-year and 5-year to be able to compare those averages that were calculated every year to the weather that actually occurred in MGE's service area two years hence.

And over that 106-year period, we were able to look at the deviation or the error between each of those four averages and the actual weather that was experienced in each year.

By looking at that summation or aggregation of errors, we were able to determine on a statistical basis which of those four weather averages were closest over the 106-year period to the weather that actually occurred so we could say that the one that had the least error was the best predictor

over that 106-year period and that was the 10-year average.

Q. And when you were looking at the 10-year average, you compared that to what time frames? What time frames in measuring which was the most accurate?

A. The first average that we were able to calculate was in -- for 1932 because we had to have the previous years to just get us to that average.

Q. Okay.

A. So our data source started in 1900 and went through 2005.

Q. And when you -- but what time frame? When I say that, when you're doing it in 10-year increments, is it -- when did you start? What 10-year periods are we talking about and 30-year periods?

A. For example, let's take the 10-year.

Q. Okay.

A. In 1932, we calculated a 10-year average for the years 1901 through 1930. So, in other words, we -- I'm sorry. 19-- we calculated the average from 1920 -- 1921 through 1930, okay, the 10-year period. And we used that to compare to the actual weather in 1932.

Q. Okay. And then you compared the weather in 1932 on the 30-year average from what period to what period?

A. Well, it was from -- from 1900 through 1929.

Q. 1929. And then did you do that for every year

subsequent?

A. Yes. So essentially you had a series of averages each year that you recalculated that you were comparing to the actual each year.

Q. Now I want to go to the next year. I'm not going to do this all the way up, but in 1933 what time frames did you utilize?

A. Well, we dropped off the first year of the last year's average and added on the last year.

Q. And that's true of both the 10 and the 30?

A. And the 5 and the 20, correct.

Q. And the 5 and the 20. Okay. Now, when you're looking at the averages in this case, Commissioner Murray said that -- or asked you about how far you went and -- or the Staff, and I'm not sure which, in looking at that 30-year average. And I believe you said 2001?

A. No, I think I said that the 30-year average that Staff used --

Q. Yes.

A. -- was comprised of the years 1971 through 2000, which is the last 30-year average that NOAA calculated.

Q. Okay. But you didn't use that time frame of the NOAA calculation when you were looking at your comparisons. You moved the year every year. So it's not quite the same?

A. No. I think it is the same because --
Q. Explain.
A. -- all of the years in that 30-year average that NOAA calculates was part of my 106-year database of weather that I used.
Q. Okay. Oh, I see. Because you had the updated information from NOAA --
A. Correct.
Q. -- in your analysis?
A. Correct.
Q. Does NOAA not have any data for 2001 through 2005?
A. Oh, it does, but it has not yet recalculated its 30-year average, which is recalculated every 10 years.
Q. Is that not possible for someone else to do for them with their data?
A. Well, in fact, that's how we calculated the 10-year ending in 2005.
Q. That's what I would have assumed.
A. But its Staff's contention that because NOAA makes after-the-fact adjustments to their data in the 30-year average calculation, that you can't use something other than the 30-year average.
Q. I see. What does the -- using your 10-year calculations or methodology, what would it show on the 30-year

if you updated it through 2005, if you -- using the same method of calculation you did on the 10-year? Did you do that?

A. Well, I calculated a 30-year average in two ways. I calculated as NOAA does it every 10 years and then I calculated as a rolling average --

Q. Yes.

A. -- changing every year.

Q. And what was that --

A. And I have that in my schedule.

Q. And what was that conclusion?

A. Well, the conclusion was that -- that those averages are still higher than what the 10-year average shows. Now, I didn't -- I didn't take that average and go back 106 years and compare.

Q. That's not really what I'm asking.

A. Okay.

Q. What I'm asking is what was the number and how did it compare to your number on the 10-year and Staff's number on its 30 through 2000?

A. The 30-year average that I calculated through 2005 was 5,235 heating degree days.

Q. 5,235?

A. Right.

COMMISSIONER MURRAY: What page are you on in

your testimony?

THE WITNESS: I'm on Schedule RAF-2, page 2 of 4.

BY COMMISSIONER GAW:

Q. Okay. And, again, I know this is in the record, but if you wouldn't mind, what was it for your -- what's yours under the 10-year rolling?

A. What the company proposed in this case is for -- and we had two separate numbers, one for Kansas City, one for St. Joe service area or Springfield.

Q. That's right. So I need both those numbers on that last one too.

A. Yeah. That's why there's two sets of schedules. We were establishing the weather normal at 4,967 heating degree days for Kansas City.

Q. Okay.

A. And 4,450 heating degree days for the Joplin service area, which is really Springfield.

Q. Yes. Okay. And go back to the rolling 30, would you, and break that apart for me?

A. Yes. And the first numbers I gave you were for Kansas City.

Q. Okay.

A. The 30-year rolling average for Kansas City ending in 2005 was 5,102 heating degree days.

Q. Okay. And what were Staff's numbers? Do you have them there?

A. It's my understanding that Staff's numbers are 5,249 heating degree days for Kansas City and 4,602 heating degree days for St. Joseph, St. Joe.

Q. Now we've got a third set.

A. I'm sorry. The St. Joe service area we use -- both Staff and the company use Springfield as a basis for that.

Q. Now, I think you mean -- I think you mean that for Joplin you used --

A. I'm sorry. That's right, Commissioner.

Q. I think you did bring up the point that St. Joe may be a third category and I -- St. Joe's numbers may be a third category. Do you know if that's true or not?

A. When we examined the -- the weather data, we concluded that Springfield was a reasonable proxy for -- for that.

Q. For St. Joe?

A. I'm sorry, for Joplin.

Q. Yes, for Joplin.

A. For St. Joe we used Kansas City.

Q. That's what I'm asking.

A. I'm sorry.

Q. Did all the parties use Kansas City numbers

for St. Joe?

A. That's my understanding.

Q. Okay. I just wanted to make sure we clarified that.

A. Yeah.

Q. So it's interesting that the 30-year -- for the 30-year Staff calculation compared to the 30-year rolling, if I understood you correctly, actually produces a lower number on the Joplin numbers for the Staff's number than it does on the 30-year rolling. Can you explain that?

A. The only -- the only reason for that is that we're -- we're calculating those averages on different sets of weather. Because I went out through 2005 in the numbers I provided you and Staff, relying on NOAA, ended at 2000. So there's a bit of an apples and orang-- oranges comparison there.

Q. I understand. But I'm looking at -- here's what I'm looking at. Maybe you can explain. Just comparing Staff's 30-year to the 30-year rolling numbers that you gave me --

A. Let me get those in front of me, Commissioner.

Q. Sure. I show there you -- you said that the Staff's numbers for Kansas City were 5,249 and that the number for the 30-year for Kansas City rolling through 2005 in your calculations were 5,235. So the rolling was somewhat of a

drop in heating degree days on the Kansas City numbers?

A. And -- and I think that would be expected because the last -- the last -- 2001 through 2006 --

Q. Yes.

A. -- have been warmer than normal. So if that average was recalculated, it would tend to bring the average down.

Q. Yes. That would make sense. But then I look at Joplin's numbers or Springfield's, as you may say. And at least if I wrote it down correctly, the Kansas City -- excuse me, the Joplin numbers for Staff's position on 30 years through 2000, 4,602, but for the 30-year rolling, 5,102, which is going the other direction unless I misunderstood you.

A. The -- the -- the 30-year rolling for Springfield according to Schedule RAF-2, page 4 of 4, is -- I misspoke, Commissioner. I thought in my schedule I had a 30-year rolling as well. I do not. I have a 30-year average for NOAA, I have a 20-year average rolling, 10-year average rolling and 5-year average rolling.

Q. So you don't have a 30-year --

A. No, I don't.

Q. -- average?

A. I was reading that wrong. I was reading that 20 as 30. I'm sorry.

Q. Okay. So the numbers you gave me earlier for

the 30-year rolling were actually 20-year rolling?

A. Correct.

Q. Okay. That changes this somewhat and I'm not sure if it's comparable at this point to do the two, but my question is still there. Why would it be that the Joplin numbers on the 20-year rolling show more heating degree days than the 30-year Staff number?

A. Well, the only -- the only thing I can -- I can surmise without doing a more detailed analysis is we're working with different averages, 20 versus 30, and the fact that one is rolling and one changes only once every 10 years.

Q. It does seem to be counter to the idea that we are gradually getting warmer as a trend, doesn't it? At least as far as the Joplin numbers are concerned.

A. I have to look more closely. I don't know, Commissioner.

Q. Okay. But it's counter to what you said earlier in regard to the Kansas City numbers? It's running counter to that trend?

A. That -- that -- the numbers do say that. And I'm -- I'm not sure that my answer to what caused the trend in Kansas City is complete either without looking more closely at the numbers.

Q. Okay. Are you testifying as to why you think the weather, according to your numbers, has been warmer in the

last few years?

A. No, I'm not. I'm not a climatologist by -- by profession. I was strictly looking at this from a statistical point of view.

Q. So you're not here to say this is a long-term trend because of some global warming or some other conditions?

A. No, I'm not.

Q. You're just saying here's what it's been lately and you're making some -- you're taking a position according to here's what it's been lately?

A. Well, here's what it's been for the last 106 years.

Q. Yes. But let's just look at the last 10.

A. Well, because that's the basis for setting the normal now, but why we arrived at 10 was based on looking over 106 years.

Q. I see. Okay. So if you're making an examination then of the -- you testified about the companies that are utilizing the 10-year. How many, if you know, are using the 30-year?

A. Well, I'd have to go through and see which states are represented by the ones I had in my testimony and then subtract it and come up with a number.

Q. You didn't make that calculation?

A. No, I didn't.

Q. You just determined the number that were utilizing the 10-year?

A. Or -- or something different than 30 year.

Q. Okay. Would you say there are as many companies using the 30-year as are using the 10?

A. Well, I think as I had -- I'd answered a question from Public Counsel, there were more companies using the 30. But I would caution that, as I indicated in my testimony, there are a number of states that have weather normalization adjustment mechanisms and in many respects, that addresses the same issue that a weather normal addresses.

Q. So you think there are more using the 30, but you're not sure how many more?

A. Well, there are -- there are more, but I'm saying that in some cases, I can rationalize and understand why they're still with 30 because they have other mechanisms to address weather.

Q. There may be all sorts of explanations if we were to go to examine the orders of all the commissions and their policies. I suppose it could include a lot of things.

A. They could.

Q. But there are -- the bottom line here is the majority of states are using the 30-year average?

A. That's right. And as I said in my testimony, the number using other than 30 is growing.

Q. But still in the minority?
A. Smaller minority.
Q. I'm not sure what that means, but I'll leave it at that.
COMMISSIONER GAW: Thank you.
JUDGE JONES: Questions from Commissioner Appling?
COMMISSIONER APPLING: I think Commissioner Gaw has covered it I only had one question of you and I think you've already answered it. I was trying to determine the difference in the 30-year and the 10-year, so I think it's been adequately covered for me. Thank you very much, sir.
THE WITNESS: Thank you.
COMMISSIONER GAW: Commissioner Murray?
COMMISSIONER MURRAY: I'm sorry, but I have one more question.
THE WITNESS: That's fine.
FURTHER QUESTIONS BY COMMISSIONER MURRAY:
Q. It's my understanding that the reason that you can calculate the fixed costs of residential more easily than you can calculate the fixed costs of a heterogenous class such as a small general service, is that the residential users all require the same size and pressure lines to deliver service to them; is that accurate?
A. Well, it's accurate. The term "easier" I

think I -- I'd prefer to -- to suggest we use a term we have a higher degree of confidence that -- in the residential class because it is as homogenous as it is and because we know that customers require similar services, similar meters, similar regulators, that we can say with more certainty that the underlying costs that support the straight fixed variable rate design are as they are.

Q. Okay. Is there variation in the types of -- the size of service lines, the size -- or the pressure required for residential customers?

A. Well, in any particular point in time, there are certain engineering standards that a gas utility established for purposes of connecting customers to the system. And it's my understanding that for the residential class, each utility has a standard service and that service would be installed and the associated meter and regulator would be installed irrespective of whether that customer was a cooking only customer or a full service gas customer that would have cooking, water heating and space heating.

Q. So regardless of volume, for a residential customer what it takes to serve that customer is very similar; is that correct?

A. Yes. I would agree with that.

COMMISSIONER MURRAY: Okay. Thank you.

COMMISSIONER CLAYTON: No questions, Judge.

JUDGE JONES: Just so you all know, we're going to go until 12:30 and then break for lunch. And I realize that Commissioner Gaw had talked about rate design. At this point we would move onto recross. In all fairness, questions concerning rate design won't be allowed. Just deal with weather normalization.

Now with regard to redirect, however, because -- and I say that because Commissioner Gaw's questions for the most part were cross more so than direct. But on redirect I will allow questions having to do to with rate design that were covered today.

COMMISSIONER GAW: Judge, you've got to allow them to do cross based on questions from the Bench.

JUDGE JONES: They had their shot at the apple yesterday. They had their shot at the apple yesterday.

COMMISSIONER GAW: You cannot do that.

JUDGE JONES: Does anybody have a problem with that? OPC?

MR. POSTON: Well, in concept, but I don't have questions for him on rate design.

MR. REED: Nor do I. No problem, Judge.

JUDGE JONES: Well, then it's not an issue regardless. Recross now from Staff of the Commission.

MR. REED: No, thank you.

JUDGE JONES: Recross from Public Counsel --

MR. POSTON: No, thank you.

JUDGE JONES: -- on weather normalization?

Redirect?

MR. BOUDREAU: Just one question or maybe it may blossom into two.

REDIRECT EXAMINATION BY MR. BOUDREAU:

Q. Would it -- let me put this way. We've had some discussion here today about the 30-year NOAA weather normal versus what the company's proposing through your testimony. And I guess my question is, would you agree with me that you're not really taking issue per se with the 30-year NOAA average, but you're taking exception to whether it's the best use of the data as being appropriate for the basis of setting rates. Is that a fair statement?

A. Yeah. I am not in any way, shape or form disputing NOAA's calculation of a 30-year weather normal. The data is as it is and they make adjustments accordingly.

What I am taking issue with in -- in supporting the company's proposal to use a 10-year weather average is that I don't believe that the 30-year NOAA normal allows the company to establish volumes -- weather normalized volumes in its rate case that are representative of the volumes to be expected during the future period in which rates would go into effect.

MR. BOUDREAU: Thank you. That's all the

questions I have actually on either topic. That's all the questions I have on redirect.

JUDGE JONES: Okay. Mr. Feingold, you may step down.

THE WITNESS: Thank you.

JUDGE JONES: We'll move on to Staff.

MR. BOUDREAU: I don't know that this needs to be on the record, but I just wanted to inquire again -- I want to circle back around to Mr. Feingold's availability. I believe he's got a flight out a little bit later this afternoon. I'm becoming concerned --

JUDGE JONES: How late can he stay? Do you want to go now with low-income weatherization and natural gas conservation?

MR. BOUDREAU: Actually, I'd offered him on both of those topics so my expectation is that in terms of both those items, we've pretty much covered it.

JUDGE JONES: You want to let him go now?

MR. BOUDREAU: No. What I want to circle back around to is I think I there was a commitment on behalf of the witness to provide some information to Commissioner Gaw. And my question is, would it be acceptable to the Commission, maybe more specifically to Commissioner Gaw, if that information were provided in written form or would you -- or were you anticipating, Commissioner, to ask him some further

questions?

COMMISSIONER GAW: Is it something that takes very long to do?

MR. BOUDREAU: In terms of the calculation, I'll have to defer to the witness.

THE WITNESS: The calculation itself does not take a long time. I want to be sure that I have the most current and representative data to present to you and it would just take some time to sort through where we are with the revenue requirement and so forth.

COMMISSIONER GAW: Oh, yeah. I mean, part of the question then involves whether or not the parties might have questions. I could probably get by without them, but I don't -- but in fairness to the parties, they would -- if they had questions, they would be entitled, I think, to ask them. So I don't know whether that's an issue or not or whether counsel could answer that.

MR. POSTON: I'm kind of -- I forgot the information that's being sought.

COMMISSIONER GAW: The amount that would be required to set the customer charge if the volumetric component were taken out of all the classes.

MR. POSTON: I can't think right now -- just off the top of my head of cross I would want to ask on that.

MR. REED: Judge, I won't have any cross on

that issue.

JUDGE JONES: Does that mean he can present it in written form?

COMMISSIONER GAW: I don't know. I don't know if someone else -- is anyone else here that might have a problem with that?

MR. CONRAD: Well, I'm sorry. I stepped out apparently at an inappropriate time.

COMMISSIONER GAW: At your peril.

MR. CONRAD: Yeah, I know. And I pay dearly for that. But I did have an enjoyable time. I don't know because I don't know what the numbers are going to -- are going to say. So I mean, it would be tough to answer that right now.

COMMISSIONER GAW: I understand. I mean, the real question is only for the convenience of Mr. Feingold so he can deal with his plane and --

MR. CONRAD: I have no desire to keep him and delay him. And if -- therefore, if it would be possible, Judge, to submit that in writing with the understanding that we'd certainly take a look at it and then --

COMMISSIONER GAW: Is it something that if there were questions, he would be available -- may be available by phone to answer them?

MR. BOUDREAU: Let me offer this. If the

Commission will extend me this quick courtesy, I think if Mr. Noack and Mr. Feingold can consult with each other, we might be able to sort out a more effective or efficient time effective way of taking care of this. Just give me a minute or two, we'll see if we can sort it out.

But the suggestion of being available otherwise than personally has some viability as well. If you'd just give us a couple of minutes, we can get this sorted out.

JUDGE JONES: Okay.

THE WITNESS: Judge, we're in the process of assessing how quickly we can derive those numbers for Commissioner Gaw. I'm working with Mr. Noack on it.

JUDGE JONES: Right. That's what I figured you were doing the whole time. Okay. Thanks for the update.

THE WITNESS: In response to Commissioner Gaw's question to me on -- we -- a calculation of straight fixed variable charge for classes other than residential, we've calculated the following numbers.

And I might just mention as a footnote to this, the revenue requirement that we are using is the revenue requirement proposed by the company but spread among the classes as per the settlement in this case.

FURTHER QUESTIONS BY COMMSSIONER GAW:

Q. Okay. So it would be possible you could take

your numbers, if we had a different revenue requirement, and adjust them along the lines of the earlier stip?

A. Yes. For the company's small general service class, the charge under a straight fixed variable rate design would be approximately $54 per month per customer.

Q. Okay.

A. For the company's large general service class, the straight fixed variable charge would be approximately $698 per month per customer.

Q. Okay.

A. And for the large volume service class, the straight fixed variable charge would be approximately $2,579 per month per customer.

Q. Okay. Thank you very much, Mr. Feingold.

A. You're welcome.

COMMISSIONER GAW: I don't have any questions, but the other parties may.

JUDGE JONES: Any questions in response to Commissioner Gaw's questions?

MR. CONRAD: If I might, I'll try to make it brief because I'm a little bit without my armormen in the sense of our expert.

FURTHER RECROSS-EXAMINATION BY MR. CONRAD:

Q. If I understand, Mr. Feingold, what you did is you simply, to derive those numbers, took the existing

revenues from those respective classes, but you've adjusted them up to the company's revenue requirement as requested here using portions of the Stipulation and Agreement on class cost of service?

A. When you refer to "portions," do you mean the portion related to how the increase should be attributed to the classes?

Q. That's correct.

A. Yes, I did.

Q. So you did not, in doing that, look at any of the provisions of that settlement dealing with how LVSD revenues were calculated? In other words, the settlement -- well, that's really two questions. Let me start that again.

That presumes, does it not, that the existing revenue shares of the classes are cost based, does it not?

A. No.

Q. It simply presumes that -- well, it makes no presumption. It just takes whatever the revenue by class is and turns that into a monthly charge?

A. That's right. Consistent with how both the company and Staff calculated the charge associated with the residential class under straight fixed variable.

Q. Okay. So as you understand it, the essence of that class cost of service settlement was really only a part of the settlement that the Commission has previously approved;

is that correct?

A. I don't understand the question.

Q. Well, did we not, in that settlement, deal with how the LVSD charges were to be spread?

A. Yes, you're correct.

Q. And did we not also in that settlement deal with a subset of LVSD customers who had multiple meters?

A. We did.

Q. And so you haven't taken any of that into account?

A. No, I haven't. This is a class aggregate number.

Q. And, correspondingly, I suppose you have obviously not had time to do any kind of a study as to whether each and every LVSD customer has -- let's see. Well, why don't you do this for me? Do you have your HP12C up there?

A. I do.

Q. Would you take that 2579 number and multiply that by 12? Because that was a monthly number, I took it?

A. Three -- $30,948.

Q. Okay. And now would you divide that -- well, let me ask you this. I'm sorry. I'm sorry to be kind of desultory here. I haven't really thought about this.

Do you know the term that I might use called a fixed charge rate?

A. As it relates to finance?

Q. Well, if -- in this sense, that if the company invested a dollar in rate-base, shareholders invested a dollar in rate-base, what would be an expression of the charge that would be necessary? And I understand you have to make a bunch of assumptions. But I sometimes, just for back of the envelope, use about a 16 or 17 percent number to represent what would be necessary to cover that one dollar of investment on an annual basis revenue-wise.

A. I understand. I've heard it characterized as a levelized fixed charge, but I do understand the concept now.

Q. Okay. So let's go back to the number that you've quoted to me, the 12 times the 2579.

A. I have it.

Q. That number again was 30-something?

A. $30,948.

Q. And what to you would be an appropriate levelized fix charge rate just as thumbnail type of number, which is what we're dealing with here anyway?

A. I haven't looked at the underlying cost of service study to look at all of the cost elements that would go into that calculation.

Q. Which is kind of to my point. But if you were to assume a 16 percent -- let's just say 16 percent, would you take that 30,000 number that you mentioned and just divide

that by .16 for me, please?

A. The result of that calculation is 193,425.

Q. Now, do you have any reason, sitting there today, to believe that the company either incurs or has investment for each LVSD customer -- By the way, those are transport customers so the company doesn't buy gas for them, they buy their own -- would have that level of investment per customer? Have you done any investigation of that?

A. Mr. Raymond is the company's cost of service study witness. I have not investigated that.

Q. Okay. And to do that would take you into really the kind of -- if you will, kind of the guts of the class cost of service --

A. I would agree with that --

Q. -- calculations?

And that would tend to open up that stipulation again if that was the Commission's choice. They've already approved it, but if we were going to do that, then we'd have some more activity here in the hearing room, wouldn't we?

A. It depends on what parties did with the result of this calculation.

MR. CONRAD: I think, Judge, that's, you know -- with the limited time, that's probably about all that we can do with that this morning or this afternoon, whatever

it is. I guess it's 12:30.

JUDGE JONES: Any redirect on this issue?

MR. BOUDREAU: I have none. Thank you.

JUDGE JONES: Well, let's just go ahead and break now. We'll come back at 1:30 and begin with an opening statement from Staff and its witnesses on weather normalization.

MR. BOUDREAU: Is Mr. Feingold now --

JUDGE JONES: Do you have any more questions of Mr. Feingold? Does anybody have any questions of Mr. Feingold? You are excused.

THE WITNESS: Thank you.

(A recess was taken.)

JUDGE JONES: We are about to start with Staff's case with regard to weather normalization. And did you want to do some opening statements? I don't know to what extent that opening statement is prepared, but I know you have three witnesses and it would be nice to know, you know, well, why there are three different witnesses on the one issue. And that way we'll be able to direct particular questions to particular witnesses as it's relevant to their contribution.

MR. REED: May I?

JUDGE JONES: Yes.

MR. REED: My mini opening is really a mini opening at this point because we've discussed this issue quite

a bit. But as an introduction, Curt Wells first will calculate normal daily weather variables using NOAA data and using the three-decade time period he will calculate the weather normal for that 30-year period.

James Gray will testify about the relationship of the gas used by customers to the heating degree days that are established by normal weather.

Mr. Warren will, in his testimony -- pre-filed testimony, he discusses monthly gas volumes that are used using the calculations of normal weather.

MGE may choose a 10-year period of time that optimizes its revenues to calculate normal weather, but there are other public utilities in the state of Missouri that may want to use a different time period to calculate and optimize their revenues.

Laclede, Ameren or Atmos may want to use 15 years or 20 years or 25 years. So there must be consistency. It will have to be established by the Commission among the utilities that operate in the state of Missouri. It's doubtful that the Commission would allow KCPL to choose a 30-year period of time to normalize weather while MGE uses a 10-year period to serve the same area in the state of Missouri.

My first witness is Curt Wells.

(Witness sworn.)

JUDGE JONES: Thank you, sir. You may be seated.

CURT WELLS testified as follows:

DIRECT EXAMINATION BY MR. REED:

Q. You are Curt Wells?

A. Yes, I am.

Q. You prepared Direct Testimony, Rebuttal Testimony and Surrebuttal Testimony for this case. Correct?

A. Yes, I did.

Q. Are there any corrections to any of those three pieces of testimony?

A. I have a correction to my Rebuttal Testimony, page 2, line 7. The second word should be "administration" rather than "association."

Q. That's for the NOAA?

A. Right.

Q. Okay. You had prepared an affidavit that went with this testimony and I take it that if you were to answer the same questions that are asked in the pre-filed testimony, your answers would be the same --

A. Yes, they would.

Q. -- would be the same today?

A. Yes, they would.

MR. REED: At this time I would move for admission of exhibits numbers I believe they're marked 107,

108 and 109.

JUDGE JONES: Any objection to Exhibits 107, 108 and 109?

Seeing none, Exhibits 107, 108 and 109 are admitted into the record.

(Staff Exhibit Nos. 107, 108 and 109 were received into evidence.)

JUDGE JONES: At this time we'll have cross-examination from Missouri Gas Energy.

MR. BOUDREAU: Thank you.

CROSS-EXAMINATION BY MR. BOUDREAU:

Q. Good afternoon, Mr. Wells.

A. Good afternoon.

Q. I just have a very few questions for you today. I want to start off that you were here this morning, weren't you --

A. Yes, sir, I was.

Q. -- to hear testimony of Mr. Feingold?

A. Yes, I was.

Q. And you remember there was some discussion that he put together basically four time periods that he looked at --

A. Yes.

Q. -- in order for him to determine what his recommendation would be in terms of a proper weather normal

for MGE. And I believe it was 30 years, 20 years, 10 years and 5 years. Do you recall that?

A. Yes.

Q. In each of those periods that he used -- actually I may be wrong about that. At least for the 20-, 10- and 5-year periods that he used, he brought the data current to 2005; isn't that correct?

A. Yes, he did.

Q. Did he do the same for the 30-year period?

A. I believe so.

Q. Okay. Okay. Thank you for that. And I believe that one of your critiques of his technique or his methodology is the fact that he used the weather data from years 2001 through 2005 instead of using the NOAA 30-year standard weather --

A. That's correct.

Q. -- is that correct?

And I believe part of your criticism -- and I don't think it's your entire criticism of his methodologies, but your criticism with respect to that aspect of it is that you assert this data hasn't gone through a correction process --

A. That's right.

Q. -- that is employed by NOAA on roughly every 10 years; is that correct?

A. That's correct.

Q. Let me ask you this. Are you aware of any circumstance where a change in an observed practice or an omitted value during the correction practice would have caused a statistically significant change in the calculation by NOAA of its 30-year normal?

A. There have been situations where a reason of location change of the instruments, the upgrading of the instruments has made changes to what would have been.

Q. Yeah.

A. The exact --

Q. I'm sorry.

A. -- the numbers I'm not sure of.

Q. Okay. So what you're saying is some of the data has been modified or changed or, to use a technical term, tweaked as a result of this correction process?

A. That's --

Q. But my question to you is, are you aware of any of those changes causing some -- causing a statistically significant change in a 30-year weather normal calculation?

A. Dr. Steve Hu presented a study for I believe the St. Louis area which brought out some adjustments that he had recommended be made to that station.

Q. Okay.

A. And they were -- it varied by time period, but

the -- the adjustments I think ran from three-tenths of a degree to 1.85 degrees.

Q. Okay. Thank you. Is it based on Staff's recommendation in this case then, is -- and I think it's -- I'm going to refer to your testimony because it is your testimony. Is it your view that because NOAA only gets around to screening its weather data once a decade, that a utility like MGE should have its 2007 base rates for service weather normalized with data no more current than the year 2000?

A. The MGE process that's been proposed has been called a forecast.

Q. Well --

A. And --

Q. -- I'd appreciate an answer to my question.

A. Okay.

Q. I mean, is that the Staff's position or your position in this case, that basically NOAA doesn't get around to correcting its data except for about every 10 years and that ought to be the -- you know, even though we're setting rates presumably to be in effect in 2007, that the weather data shouldn't be made any more current than 2000?

A. The most accurate adjusted data is 2000. And so the period '71 to 2000 I believe should be used.

Q. Okay. Fair enough. You calculated actual daily heating -- well, actual heating degree days for the test

year for MGE, didn't you?

A. Yes, I did.

Q. What was the test year in this case?

A. I believe it was 2005.

Q. Did you use NOAA data for that?

A. I used NOAA data as the Staff has adjusted it.

Q. Okay. I want to direct your attention to page 3 of your Surrebuttal Testimony. Are you there, sir?

A. Yes, I am.

Q. I'm looking at a statement that is set out in lines 8 through 10 in response to a question and I'll read it and I'll ask if I read it correctly. I think your statement is, A policy setting a short -- excuse me, a policy setting a shorter normals period jurisdictionally could be detrimental to other utilities depending on their type, parens, gas or electric, end parens, location and load structure.

Did I read that correctly?

A. Yes, you did.

Q. With respect to that statement, you are aware, are you not, that MGE is not asking that the Commission establish a 10-year normal for Laclede Gas Company or Empire or Atmos Gas Company for that matter; is that correct?

A. That's correct.

Q. And with respect to uniformity in terms of just generally, the Commission doesn't set uniform

depreciation rates for utilities, does it?

A. I really don't know.

Q. And would your answer be the same if I asked you about industry standard rate of return?

A. I really don't know.

Q. Okay. Fair enough.

MR. BOUDREAU: That's all the questions I have for this witness. Thank you.

JUDGE JONES: Any questions from the Office of Public Counsel?

MR. POSTON: No, thank you.

JUDGE JONES: Commissioner Murray?

QUESTIONS BY COMMISSIONER MURRAY:

Q. Good afternoon.

A. Hi.

Q. Now, are there any utilities in Missouri that you know of that use anything other than the 30-year average?

A. I am not aware of any.

Q. How important is it, in your estimation, that the utilities use the same methodology, or is it important?

A. I believe it is. The 30-year NOAA standard has set a baseline that has been determined to be stable enough not to be impacted by short-term weather fluctuations of a few years and still gets updated every 10 years. And in this way it provides a, well, normal or average that's --

that's long enough to -- for the Staff and Commission to compare test year values to.

Q. And you don't have a problem with the fact that it hasn't been updated since 2000?

A. There's a tradeoff with that. The data does become older, but you don't inject the bias of unadjusted data for the changes. As we talked about before, the moving the instruments, updating the instruments, changing the time of observation and that sort of adjustment has not been made. So it is a tradeoff between the most up-to-date data and I would say the -- the most accurate data.

Q. And the 10-year calculations that the company witness made, it was my understanding from his testimony that he went back and took various 10-year periods --

A. Yes, he did.

Q. -- within the last 106 years and compared the actual heating degree days that were realized during those time periods to those 10-year averages as well as compared the actuals to the 30-year averages for the various periods. Is that your understanding?

A. What I understand he did was take -- compared 10 years worth of data to a -- an actual of two years beyond that period and then every year added one year and subtracted one year, so he had a rolling 10-year average. He determined statistically that the error using the 10-year was smaller

than the 30 or the 20 or the -- or the 5.

The problem I have with that is that in any given year, the weather could be warmer or colder than normal. And I did -- I believe I have an exhibit on that where I've looked at the -- a comparison of the -- the difference between the actual and the 10-year and 30-year for concurrent dates and one year in advance.

And I believe about -- and it depended -- I think in Kansas City 17 of the 30 years the 30-year was better and 13 of the 30 the 10-year was closer to the actual. Did the same thing for Springfield and got the opposite result.

So the point I'm trying to make here is that neither the 30-year or the 10-year is a good predictor of weather. And that's why the Staff and the Commission use the test year and compare the test year to what an average would be so we're not chasing short-term fluctuations.

Q. Okay. And what do you -- what kind of a difference do you feel that it makes that NOAA only adjusts every 10 years if you're falling -- if you're setting rates somewhere at the -- close to the end of that 10-year period?

A. I looked back and try to measure some of the percentage differences each time NOAA updated its -- its 30 years. And it -- it varies, again, depending on the station involved. But it could run from, you know, I'd say -- plus or minus I'd say 2 to 3 percent.

I believe the last for -- I think for Kansas City, the last 10-year update was a reduction of 1.7 percent and the 10 years prior to that I believe was minus .7. So it does vary, but it's not because of the 30-year time period. It's a gradual adjustment.

Q. So that that 2 to 3 percent variance that you're talking about, that would be -- tell me what that 2 to 3 percent applies to.

A. It was heating degree days for the year.

Q. So --

A. Differences of --

Q. So the heating degree days that were calculated in that average could be 2 to 3 percent different than normal or different than what?

A. Well, the -- for example, the last update in 19-- in year 2000, which covered the 1971 to 2000 time frame, that average or normal was about 1.7 percent lower than the NOAA normals between 1961 and 1990. So as a result of that 10-year update, the average decreased approximately 1.7 percent.

Q. And over the history of the NOAA averages, is that --

A. There have been positive changes and negative changes.

Q. But always within the 2 to 3 percent range?

A. Again, I have not looked at every station. It's just -- I just grabbed one and looked back.

Q. Well, what do you say to the argument that if you used a 10-year average, you would be coming closer to the actual than we would with this 30-year average that hadn't been adjusted for?

A. Well, if I could reference a schedule of mine, it might -- it's in my Rebuttal Testimony, Schedule CW-4.

Q. Okay.

A. Which it -- it compares the NOAA 30-year versus the rolling 10-year that MGE is proposing. And just as an example, it appears, according to their numbers, that if the test year was 1999, the normal would be 4,550 heating degree days. Two years later in 2001, if that was the test year, the normal, what they're considering normal, would be about 43, I guess, 75 rate. So there's quite a difference in what they consider normal depending on what the test year happens to be.

Q. I'm sorry. I don't see that at all from your -- CW-4? Is that what you're talking about?

A. Yes, ma'am.

Q. Where do you come up with the 43 something in 2001?

A. The -- the more jagged line.

Q. I guess on my copy it just didn't print.

A. Oh, there were a couple that didn't. Excuse me. I was afraid of that.

Q. Okay. It looks like there was supposed to be a line --

A. Your Honor, can I --

JUDGE JONES: Yes.

COMMISSIONER MURRAY: Thank you.

BY COMMISSIONER MURRAY:

Q. All right. Now I have the full document. So the 10-year rolling average is the one that is pretty much all over the place?

A. Yes, ma'am.

Q. But there's quite a lot of difference between the two in any given year in most years, is there not?

A. Yes, there is.

Q. Now, did you do anything to compare those averages with what turned out to be the actual heating degree days of those years?

A. I did. I'm trying to remember where I put it. I don't think I have that in my testimony.

Q. Well, which one do you think came closer to the actual or is that --

A. Well, in -- in my surrebuttal -- I've shown that in 1 to my surrebuttal. I've done some comparisons year by year as to which is closer to what actually happened. And,

again, for the case of Kansas City, the 30-year was closer, 17 out of the 30, and the 10-year was closer to 13 out of the 30.

Q. I need to take a little more time here to understand this exhibit. We're on CW-1?

A. Yes, ma'am.

Q. All right. Show me where the 30-year average is.

A. The 30-year average is the -- the 30-year average is the -- the clear or lighter difference. These are differences from actual. So the -- the actual temperature is the -- the zero line. And I'm just measuring the differences --

Q. This does not look like the exhibit I have.

A. I'm sorry. Oh, I'm sorry. Surrebuttal. My Surrebuttal Testimony.

Q. Oh, I'm in direct. No wonder. That looks much more like something like you're talking about. Thank you.

All right. Now, would you repeat what you said earlier?

A. Yes. This is -- this measures the deviation from the actual for each of the years. The 30-year is the lighter bar and the 10-year is the darker.

Q. So basically there are quite a few years in which the 10-year difference was much greater than the 30-year

difference from actual; is that correct?

A. Yes, ma'am. 17 versus 13 years -- the 30-year was closer 17 and the 10-year was closer 13. Coincidentally, on the next chart -- this was for Kansas City. The next chart is for Springfield, the opposite occurs. And there are 30 -- the 30-year is closer 13 years, the 10-year is closer 17 years.

Q. Now, would that --

A. Which --

Q. -- be because of weather patterns in various locations that you could expect the differences to run in that direction?

A. What I was trying to show with these is that neither the 30-year nor the 10-year is a good predictor. They're just kind of all over the place depending on year.

COMMISSIONER MURRAY: Thank you very much.

JUDGE JONES: Commissioner Appling, do you have any questions?

QUESTIONS BY COMMISSIONER APPLING:

Q. How are you doing, sir?

A. Fine. Thank you, sir.

Q. I suppose being a country boy, I'm trying to get my arms around all the stuff that you're talking about here. If I follow then, what do it do for me in the end? You know, with the ice storm and the two storms that happened in

St. Louis in '06, what do this do for me? What do it tell me out here as a Commissioner? What am I supposed to do with it?

A. Well, Staff is recommending that we -- we stay with the NOAA 30-year that we -- we have been doing.

Q. And in your own mind, what's the difference between 10- and 30-year? I read your testimony. Don't think I've been sleeping, but I'm just saying what's the difference between the 30 and 10?

A. Well, the 30 gives you a long enough time frame to give you the stability so that it's not affected by two, three years worth of either exceptionally warm or exceptionally cold weather.

Q. But you say the column that you had with the 10-year was the cold weather and the warm weather in the testimony to Commissioner Murray just a few minutes ago. That was the problem you had with the 10-year. Right? I mean is that correct?

A. I don't recall.

Q. Okay. Well, maybe I'm a little confused here, but I'm just trying to get a good feel for what it really does for us when you try to normalize the weather. What does it -- what is it I'm supposed to take away from that?

A. What we're -- basically we're comparing the test year with what would have happened, the sales, and use to determine rate requirements, revenue requirements in

comparison -- the test year in comparison with what would be a normal or average year in -- with looking at adjustments to that. To that extent, as I said, I think the 30-year is more stable and generally accepted.

COMMISSIONER APPLING: Okay. Thank you.

JUDGE JONES: Commissioner Gaw?

QUESTIONS BY COMMISSIONER GAW:

Q. I'm sorry if you've already -- I'm sorry if you've already been asked these questions. I was listening upstairs, but I don't know if I caught all of it from Commissioners Murray and Appling.

The 30-year period that you worked off of, as has already been established, I think goes to 2000. Correct?

A. Yes, sir.

Q. Now, did you run any numbers on a 30-year period up through 2005?

A. I don't believe so.

Q. Is it possible to do that?

A. It is. Realizing, of course, the last five years have not gone through the NOAA adjustment process.

Q. I realize that. I want to ask you in a minute how much difference that makes but -- if you know, but you have the ability to do that with the data that you already have or would it require you to do additional research?

A. The data's available.

Q. Say that again. I'm sorry.
A. The data's available.
Q. Okay. How long would that take?
A. Oh, not too long. Half hour to an hour.
Q. Half hour, hour. Okay. Now, tell me the difference in the -- what occurs if you take the next -- the last five years up through '05 in comparison to what would be done in the first 25 years of that 30-year period.
A. I don't think it would make too much difference.
Q. Okay.
A. I can't quantify it, but --
Q. Do you --
A. You're talking about slipping it five years, just going from like '76 to '05 or something like that or are you looking at a 35-year period?
Q. Actually, I was talking about doing a 30-year up through '05. I understand you could take the 30-year that you already have and add on 5.
A. Yes, sir.
Q. But I was thinking of using the same 30-year concept. What would be the difference in what the assumptions were or that -- in that 5-year period at the end?
A. Well, as I said, it would -- we would use the same process. It would not be -- just the data would not

be -- have been updated by NOAA for any biases or any --

Q. What does that do when it's not updated by NOAA? I guess that's what I'm asking.

A. I'm not sure I could quantify that.

Q. Okay. Would you mind doing that and maybe bringing it back --

A. Yes, sir. Yes, sir.

Q. -- later on?

Now, are you -- are you opposed to the 10-year provision that the utility has proposed because it's different than what Staff has proposed in the past or because you don't think it's as good?

A. I don't think it's as good, sir.

Q. And can you tell me very briefly -- summarize what you've said in your testimony about that.

A. Essentially it's too short to provide the necessary stability. There are temperature variations. I think -- believe it can span decades, across decades.

The other is, since it's a rolling average, it will change every year and depending on which year is the test year could end up with different normals. And one other thing that I just realized this morning in listening to testimony was that the 10-year rolling average includes the test year, which means that, you know, one-tenth of what you're measuring against is -- is the test year that you're measuring it

against. So that's probably another disadvantage.

Q. Okay.

A. And, of course, there is the -- you know, the impact on other utilities if -- whether this becomes policy across the board or whether we, you know, let each utility determine what they consider normal.

Q. Okay. Now, the analysis that was done by the company here, Mr. Feingold I believe, suggested that his firm had looked at a comparison of the 10-year rolling average to the 30-year average over the scope of a period of time --

A. Yes, sir.

Q. -- perhaps 100 years. I can't remember.

A. I believe so.

Q. Is that your recollection?

A. Something over 100 years.

Q. And they claim that it tracked closer to the average for a particular year or something to that nature. Could you describe your interpretation of that for me?

A. What they did, as I understand it, was measure the difference between their 10-year average and the actual 2 years in advance. And they moved it year by year for 100 and however many years. They then, you know, measured that, took the root mean square error, which is statistical term to measure the -- in essence, the standard deviation, and found that the 10-year was closer.

And my problem with that is that even though that could be the case, on any given year-to-year basis, the weather could be warmer or colder. And I was discussing with Commissioner Murray some of the fluctuations year by year between the two. So the -- basically the 30-year seems to be the -- the appropriate time frame to use.

Q. Because?

A. Of its stability and its -- I'm trying to think what I said last time. The stability and the fact that it's -- it's not impacted by short-term fluctuations.

Q. Were you asked any questions in regard to whether or not you believe that there is a trend to warmer temperatures; that is, a pattern that will continue into the next few years?

A. I don't believe I was asked. I've -- I've noted that the last few years are warmer than -- than normal.

Q. Okay.

A. Whether that continues -- past history has shown that groups of warmer years are followed by groups of colder years. The size of the groups -- you know, the length of time between the changeover fluctuates so it's -- it's hard to predict what's going to happen in the future.

Q. And is that part of the reason that Staff supports the 30-year?

A. Yes, sir.

COMMISSIONER GAW: I think I'll stop there, Judge. Thank you.

QUESTIONS BY JUDGE JONES:

Q. I just have one question. I'm not sure if you, Mr. Gray or Mr. Warren is better suited to answer the question, but MGE has filed rate cases for every two years since '97. It seems like we'd want to know what the weather is going to be like the next two years to better match what the rates should be. If you can answer why you disagree with that, please do.

A. I guess my point is that it's very difficult to predict what is going to happen in the next year or two. You know, it's been warm for the last couple of years, but I don't know that that's going to continue.

Q. And you're saying now that the 10-year that MGE uses, they're using that to predict what the next 10 years will be or are they looking back 10 years as you're looking back well, 40 -- 35 years actually?

A. Well, I -- I'm not sure how they're using that. Statistically they looked two years in advance when they did their computations -- their statistical computations. I don't know what their -- they -- they just -- they did argue that it's -- it's a better predictor.

Q. And you believe that thirty years better predicts what the weather will be like for the next two years?

Thirty years for 2000 back 30 years?

A. No. My argument is that neither is a very good predictor.

Q. So what's the point of either of you taking a position on it if neither is a good predictor? Isn't that the reason we want to look at the averages?

A. Well, that's why we use the test year as a comparison -- that we use the 30-year normal as a comparison to the test year. And the 30-year normal I believe is a better comparison because of the length and the stability of it than a 10-year that changes every year.

JUDGE JONES: I still don't know any more than I did before I asked those questions, but we'll move on.

COMMISSIONER MURRAY: I'd like to ask one more question.

JUDGE JONES: Commissioner Murray.

FURTHER QUESTIONS BY COMMISSIONER MURRAY:

Q. Let me get my mic on. I just wanted to ask you if this is an accurate depiction of your position, that because neither the 30-year average nor the 10-year rolling average is a very good predictor of what the weather will be during the time in which the rates are set, that it is more important -- and this may be a mischaracterization of your position and if it is, please tell me.

In that neither is a very good predictor and

you show evidence it's kind of six of one and half dozen of another as to which is more accurate --

A. Uh-huh.

Q. -- how much of the time, but because of that inability to say definitely that one is better than the other, that it is more important that there be uniformity in the methodology that is used for the Commission in looking at the various utilities across the state?

A. Rather than uniformity, I'm saying that since neither is a very good predictor, what you want to compare the test year with is the -- is a time period that has enough data points, if you will, to provide the stability to actually get you a -- the real average rather than just the last few years -- the average of the last few years.

Q. But even if you look at the real average for the last 30 years, I think one of your exhibits showed that comparing that to any given year for what actually occurs, it's not a very -- I mean, what purpose is there to look at it unless you are trying to predict?

A. As I understand it, we are using what would be considered a normal year and comparing that with the test year.

Q. Okay. And you're assuming that the test year is going to be a normal year?

A. Well, there are adjustments being made, as I

understand it, to adjust the test year to what would be a normal year.

Q. Okay. That's right. Because we have the test year data. So you look at, based on a period of time, a normal heating degree day year and then you adjust the test year for weather variations to that normal. And your testimony is that to use the longer 30-year NOAA averages gives you a better reading of what is normal than to do a 10-year average?

A. Exactly. Yes.

COMMISSIONER MURRAY: Thank you.

FURTHER QUESTIONS BY COMMISSIONER GAW:

Q. If I could just follow up real briefly. This concept -- walk me through the adjustment to the test year with that average, whatever it is, whether it's the 30-year or 10-year. Can you do that? Is it a substitute for what the test year data shows or is it an adjustment to the test year data?

A. That may be getting into one of the other --

Q. It may be.

A. -- witnesses.

Q. If it is, perhaps somebody can tell me who can answer that.

A. I -- I provide the test year raw data --

Q. Yes.

A. -- with the normal and normal --

Q. Do you manipulate the test year data with that normal, quote/unquote, data?

A. I provide two sets. I provide the normals and the test year.

Q. Who does the manipulation of the test year data then --

A. I believe --

Q. -- of Staff?

A. -- that would be Mr. Gray, I believe.

Q. Okay. I'll go through that with him.

COMMISSIONER GAW: Okay. Thank you. I don't have anything.

JUDGE JONES: Okay. Any recross from Missouri Gas Energy?

MR. BOUDREAU: Yes. Thank you.

RECROSS-EXAMINATION BY MR. BOUDREAU:

Q. Mr. Wells, I want to come back to -- I believe there's been some back and forth between you and various Commissioners about which approach is a better predictor. And I know in your surrebuttal you went back and you put some charts together and I'll circle back around because I do want to talk about those.

I understand your initial -- maybe it was your Rebuttal Testimony where you said Staff's objective is not to

try and predict weather; is that correct?

A. That's correct.

Q. So you don't use the 30-year -- the NOAA 30-year normal as a mechanism of predicting weather; isn't that right? It's data that's put into, it's used in maybe another adjustment, but you're not looking at that as a predictor of weather one year, two year or whatever out; is that correct?

A. That's correct.

Q. Okay. So we're really talking a little bit about apples and oranges here. I mean, would you agree with me that Mr. Feingold's analysis, his proposal is that -- or his suggestion to the Commission is that the 10-year rolling is a better predictor of weather 2 years out? Would you agree with that? Better than the 30-year?

A. I would agree that the -- his root means square error is smaller and he's using that as a predictor.

Q. That's really kind of a fundamental difference then in the way that you're looking at this data. We're not in a debate here about whether yours is a better predictor than ours?

A. No, we're not.

Q. Is it fair to say that the company's saying that using this data if -- and I know you may not agree with this -- if the objective here is to try to predict what the

data is 1 or 2 years out, then the 10-year rolling is better at doing that? Would you agree with that?

A. It has a smaller root means square error.

Q. Okay. Okay. I'm going to accept that because I think -- I think we're on the same basic track there. But now I want to circle back around to your schedules that you had in your Surrebuttal Testimony. I think there were four of them.

A. Yes.

Q. And what you did there, as I understand it, is you took the 10-year rolling versus the 30-year -- I think it was 30-year NOAA; isn't that correct?

A. Yes.

Q. And the idea then with that chart is that you would look at each particular year to see how close or what the deviation was --

A. Yes.

Q. -- from actual and then you came up with your summary of that. But even those charts aren't really -- it's not a real apples-to-apples comparison with what Mr. Feingold's doing because Mr. Feingold's looking two years out. He's not looking at the predictor -- the prediction of the year of the data, I mean -- or the year-end data. Would you agree with me?

A. Yes. And over lunch I did it two years out

also and came up with --

Q. Well, before we jump into that, okay, let me finish my line of cross-examination.

Now, I want to talk specifically about your schedules just real quickly. All four of them I noticed the analysis takes a 30-year grouping from 19-- I think it's 1971 through 2000; is that correct?

A. I believe so.

Q. Okay. It does not include any of the data -- which I know that you're not enthused about, but any NOAA weather data beyond the year 2000?

A. That's correct.

Q. Did you happen to take your analysis out closer to 2005, you know, with NOAA data to see how the puts and takes there are?

A. No, I did not.

Q. Okay. Bear with me here a second while I gather my notes.

You testified I think in response to a question put to you by Commissioner Gaw that you thought the 10 -- correct me if I phrase this wrong, but I think the gist of it was that the 10-year rolling average wasn't as good as the 30-year. I think -- correct me if I misstated that, but that's my recollection of your testimony.

A. I don't think I used the word "as good."

Q. I think you did. I wrote it down. Doesn't think it's as good, is what I had here.

And my question was -- and maybe we won't go anywhere with this if you don't recollect the reference, but I was wondering what you meant by the term "good." Did you mean -- let me just finish my question. We'll see if -- assuming that you did use that term, and I seem to recall that rather clearly because I wrote it down, did you mean by the use of that term that the quality of the data isn't as good or that the result that comes from the use of the data isn't as good? That's my question.

A. I have no problem with the data. It's the use of a 10-year as a normal I think that I may have said the 30-year I thought was better --

Q. Okay.

A. -- as a normal.

Q. When you say the use of the data in that context, what is your view of what the use of the data is?

A. The Staff uses the data as -- to develop the normal.

Q. Right.

A. The normal is then compared to the test year. So to that extent, having 30 years of data is better than having 10 years of data.

Q. Okay. So you weren't suggesting -- I mean,

this is consistent I think with your recommendation. You're not saying that it's not as good because it's not as good a predictor. You meant it in a different context?

A. Right.

Q. Okay. Just more data, more robust, more --

A. More stable.

Q. That was the context? Okay. Thank you for that.

MR. BOUDREAU: I think that completes my questions. Thank you. Thank you, Mr. Wells.

JUDGE JONES: Do you have any recross from the Office of Public Counsel?

MR. POSTON: No, thank you.

JUDGE JONES: Any redirect from Staff?

REDIRECT EXAMINATION BY MR. REED:

Q. What calculation did you make over lunch?

A. I --

MR. BOUDREAU: Well, I'm going -- I'm going to object to this. I'm not sure what the context of it was, what it has to do with any of the questions that were asked by the Commissioners or by me, I might add. It sounds to me like this is just supplemental surrebuttal so I'm going to lodge an objection on that ground.

JUDGE JONES: Objection sustained.

MR. REED: I don't have any questions.

JUDGE JONES: Mr. Wells, there was information that Commissioner Gaw wanted. Do you remember what that was?

THE WITNESS: As I understand it, 30-year -- 30-year normals for the two stations from -- well, through 2005, so it would be from 1976 to 2005.

JUDGE JONES: Seeing no more questions, then you may step down.

Staff, call your next witness.

MR. REDD: James Gray.

(Witness sworn.)

JUDGE JONES: Thank you, sir. You may be seated.

JAMES GRAY testified as follows:

DIRECT EXAMINATION BY MR. REED:

Q. You're James Gray?

A. That is correct.

Q. And you filed Direct Testimony in this case?

A. Yes, I did.

Q. That testimony is marked as Exhibit No. 110, I believe. Are there any corrections?

A. Not at this time.

Q. If asked the same questions today, would your answers be the same?

A. Yes, they would be.

MR. REED: At this time I'd move for admission

of Exhibit 110.

JUDGE JONES: Any objections?

Exhibit 110 is admitted to the record.

(Staff Exhibit No. 110 was received into evidence.)

JUDGE JONES: Now we have cross-examination from Missouri Gas Energy.

MR. BOUDREAU: Thank you, but I have no questions for this witness. I appreciate the opportunity

JUDGE JONES: Public Counsel?

MR. POSTON: No questions.

JUDGE JONES: Commissioner Murray?

COMMISSIONER MURRAY: I didn't expect to get called that quickly.

QUESTIONS BY COMMISSIONER MURRAY:

Q. I really don't have any questions unless there is something else that you can tell us to -- that you think would clarify this issue even more. And if there's nothing you can think of, that's fine too.

A. Well, the only clarification I have is that perhaps -- I don't know your -- you know, what level you're at. Mr. Wells gives me the daily weather and the daily norms, then I do my studies. And then I study the relationship between the usage of heating degree days during the test year. And then I apply the normals to that and I just adjust that to

the normal for the test year.

Q. Okay. And you really don't have -- I mean, you're not taking a position on which average --

A. No.

Q. -- you're using?

You're just applying the data to it?

A. That is correct.

COMMISSIONER MURRAY: Okay. Thank you.

JUDGE JONES: Commissioner Appling?

COMMISSIONER APPLING: This is going to be a short stay for you. I have no questions. Okay?

JUDGE JONES: I take it then there is no recross or redirect then?

MR. POSTON: No.

MR. REED: Before the witness is excused though, Judge, I think that Commissioner Gaw had requested some data that Mr. Gray may be able to provide. The issue is though we need to know specifically what it is that Commissioner Gaw desires.

JUDGE JONES: You'll have to ask him when he comes back.

You can go ahead and step down. We'll move on to the next witness.

MR. REED: Next is Henry Warren.

(Witness sworn.)

JUDGE JONES: Thank you. You may be seated.
HENRY WARREN testified as follows:
DIRECT EXAMINATION BY MR. REED:
Q. You're Henry Warren?
A. Yes.
Q. You filed Direct Testimony in this case?
A. Yes, I did.
Q. Are there any corrections to that testimony?
A. No. Not at this time.
Q. If asked the same questions here today, would your answers be the same?
A. Yes, they would.
MR. REED: Mr. Warren's testimony is marked Exhibit No. 111. Would move for admission at this time.
JUDGE JONES: Any objection to Exhibit 111?
Exhibit 111 is admitted into the record.
(Staff Exhibit No. 111 was received into evidence.)
JUDGE JONES: Any cross-examination by Missouri Gas Energy?
MR. BOUDREAU: None, thank you.
JUDGE JONES: The Office of Public Counsel?
MR. POSTON: No.
JUDGE JONES: Commissioner Murray?
QUESTIONS BY COMMISSIONER MURRAY:

Q. Good afternoon.
A. Good afternoon.
Q. Now, your testimony is just related to the small general service class; is that correct?
A. Yes. That's -- that's true. That's because it has a block in the rate design.
Q. Okay. And is that a declining tail block?
A. Yes, it is.
Q. All right. And just briefly explain how it is you apply the test year data to that class to come up with the -- I'm not asking the question very artfully, but would you explain how you apply the data?
A. Yes. Staff Witness James Gray calculates the normal volumes for that class and that's the -- the total volumes. And at that point I take those -- well, I take the test year volumes and the normal volumes from Mr. Gray and the -- the normal volumes need to be -- needed to be allocated between the first block and the second block.
Q. And why is that? Why do you allocate them between the two different blocks?
A. Because they're priced -- they're two different prices on the blocks as -- as we discussed. There's a lower price on the -- on the second block than the first block. So in order to calculate the normal -- the normal revenues, we have to estimate how many of the volumes would be

in the first block and how many in the second block.

Q. And I know I've asked questions in previous rate cases about this declining tail block and why we use it when it appears that it would be a disincentive to conservation. Do you have any opinion on that or do you have anything to do with the choice of setting the rates that way?

A. I was not involved in that rate design.

Q. Okay. You're just applying numbers to those blocks and coming up with what should be recovered?

A. Yeah. That's correct. Just -- I'm taking the normal volumes calculated by James Gray and allocating them between the first and the second block.

Q. Okay. And this may have been a question that I should have asked Mr. Gray, but this particular class, do you look at the makeup of the class to determine whether it's heterogenous or the varying usage between the customers within the class?

A. That's not -- no, ma'am, that's not something that I do. I -- that's -- that's more much a rate design function than -- than simply the block allocation function that I do.

Q. Okay. So would it be accurate to say that you're not making any policy determinations, you're just strictly doing a calculation here. Is that --

A. That's correct.

Q. -- correct?

COMMISSIONER MURRAY: Okay. Thank you.

QUESTIONS BY COMMISSIONER APPLING:

Q. For some reason, the longer I sit here, the more confused I become so maybe I should excuse myself for the rest of the day.

But anyway, let's go to your Direct Testimony, to Schedule 2.1. And I'm sure if you share your information in this chart for me, I will do a quick exit of the room here. But explain this chart that says Missouri Gas Energy 2006-0422 up in the right-hand corner.

A. All right.

Q. Talk us through that. Okay?

A. All right. And this is a methodology to determine how much should be allocated in the -- in the first block. And what we've -- what we've -- and so the -- the vertical axis as it's labeled there is the -- the percent of volumes on a month -- on a month-to-month basis that would be allocated to the first block. And it's -- it's kind of -- and then on the horizontal axis or the -- the volumes, you know, per customer per -- you know, per customer per month in each month.

And essentially it's somewhat intuitive that the more volume, the more a cu-- the more that the customer -- excuse me, customer's using that block. And the -- in the

colder months, there are going to be more volumes in the second block than there are in the first block. So the percent in the first block will be lower in colder months than it will be in -- in warmer months.

And it's -- I don't -- I don't have the -- I don't have the individual -- these are -- the little diamonds there represent individual months. And I don't have them -- the months -- I don't have the labels on those, but the -- the one on the far right that's near -- near 500 is -- is January.

And so -- and the coldest month, it's going to have the -- and it's -- you know, some may be around, you know, some in the high 50 percent, you know, close to 60 percent in the first block and -- and that month where the highest consumption is, it has the lowest percentage in the first block. And then on the -- and the -- back in the -- at the other end, they're below 100.

Once again, it's kind of hard to see, but there's actually -- we've got -- well, there's -- you can see kind of severance -- separate points above 100. And so there's actually five -- five months that are kind of clustered there together that are non-heating months.

And so they're very -- they're all very close to being the same in terms of having the same amount in the first block. And that would be -- looks like maybe around -- somewhere around, you know, maybe 75 percent, somewhere in

the -- in the 70s. And so -- and non-heating months, there -- there's less -- there's less usage and so there's more a higher percentage of usage in the first block.

Q. And if you jump over to the Joplin chart, which is 2.3 I think, does that chart demonstrate to me that -- versus the one that you had for Kansas City, that Joplin is warmer -- a prediction is that Joplin would be warmer because of the geography of it?

A. Well, I -- I don't know that it -- that it -- that may be one reason that there's less variation. It's showing -- what it's showing is that there's -- that there's very little variation between the non-heating months and the heating months and the fact that Joplin has fewer heating degree days might be one factor that would be in -- that would be involved in that.

The other could just be the makeup of the -- of the -- the -- the type of small general service customers that they have down there. They might have customers who they might not have -- they might have customers, as has been mentioned, that may be more, you know, process oriented than -- than space heating oriented and so that could be -- that could be another factor.

Q. Okay. I was just looking at the clusters of the spots that you had on the horizontal line, the darker one there. But Henry, thank you. Things are crystal clear for me

right now. Thank you very much. I don't mean that as a negative term. I was just trying to understand.

A. Yes, sir.

COMMISSIONER APPLING: Okay. Thank you very much.

JUDGE JONES: Okay. Any --

COMMISSIONER MURRAY: Just let me ask one more.

JUDGE JONES: Commissioner Murray.

COMMISSIONER MURRAY: Sorry.

COMMISSIONER APPLING: You might be sorry that I opened this up.

FURTHER QUESTIONS BY COMMISSIONER MURRAY:

Q. The only difference between Staff's position and MGE's position in terms of the small general service customer, the use of the 30-year average versus the 10-year rolling average for weather normalization?

A. I -- well, I don't believe they use the same method I did to determine the -- the allocation of the first block. I think they -- if I recollect correctly, that they calculated the percent in the first block and the test year month and simply used that as -- as the allocation for the normal.

Q. I'm sorry. So each month in the test year they calculate -- they used that as normal for the first

block?

A. They -- well, the percent -- in other words, if -- in the test year if -- if -- you know, if January had, you know, 60 percent in the first block in the test year, then they would just assign that as normal. And I -- I would -- that's -- that's going to -- based on my memory, not having recently reviewed the testimony.

And what I -- that would be different than what I would do in that I would actually look at the -- at the relationship between the -- the use per customer. If the use per customer is different in the -- let's say in January after I put in the normal heating degree days, then I would have a normal -- different allocation to the first block. It wouldn't be the same percentage as the test year percentage.

Q. Say that last statement again.

A. Okay. I'm sorry. It -- well --

Q. What you would do.

A. Okay. They -- no matter what the -- when -- when you put in the normal weather, you get out a -- you will get out a different use per customer if the test year month is different than the -- than the normal month. The use per customer in that month will be different for the -- for the -- for the -- for the normal year than for the -- than for the test year.

Their methodology would -- would simply assign

the same percentage even though that use per customer changed. And using my -- using my graph with my relationship between use per customer and percent in the first block, I would have a different percentage than the -- than the test year value.

Q. Okay. And how did you arrive at your percentages?

A. I looked at the statistical relationship -- and that's what the -- the -- the -- the statistics to the left of the graph, I looked at the statistical relationship between the -- for each -- each month using each month separately the percent in the first block and the use per customer.

Q. Okay. And where does that statistical relationship come from? Where is that calculated?

A. Okay. That's -- I use a -- I use Excel software and the -- and I have the -- the result. And let's say if I'm looking at Schedule 2.1 for Kansas City, the -- the first -- where it says Regression Output for Kansas City District, the constant term which is -- you know, for rounding purposes let's say .78, that -- that's 78 percent. And if you look over on my graph, that's where the -- that solid line is the -- you know, is the 78 percent.

And then the -- the standard error of the estimate, is you know, about .005 which just means it's -- that's a measure of the statistical fit. And then the

R-squared is about .99, which just means that's another measure of statistical fit, which means it's a very strong relationship. The closer R-squared is to 1, the stronger the relationship.

And then the -- the X co-efficient is the negative .0005. And so that means that for every additional CCF per month that the average customer uses, the -- the -- the percent in the first block goes down by -- that's -- I'm trying to think of the percentage that would be -- 500ths Of a percent for each additional CCF per month that a customer uses.

Q. And that's additional over what? Over --

A. Yeah. It goes down --

Q. -- over your constant?

A. Well, that -- yes. Yeah. So, you know, in this case, the constant is maximum and it decreases -- the percent of the first block decreases by that amount for every CCF -- additional CCF that's used.

And then the last -- the standard error of the co-efficient, that's a scientific notion, you know, 1.93, 10 to the minus 5th, which means it's highly significant statistically.

Q. And how do you arrive at the constant initially?

A. That's -- that's calculated -- that's part of

the regression software in Excel and that's -- that's --

Q. Is this a standard software package or --

A. Yes, ma'am. It's a standard software package. And I -- I should be able to -- to explain the -- the calculation that goes into that -- that goes into the constant. That's essentially where the -- the -- the regression line and cross -- crosses the -- you know, the zero axis. In this case, it -- the minimum is something less than 100 there. This is kind of an -- this is -- you know, an inverse relationship, which is a little bit different than --

Q. Is there any dispute between the Staff and the company about how much should go into the first block and how much should go into the second block?

A. I -- I believe that that was -- I believe that was -- that was settled. I'd have to -- I wasn't in on those negotiations, but there was -- and as far as Direct Testimony was -- as I explained in my Direct Testimony, their Direct Testimony was not -- used a different method than mine in calculating that.

Q. Which came up with a different percentage into each block?

A. Yes. Well, I couldn't tell you what their percentage -- what the -- what their percentages were, but they were likely different than mine.

Q. Statistical analysis is a whole art in itself

that you have to be there to understand it. Right?

A. Sometimes.

COMMISSIONER MURRAY: Thank you very much.

JUDGE JONES: Do we have any recross from MGE?

MR. BOUDREAU: I just have a couple of questions.

RECROSS-EXAMINATION BY MR. BOUDREAU:

Q. So as I understand it, sir, Staff uses a statistical analysis to predict use in the blocks?

A. That's correct.

Q. But there's no statistical analysis done to predict the weather that will determine the heat load?

A. Your -- your terminology of heat load is -- you mean -- oh, you mean how much of this was -- how much of was this used for space heating. Is that your -- is that what you mean by heat load?

Q. Well, let me rephrase it. There's no statistical analysis that Staff does then in an effort to predict the weather that will be applicable with respect to these blocks?

A. Well, that took place -- that took place prior to my analysis.

Q. Fair enough. Thank you. I appreciate that.

MR. BOUDREAU: That's all the questions I have.

JUDGE JONES: Any recross from Office of Public Counsel?

MR. POSTON: No.

JUDGE JONES: Any redirect from Staff?

MR. REED: No.

JUDGE JONES: Okay. You're excused, Mr. Warren.

And I intended on taking a break at three o'clock. Let's go ahead and take it now at 2:55 and return at five after 3:00. And we'll try to go straight through until five o'clock and finish out the remaining issue for today.

(A recess was taken.)

JUDGE JONES: Let's go ahead and go back on the record.

MR. FRANSON: Your Honor, in the first instance, Staff had a question for Commissioner Gaw. Commissioner, we understand you were wanting some additional information and we're not sure we knew what exactly that was. Could you help us out? It was I think in regard to the testimony of either Mr. Wells or Mr. Gray.

COMMISSIONER GAW: It was Mr. Gray was the witness I think they said could tell me how the test year number is modified by whatever the normalized heating degree day is that's used as 30-year or 10-year. I'm just not clear

on how that affects the test year number, if it's just substituted for the test year number or if it's an adjustment. And I was just wanting to get that explained.

MR. FRANSON: Could we bring Mr. Gray back at some point maybe tomorrow or Friday to answer?

COMMISSIONER GAW: I don't care when it is.

MR. FRANSON: Okay.

COMMISSIONER GAW: But Friday is not good actually.

MR. FRANSON: I'm sure that Judge Jones will tell us and we'll have Mr. Gray available.

COMMISSIONER GAW: We have a hearing going on Friday at noon.

JUDGE JONES: Tomorrow's fine. There is an issue that's been eliminated for tomorrow so that may free up some time.

COMMISSIONER GAW: And then the numbers that I was going to get from the witness that was just up, that would happen when?

MR. FRANSON: What numbers were those, Commissioner?

COMMISSIONER GAW: Those were the numbers on the 30-year through 2005.

MR. FRANSON: Okay. The '76 -- okay. You're wanting them up through 2005. Okay.

COMMISSIONER GAW: And he was going to work on that. He said it would take 30 minutes or an hour.

MR. FRANSON: Really my answer would be when do you want it to happen?

COMMISSIONER GAW: I don't care. Tomorrow's fine on that too, if that's easier for you.

MR. FRANSON: I think that would be Mr. Wells and we will have that information available also.

COMMISSIONER GAW: That's fine.

JUDGE JONES: Let's move on to low-income weatherization and natural gas conservation. MGE, opening statements?

MR. BOUDREAU: Probably not so much an opening statement as just some opening comments. But before I do that, if I could take care of just one housekeeping matter.

I'd like to offer two pieces of testimony that were filed by company witnesses. The first is the Direct Testimony of Michael Adams. He filed testimony on the issue of -- or on the topic of cash working capital. It was not an issue in the case, but it's part of the company's direct filing.

And also the Direct Testimony of Carlton Ricketts, which has been previously identified as Exhibit 024. He had filed testimony on customer service, also not a disputed issue in the case. So without objection, what I'd

like to do is to offer these into the record, Exhibits 023 and 024.

JUDGE JONES: Any objection?

MR. FRANSON: No objection, but at some point Staff will be offering some testimony that we've also got on related topics, but that folks probably won't be testifying.

JUDGE JONES: Okay.

JUDGE JONES: Seeing no objections, Exhibits 023 and 024 are admitted into the record.

(MGE Exhibit Nos. 23 and 24 were received into evidence.)

MR. BOUDREAU: And as I said, what I have is probably more just opening comments than an opening statement. The issues you've indicated are -- it's two topics, but we're taking them together as low-income weatherization and natural gas conservation.

As far as low-income weatherization, MGE's proposed that funding for the company's low-income weatherization program be increased from its current level of 6-- excuse me $500,000 annually to $600,000. And my understanding is that Staff and Public Counsel support this proposal.

The City of Kansas City through Witness Robert Jackson recommended a $250,000 increase in funding I think which would be specific to Kansas City, as I understand the

proposal. The company hasn't supported this proposal for the reasons that were stated by Mr. Hack and I won't bother to elaborate on those.

So I'm not aware of any opposition to an increase in funding. It appears to me that the only question is by how much and whether it should be directed in more specific ways than the company proposes.

As to natural gas conservation, the company -- in the event the Commission adopts the straight fixed variable rate design, it leaves MGE indifferent to volumes of gas, the company's proposed a natural gas conservation program. It's a two-element program; one element involving some educational aspects for customers and the other would be a water heater basically a rebate program I suppose, for lack of a better term. Together the programs would represent $750,000 funding.

My understanding is that Staff supports this initiative and the Office of Public Counsel in its position statement has stated its opposition to it.

So with that, what I'd like to do is call David Hendershot to the stand, please.

(Witness sworn.)

JUDGE JONES: Thank you, sir. You may be seated. You may proceed.

MR. BOUDREAU: Thank you.

DAVID HENDERSHOT testified as follows:

DIRECT EXAMINATION BY MR. BOUDREAU:

Q. Would you state your name for the record, please, sir?

A. David C. Hendershot.

Q. Would you spell your name for the court reporter, please?

A. H-e-n-d-e-r-s-h-o-t.

Q. By whom are you employed, sir, and in what capacity?

A. Missouri Gas Energy, manager, business support services.

Q. Okay. In that capacity, have you caused to be prepared and filed with the Commission some pre-filed testimony which has been identified -- marked for identification as Exhibit 018 which comprises the Rebuttal Testimony of David Hendershot?

A. I did.

Q. Was that testimony prepared by you or under your direct supervision?

A. It was.

Q. Do you have any corrections to make to that testimony at this time?

A. No, sir.

Q. If I were to ask you the same questions as are contained in Exhibit 018 today, would your answers here on the

stand be substantially the same?

A. Yes, sir.

Q. And are those answers true and correct to the best of your information, knowledge and belief?

A. Yes.

MR. BOUDREAU: With that, I would offer Exhibit 018 and tender Mr. Hendershot for cross-examination.

JUDGE JONES: Any objection to Exhibit 018?

Seeing none, Exhibit 018 is admitted into the record.

(MGE Exhibit No. 18 was received into evidence.)

JUDGE JONE: We'll continue with cross-examination from the Staff of the Missouri -- Staff of the Commission.

MR. FRANSON: Thank you.

CROSS-EXAMINATION BY MR. FRANSON:

Q. Mr. Hendershot, I'm Robert Franson, attorney for Staff of the Commission. Are you familiar with the term "energy audit"?

A. I am.

Q. What is an energy audit, first of all, generally and then more specifically as it might apply to the programs that MGE is proposing in this case?

A. To me, an energy audit really looks at very

specific dynamics within a particular structure, residence, if you will, in terms of the type of structure, the size of the structure, the age of the structure. And then really evaluates the effectiveness of the -- the energy in that structure and potentially makes recommendations in terms of improvements as far as improving the energy efficiency.

Q. Okay. If someone has been identified as maybe wanting to participate in the programs, how would that person go about obtaining an energy audit of their home?

A. Well, I think energy audits are available from a number of different sources. Certainly there are a number of Internet-based tools. There are also private companies that engage in -- in this type of business to where they will actually contract and come out and do a very detailed analysis of the structure or the residence.

Q. Are any energy audits any part of the specific programs being proposed by MGE in this case?

A. We have proposed a partnering with the Department -- I'm sorry, Department of Energy, the Home Energy Saver program that would really include a -- an energy audit module online.

Q. Okay. Any thoughts of how someone who might not have access to a computer at home might participate in that?

A. At this point in time, we've not, you know,

made any proposals in that regard.

Q. Aren't there places like libraries that have computers available for use?

A. There are.

MR. FRANSON: I don't believe I have any further questions of this witness.

JUDGE JONES: Any questions from Office of the Public Counsel?

MR. POSTON: Yes, thank you.

CROSS-EXAMINATION BY MR. POSTON:

Q. Good afternoon. Do you agree that the water heater rebate program is intended to encourage customers to use more efficient water heaters?

A. I do.

Q. And your projections also reflect that you anticipate some customers will switch from electric to gas water heaters; is that correct?

A. We would anticipate a minimal number of them, but the potential certainly exists, yes.

Q. Does MGE serve any areas that overlap with the service areas of a regulated electric utility provider?

A. We do.

Q. And to your knowledge, has MGE proposed or received a variance from the Commission's rules related to promotional practices to offer this?

A. I -- I can't speak to it. I don't know.

Q. Do you intend to offer this program as an experimental or a pilot program?

A. It's certainly a new initiative for the company. It's not something that we currently engage in or have at least in the recent past previously engaged in. So, yes, I think it's -- is really a new initiative.

Q. And when I say "experimental," I guess I mean is there an end date for this program?

A. Not that I'm aware of, not that I've seen. You know, the program that has been proposed, you know, is, you know -- I guess there's really two things I think from the company's perspective that -- you know, that are really a part of this. And number one is to be indifferent or neutral to the volumes and, number two, the cost recovery.

Q. Have you read the Surrebuttal Testimony of Public Counsel's witness, Ms. Meisenheimer?

A. I did.

Q. And did you see where she raised legal concerns regarding the proposal?

MR. FRANSON: Objection as to the question itself. It calls for this witness to comment on legal matters and we certainly know and we've been informed in this case that legal questions are for the ultimate determination of the Commission, not the witnesses that are testifying.

MR. POSTON: I have not asked him to interpret any laws.

JUDGE JONES: What did you ask him again?

MR. POSTON: I asked him if he had reviewed Ms. Meisenheimer's testimony --

MR. FRANSON: And also --

MR. POSTON: -- regarding her legal concerns. That's all I had asked.

JUDGE JONES: Objection overruled.

BY MR. POSTON:

Q. Have you had any discussion -- I'm sorry. Please, have you reviewed that testimony?

A. I have reviewed the testimony.

Q. And have you reviewed the piece regarding the legal concerns that she raised?

A. I'm not sure what legal concerns we're really talking about here.

Q. Okay. So have you had any discussions with your counsel about any concerns with --

A. Not in terms of legal concerns.

Q. Okay. Can you tell me what is the range of energy factors for storage water heaters?

A. For storage water heaters, it is .594 to .065.

Q. Okay. And what --

A. For --

Q. -- what's the basis for those numbers?
A. That is under the 2004 federal energy factor standards as set by the US government.
Q. And in your Schedule DH-1, page 6 of 10, if you don't mind turning there.
MR. BOUDREAU: Excuse me. What are we looking at?
MR. POSTON: DH-1.
THE WITNESS: Okay.
BY MR. POSTON:
Q. Down there you have note two and note three. In note two it says, The replacement hot water tank must have an energy factor rating of 0.62. And then for note three, the tankless hot water system must have an energy factor rating of 0.80. Do you mean when you say this, that the appliance must have at least -- must meet at least this number?
A. That is correct.
Q. Okay.
A. It would be that energy factor or greater in order to be eligible or qualify for the rebate -- rebate as it's proposed.
Q. And did your Direct Testimony describing the program anywhere establish a criteria that the replacement water heater be more efficient than the old water heater?
A. That criteria was not explicitly stated. It

is implicitly stated.

Q. Okay. And where is it implicitly --

A. The reason I --

Q. Go ahead.

A. The reason I say that it's implicitly stated is an energy factor of .062 ensures that the energy efficiency of the water heater would fall within the top 25 percent of all available water heaters in the marketplace today. Okay? 75 percent of the water heaters that are available in the market would fall below that .062.

So what I'm saying is that .062 or greater energy factor ensures that it's within the 25 percent of all available storage hot water tanks in the market today.

Q. Would you agree that it would be -- at least make things more clearer if it explicitly said in here that the replacement should actually be more efficient?

A. The only concern I would raise there is one of really confusing the customer. I think, you know, the intent of this program, given that it's a new program, is to keep its design very simple and very straightforward for our customers.

And I'm afraid that by -- you know, by specifying, you know, that their old heater's got to be less than really the current water heater of .062 or greater, we would be asking really that customer, number one, to do a lot of research. Because unless he's kept the original

documentation and the original work -- you know, paperwork associated with that hot water tank from 10, 15 years ago -- 15, 20 years ago, he may not know off the top of his head what that energy factor is.

So we would really be asking the customer at that point in time to undergo what I think is -- would be, you know, a research burden to that customer when, in fact, we've -- we've already ensured that they would be within the top quartile of all hot water storage tanks in the market available.

MR. POSTON: Thank you. That's all I have.

JUDGE JONES: Commissioner Murray?

COMMISSIONER MURRAY: I don't have any questions. Thank you.

JUDGE JONES: Commissioner Gaw?

COMMISSIONER GAW: Thank you.

COMMISSIONER GAW: Does Commissioner Appling have any? I'll -- if he wants to get some out of the way, then I can --

QUESTIONS BY COMMISSIONER APPLING:

Q. And I'm sorry. I just walked in here and I kind of missed what you had to say. Tell me who you are again, I'm sorry.

A. My name's David Hendershot.

Q. And you're with?

A. I'm with Missouri Gas Energy. I'm manager of business support services, sir.

Q. And you was talking about hot water heaters?

A. It is a proposal that we have made in this case, yes, sir.

Q. Okay. Well, hot water heaters are good things, because I've had to change out a whole lot of them over the last few years. I own a lot of property so I've had some real dealing with hot water heaters, but I'm going to leave it at that. By the time Commissioner Gaw finished, maybe I'll have come up with something else to ask you.

COMMISSIONER APPLING: Okay. Thank you. I had kind of anticipated he'll take us up to six o'clock.

COMMISSIONER GAW: I'm going to try not to.

THE WITNESS: I'm in good shape time-wise.

QUESTIONS BY COMMISSIONER GAW:

Q. Okay. First of all, what do you -- what portion of your job duties with MGE pertain to promoting conservation and efficiency?

A. This is a new initiative, as I mentioned, both for the company I guess as well as really for myself. In my current duties conservation-wise currently up until the last few months, when I began work on this project, I would say none.

Q. Is there anyone else in the company that's

dedicated to that purpose?

A. Not totally dedicated to it. Certainly the weatherization program and the coordination of that weather program. But in terms of someone who is full-time that does nothing but conservation programs within Missouri Gas Energy, not that I'm aware of, sir.

Q. And the weatherization program, are those people that work on that mainly just dealing with the administration of the program on MGE's part?

A. That's my understanding of it.

Q. So there's not really been anybody that's there trying to work on initiatives or conservation that are outside the scope of that particular program?

A. Not that I'm aware of, sir.

Q. And in this role that you have -- that you've been working on for this case, how many seminars have you attended that talk about conservation, weatherization program as a central theme?

A. I have spent much of the last four months doing research, you know, with regard to conservation and -- and these types of initiatives, looking at really other companies, other utilities that have existing programs out there. I've also attended a -- a seminar regarding the tax credits on the tankless systems that we have proposed as well.

Q. Okay. But as far as seminars are concerned,

which was my question, I think --

A. Yes.

Q. -- seminars are concerned relating to conservation and efficiency and presentation of programs about those kinds of things and seminars of that sort, you've attended one?

A. I've done one on the tankless systems as they relate to the tax credits. That -- that would be all, sir.

Q. Okay. And the investigation that you testified that you have done, has that been done in concert with others that -- that may have assisted you in that regard or has it been just you doing individual research?

A. It has been primarily individual research. Certainly I've solicited and utilized the resources really, you know, within my office as --

Q. Okay.

A. -- some assistance, but it's been really independent research.

Q. So have you done -- have you been out working with any of the associations or governmental agencies that do primarily, as a part of their function, work on conservation and efficiency?

A. Outside of the office at this point in time, no, sir.

Q. Okay. Okay. Let's talk about your research.

A. Okay.

Q. Tell me what research you have done where you looked for your ideas.

A. We have looked in detail within the industry at quite a number of different sites, including Peoples Gas, New England Gas, Atlanta Gas Light, Puget Sound, Laclede and others as well as a number of federal agencies.

Q. Are you done? I'm sorry. I was looking down writing.

A. Yes, sir.

Q. This research that you did, was it looking at documents from these entities or --

A. No. We looked at --

Q. -- talking to people?

A. Sure. Sorry. We looked at the types of programs that they had. Most of them -- you know, one thing that you found common between them I guess was really typically an educational component and then really some type of maybe incentive for the end-user co-- consumer in terms of really those conservation initiatives. We looked at such things as the type of rebates, the amount of the rebates, the program criteria and those types of factors.

Q. Now, this research that you did, was it before or after the proposal was made by MGE in this case?

A. I don't know as I can speak to that. I can

tell you that I began my research approximately four months ago.

Q. And four months ago, was the testimony already filed in this case regarding the proposal for conservation efficiency program?

A. I don't know. My testimony was not.

Q. Were you the one that introduced this proposal into this case?

A. No. I was asked really to -- to research really the con-- the conservation initiatives on behalf of the company.

Q. So, in essence, your role in doing the research was to support the proposal from MGE, wasn't it?

A. I'm not sure on the timing, as I said, sir.

Q. Okay. While you were doing your research, did you look at a broad range of conservation and efficiency programs or did you primarily focus on education programs and rebate programs for water heaters?

A. No. It -- you know, I mentioned quite a number of companies here that -- that we took a detailed look at.

Q. Okay.

A. And we looked at really the -- tried to look at the -- the complete conservation initiative really that they were offering there, both the educational component of it

as well as any incentives that they may have had.

Q. The companies that you chose to look at, why were they selected?

A. Number of reasons. I think, you know, part of it -- well, first of all, one -- obviously one of the first pieces of criteria is they had a conservation initiative. Because you'd be amazed at, you know, how many companies are out there in today's day and age really that there's little or no information out there, you know, as it relates to really conservation.

Q. So how did you find out --

A. Through research --

Q. -- what companies were offering conservation programs?

A. Through research and really just turning over a lot of rocks and doing a lot of digging.

Q. Were there other companies that did have conservation programs that you did not look in depth --

A. I'm sure there probably are.

Q. Did you look in depth at all of them that you discovered had conservation programs or just certain ones that you found?

A. I would say that certainly the vast majority that we found with conservation we took a fairly detailed look at.

Q. Okay. Let's talk a little bit about what you found out there.

A. Sure.

Q. Give me some ideas, aside from what's being proposed in this case of some things that are out there that you discovered.

A. You know, as they say, most all of them really had an educational component that was really a unique characteristic between a majority of them.

Q. Let's skip the education portion right now. Just talk about the other things that weren't a part of your proposal.

A. Some of them would have hot water incentive rebate type programs. Some would have --

Q. When you say hot water incentives, is that a hot water heater program?

A. Yes, sir. I'm talking hot water storage tanks and/or tankless heaters in terms of hot water. Some of them really would have furnace rebate type programs. Some would have other gas appliance incentives as well. Everything from, you know, cooking ranges to other gas appliances.

Q. Did you look at any Pay As You Save programs or similar programs?

A. Not in detail, no, sir.

Q. Is that because they -- none of the companies

you looked at had them or you just didn't look any further?

A. I was not specifically looking for Pay As You Save type programs.

Q. Why not?

A. My understanding is that Missouri Gas Energy really does not want to pursue a -- a Pay As You Save type program.

Q. Okay.

A. Due to -- I'm sorry.

Q. So if you were told that -- you were told that by somebody in the company that Pay As You Save program was not something you needed to look at?

A. I'd say that's correct, yeah.

Q. Were there other things that you were told as conservation efficiency programs not to waste your time looking at?

A. Not specifically that I can think of.

Q. Just that program particularly?

A. And I'm not sure that it was directly said that not to look at -- at really the PAYS. You know, the conversation that we had though was that the administrative burden, you know, associated with a Pay As You Save program was such that the company really did not want to entertain heading in that direction.

Q. Okay. What other direction were you given

about not looking at conservation efficiency programs?

A. I can't think of any.

Q. So that one in particular was -- you were told was off the table?

A. We had -- we had made a decision that we were not going to pursue a Pay As You Save type program.

Q. Who made that decision when you say "we"?

A. Well, I've had a number of conversations with Pam Levetzow, who is my direct boss, as well as Rob Hack and others there within the company.

Q. Okay. So you can't discuss the Pay As You Save program really because you didn't look into it, did you?

A. From what -- from what I know of it, I --

Q. Well, can you answer my question first? Can you discuss it?

A. Can I discuss it?

Q. Yes. Do you have knowledge about the program?

A. No one has told me not to discuss Pay As You Save.

Q. That's not what I'm asking.

A. Okay.

Q. Are you able to discuss it in detail based upon your knowledge of it?

A. I have limited knowledge of it.

Q. Okay. Okay. Let's talk about other programs

then. That's where I was headed earlier.

A. Okay.

Q. What other programs are out there other than the ones that you have in this proposal? You've mentioned the furnace rebate program.

A. Right.

Q. Okay. How many companies had a program like that, approximately, if you know, that you looked at?

A. I would say half a dozen.

Q. Okay. And were they similar to the water rebate -- water heater rebate program or --

A. I mean, there was a fairly wide range in terms of really the types of programs out there. Both really -- the rebate, the incentive amounts as well as really a lot of the program criteria.

Q. Okay.

A. So there was -- there was a fairly substantial range.

Q. All right. And what kind of -- give me an idea when you say "range," generally what that means.

A. It would range in terms of, say, rebate amounts from, you know -- you know, maybe a hundred dollars up to several hundred dollars or more, you know.

Q. When you say more -- when you say "several hundred dollars or more," I assume you mean up above thousand

dollars?

A. No. I don't know as I saw that any above -- at a thousand dollars or more.

Q. Okay. I just want -- I'm trying to find out what that range really means.

A. Yeah.

Q. So several hundred dollars you might mean 6-, 700 dollars?

A. Sure.

Q. More than that? Did you see any more than that?

A. Not that I can think of off the top of my head.

Q. Okay. And did they use an efficiency rating on the furnace before they qualified for --

A. They did typically.

Q. Okay. And MGE -- I think in your testimony you say something about MGE decided not to utilize that as a part of their proposal. Correct?

A. Currently we have not proposed furnace incentive program.

Q. Is MGE opposed to that?

A. I don't know as the company's opposed to it. I think initially we need really some initiatives that we can gain some experience since this is a new initiative and gain

some successes, evaluate those successes and then make determinations in the future as to where we go with it.

Q. Tell me how you do that.

A. I think that you really start with something such as what's being proposed here with a high probability of success.

Q. Have you had a water heater program in the past?

A. We have not that I'm aware of, sir.

Q. Are you aware of other companies in Missouri that have?

A. I know Laclede has one for commercial customers, but not in the residential segment.

Q. Do you know whether Ameren has?

A. Not on the water heaters that I'm aware of, sir.

Q. They have a furnace program though, don't they?

A. Yes, sir, they do.

Q. Did you look at that?

A. I did.

Q. Did you believe that that program has been a success or a failure, do you know?

A. You know what? I'm not sure. I don't know as I could really speak to the success or failure of the program.

Q. How do you know whether a program has been successful or not?

A. I think you set some benchmarks, you set some key measurements on the front end and then you evaluate it over a period of time.

Q. What kind of benchmarks?

A. Oh, we've not really set those benchmarks at this point in time in the current case, but I think that we would want to look at really the -- the number of rebates, the type of rebates, the participation rates, the -- the distribution by rebate types, those -- those types of measures.

Q. So if a program were set up and over the course of the time that it was in use, all of the money set up for the rebate program was utilized and, in fact, perhaps there was even more demand than what there was money for the program, would you say that would have been a successful program generally?

A. Me personally? I would take that as one measurement of success.

Q. Okay. And if that were true in the Ameren furnace program over the scope of the time it's been in effect, would you say that would be an indication that it, at least according to that benchmark, appears to be successful?

A. I think it would be one indicator.

Q. Okay. Any other benchmarks you want to mention?

A. You know, as -- as I say, you know, we're very early on in this program. There's a great deal of work to be done here. And they certainly have not been finalized at this point in time.

Q. Is there a -- is there any kind of a measure of dollars per efficiency gained that you know of that gives us a value of investment of dollars for an efficiency program or in a particular -- for a particular product?

A. Yeah, I don't know the specifics of it and I don't know as I can really talk in detail as to it, but I have heard of some efficiency measures, you know, as it relates to really, you know, revenues or -- or other measures.

Q. Okay. I was going to ask you if you knew whether or not there would be some similar comparison of dollars invested in moving toward efficient water heaters as compared to moving toward efficient furnaces or something like that -- something similar to that.

A. Yeah, I don't know.

Q. That's fine. Okay. We've kind of explored the furnace thing. Tell me what else you saw out there that companies have for efficiency conservation programs other than education programs.

A. Energy models, you know, are a big piece of

it.

Q. Tell me what that means.

A. Well, what that is, we talked a little bit about it earlier in this testimony here. You know, where a consumer or customer can really do a self-audit of -- if you will, in terms of really trying to find the strengths or weaknesses of his or her home and trying to also find energy efficiency improvements, suggestions, cost effective, you know, suggestions that they may want to consider.

Q. So this is just sort of an assessment of things that might improve the efficiency in their residential business. Correct?

A. Correct.

Q. But these kinds of programs don't go beyond that that you're talking about and actually offer incentives to implement whatever that audit produces?

A. They're more -- informationally based.

Q. Did you find any programs that actually offered such incentives?

A. Tied to the audit itself, sir?

Q. Yes.

A. Not that I can -- not that I can think of. Not that I'm aware of.

Q. Does MGE oppose putting in incentives if there were certain efficiencies that would be gleaned from such an

audit?

A. Honestly, I don't know as it's something that's been considered to this point in time.

Q. Okay. Anything else out there that you found that companies have been doing along the efficiency conservation line?

A. Not that I can think of.

Q. Okay. But, again, you haven't attended any real -- any significant number -- more than one seminar to explore the kinds of concepts that different groups are in favor of conservation and efficiency may be trying to promote or educate companies and regulators and other people, policymakers on?

A. To this point in time, it was the one seminar and it was sponsored through the -- through the weatherization program and really through H&R Block. And it specifically centered around really the -- the federal tax credits.

Q. Okay. So it really was about the -- more of the tax implications?

A. It specifically dealt with the tax credits associated -- you know, and it was really in a much broader seminar. But portions of that and the reason why I attended it was obviously specifically as it related to the tankless hot water systems and the federal tax credits available there.

Q. And was there anyone else in the company that

might have done extensive research on possible conservation and efficiency programs that could be explored by MGE or offered for consideration by this Commission other than what you've done?

A. No. I think there's been one of a number of individuals who have -- have probably, you know, worked on some -- some conservation. How extensive, I don't know as I can really speak to it.

Q. Were they involved -- these people, were they involved in presenting the proposals of MGE in this case for conservation and efficiency programs?

A. My boss, Pam Levetzow, I've had a number of conversations with her, you know, in regards to really the energy conservation proposal at hand here.

Q. So she may have attended a lot of seminars?

A. I don't know if she's necessarily -- I have no knowledge of any seminars that she has attended, sir.

Q. Okay. She's not a witness here, is she?

A. She is not that I'm aware of.

Q. Are you familiar with solar water heaters?

A. I know they were quite popular some years back, fell out of favor and I know that there have been some renewed interest in them. I also know that there are some tax credits -- some federal tax credits available with some fairly stringent, you know, criteria associated with them. But,

yeah, I'm a little bit familiar with them, sir.

Q. Would they qualify for the rebate program in this proposal MGE has?

A. No. Currently --

Q. Is there --

A. -- we have --

Q. Are they not as efficient as the -- those that you are proposing qualify for the program?

A. Honestly, my research has been limited to gas hot water and gas conservation programs and really has not gone outside the realm in terms of other fields.

Q. Was that your choice or did someone tell you that's what you should --

A. At this point in time I've had my hands full just trying to get up to speed on this piece of it.

Q. But was there a reason why you limited it to just gas?

A. At this point, resources. I mean, you know, it's -- it's really --

Q. But why does that cause you to limit your -- what you're looking at? I mean, sometimes it takes extra effort to eliminate possibilities --

A. Because --

Q. -- just as it does to include them.

A. Sure. You know, we're trying to assist our

customer in their conservation efforts of really the natural gas commodity that we provide. And --

Q. And if you go to -- if you go to a rate here which is not fluctuating according to usage for the income for the company, certainly very little impact if a consumer decides that their gas is not going to be -- that their water heater is not going to be gas but electric so long as they don't cut off from the gas entirely, I guess?

A. I'm not sure I follow the question, sir.

Q. Well, if you go to a rate for residential customers that is insulated from volumetric component --

A. Uh-huh.

Q. -- then does the company care whether or not they're using gas as opposed to another water heater that is electric or solar as long as it's more efficient?

A. I'm not sure that I'm qualified to really answer that question. I don't know.

COMMISSIONER GAW: Okay. Thank you, sir.

JUDGE JONES: Any recross from the Staff of the Commission?

MR. FRANSON: Briefly, your Honor.

JUDGE JONES: Go right ahead.

RECROSS-EXAMINATION BY MR. FRANSON:

Q. Mr. Hendershot, you mentioned the name Pam Levetzow?

A. Levetzow.
Q. Levetzow. Is she your immediate supervisor?
A. She is.
Q. How do you spell her last name?
A. L-e-v-i-t-z-o-w [sic].
Q. I was hoping you would know because --
A. Okay. L-e-v--
Q. Okay. Thank you. Now, as part of this program, is MGE willing to work with Staff, Office of Public Counsel, the City of Kansas City and any other interested parties as part of a collaborative to implement the programs that MGE has proposed? On the fine details is what I'm talking about.
A. Sure. I think so. You know, certainly in terms of the establishment of the benchmarks that we've mentioned here the -- you know, the evaluation of it and -- and the program, sure.
Q. Okay. And you're already planning that there will be some type of assessment of the success of the program as it goes forward; is that correct?
A. Absolutely.
MR. FRANSON: No further questions, your Honor.
JUDGE JONES: Any recross from the Office of Public Counsel?

MR. POSTON: Just a few.

RECROSS-EXAMINATION BY MR. POSTON:

Q. Are there any reporting requirements in the proposal to allow the Commission, the Commission Staff or Public Counsel to track the success of the program?

A. I think we would be willing to really share really the key measurements that were developed.

Q. Well, that's not in the proposal. Correct?

A. Yeah. I don't think the company would really, you know, take exception to, you know, or have a problem with sharing their results of the program.

Q. And would you agree that the only measurement of the program's success is whether all the funds are spent?

A. No.

Q. Could you turn to Schedule DH-2, please, page 2 of 2?

A. Two of two. Okay.

Q. Down at the bottom there's section 4, Program Success Measurements?

A. Right.

Q. Will you please read that first sentence?

A. Program shall be deemed successful by the complete expenditure of all funds allocated to the program by the PSC. Success of this program will allow for energy conservation as well as environmental improvement.

MR. POSTON: Thank you. That's all I have.
JUDGE JONES: Any redirect from Missouri Gas Energy?
MR. BOUDREAU: I have no questions. Thank you.
JUDGE JONES: Thank you, sir. You may be excused.
Call your next witness.
MR. BOUDREAU: Yes. I'd like to call Michael Noack to the stand, please.
JUDGE JONES: Mr. Noack, have a seat. You've been sworn in, you remain under oath, your testimony's been admitted into the record. So we'll move right into cross-examination by Staff for the Commission, whenever you're ready, Mr. Franson.
MICHAEL NOACK testified as follows:
CROSS-EXAMINATION BY MR. FRANSON:
Q. Mr. Noack, did you have any testimony on this issue other than the proposed financing of it through rates?
A. No. My primary job is to include it in the revenue requirement.
MR. FRANSON: No further questions, your Honor.
JUDGE JONES: Okay. Any cross from Office of Public Counsel?

MR. POSTON: No questions.

JUDGE JONES: Commissioner Appling, any questions of Mr. Noack?

QUESTIONS BY COMMISSIONER APPLING:

Q. I was hoping somebody was going to hang around since you're such an important guy and get you warmed up for me, but I guess everybody's escaped through the back door.

A. Tomorrow I'll be around all day.

Q. Okay. So I can go home and write down some things for you tomorrow?

A. Absolutely.

Q. Mr. Noack, you and I have talked a long time about energy, gas and all that. We've had some conversations in the past long before we came to this rate hearing.

A. That's correct.

Q. There's a lot of talk about -- and I asked this morning to one of your colleagues this morning. There's a lot of talk about, for lack of a better word, disadvantaging people in low-income areas, there's a lot of talk about conservation, there's a lot of talk about doing something for the environment and all that, which is a part of your business and something you all have to think about on a daily basis.

A. That's true.

Q. I suppose my only question to you would be today, in looking at your complete proposal here, do you feel

that you're giving us your best shot here --

A. Yes.

Q. -- I mean -- I mean the total caboodle here of what you all are proposing? And what you're telling me here in order to give us a chance to -- and I know this is a difficult question. It is not really a question. I'm just talking because I want to hear what you have to say about this before you go away and somewhere soon I'm going to have to make a decision on whether I support you or not support you or whether I support Staff or don't support Staff or whatever the case is. So talk to me a little bit about what make you feel that this proposal is okay.

A. Well, probably the hardest -- hardest thing for myself in filing a rate increase -- for a rate increase like this and for the company is to weigh the benefits and what's going to happen to both customers, shareholders, employees. It's -- it's the whole package.

And this is -- gosh, I mean, my third rate case now with MGE. I don't think anyone had ever done more than one before they had to leave so I'm really in unchartered waters, but --

Q. Or you just like punishment, whichever one of those it is.

A. They like to punish me and, yeah, I like to take it, right.

Q. Okay. Thank you.

A. But through each one of these rate cases, you know, we have gotten to a level where we thought that, you know, we would hopefully earn our return and we just haven't been able to do so.

So with this case, we -- we presented the rate design, the straight fixed variable rate design for the residential class that would allow us to -- to earn our return, to stay out where we wouldn't have to come in for a rate case every two to three years.

And as part of that, for the customer, we have suggested, you know, an increase to the weatherization funding, we've offered up this energy conservation program, the water heat rebate program, etc.

And -- and along with it also, which I don't think anybody's really mentioned, in the true-up testimony that I presented to the Commission on page 2. I've -- I've also offered that if the Commission approves the straight fixed variable rate design proposed by MGE and endorsed by the Staff, we're offering a million dollar decrease to our revenue requirement, which I guess you can say, you know, the million dollars is not coming out of the shareholder pockets directly to pay for these programs, but by lowering the return requirement by a million dollars, it really is coming out of the shareholders' pocket. And we're going to take that and

we're going to use it for our -- you know, our conservation program, etc.

So I think, yes, we're trying to put forth our best shot here to weigh, you know, the interests of the customer, shareholder and -- and everyone else.

Q. I haven't completely looked at all the numbers and some of these case is not over, but the only thing I ask at this stage, and it will be my last question or comment. As we march down this yellow brick road to the end in making a decision on MGE as far as this rate increase is concerned, I'm asking you all, with no commitment, to take a look at is there something else that can be done here.

And, you know I'm one of those people that's always asking you to do that. Because I'm asking is there something else that you all can take a harder look at and see if something else can be done in this case here? Because the days of, another lack of a better term, of wine and roses is coming to a close here for not only MGE, but for other companies alike. There's a lot of eyes on you and I out here about where we go from here.

A. Well, Commissioner Appling, I think we're -- I'm willing and the company's willing to -- to look at, you know, whatever you would like for us to look at. I'm open to doing, you know, whatever we can within the limits of what we have to work with here to improve the process, yes. Yes, I

am.

Q. Okay. You know, I'm not -- I'm not up to speed on everything that I need to do, but I'm asking that. And I've come to you all before and asked for help in some other places and you did a couple of years ago when I asked you to ante up some -- for cold weather and all that stuff.

So I'm not opposed to doing that and I'm not opposed to trying to circumvent what Staff and OPC and everybody else is doing here. I'm just appealing to you as we march down the road. And if the answer at the end that we have stretched the wire as tight as we can stretch it, then I will accept that. The Commission will do that too. But I'm asking to you take -- as you march down the road and listen to what we're saying here, bear in mind that we're asking you to do for your very best here if you can.

A. Yes, sir.

Q. Okay. Thank you. Good to see you again.

COMMISSIONER APPLING: That's my final question.

THE WITNESS: I'll see you tomorrow.

COMMISSIONER APPLING: Well, I'll be looking at you tomorrow. Thank you.

JUDGE JONES: Any recross?

MR. FRANSON: Yes.

RECROSS-EXAMINATION BY MR. FRANSON:

Q. Mr. Noack, Commissioner Appling asked you some questions about -- and you mentioned during your answer the revenue requirement. Does that include some money for program evaluation in your proposal and then in your true-up? The revenue requirement for these programs, what is included in that?

A. Well, right now in the revenue requirement we've -- I've got built in $100,000 for the low-income weatherization program. But we've committed and in my testimony I've -- I've agreed to commit to 120-- or agree with Staff that the numbers should probably be $120,000 with that extra $20,000 being used to evaluate the program, if that's what you're asking.

Q. That's what I'm asking. The other question is, do you plan an evaluation every year?

A. Hopefully not. I mean, it would be something that I wouldn't think would have to be evaluated every year, so, no, that -- that money, if it's there, we -- could actually go into the program --

Q. Thank you.

A. -- when it's not being used for evaluation.

MR. FRANSON: Okay. Thank you. I don't have any further questions.

JUDGE JONES: Any recross from Office of the Public Counsel?

RECROSS-EXAMINATION BY MR. POSTON:

Q. The $20,000 you just mentioned, is that just to evaluate the weatherization program?

A. I believe that's -- that's what the -- the money is for. It's kind of a sharing with Kansas City Power & Light is what the Staff would like to do and, yes.

MR. POSTON: Thank you. That's all.

MR. BOUDREAU: Any redirect from Missouri Gas Energy?

MR. BOUDREAU: I have none. Thank you.

JUDGE JONES: Thank you, Mr. Noack. You may step down. I believe Commissioner Gaw may have questions, but I'm sure you'll be here for them. But we'll go ahead and move on in his absence.

MGE, will you call your next witness?

MR. BOUDREAU: I earlier had asked that Mr. Feingold be put on the stand to address both of those, so I have no further witnesses for MGE on this topic.

JUDGE JONES: All right. Staff of the Commission?

MR. FRANSON: Thank you, your Honor. And I'll call Anne Ross, but I'd like to do a brief opening on this.

JUDGE JONES: Go right ahead

MR. FRANSON: May I do it from here, your Honor?

JUDGE JONES: Yes.

MR. FRANSON: Okay. Judge, Staff's testimony by Ms. Ross does support the programs put forth by MGE. However, in some of the questions that we have been asking, I think Staff in addition to supporting that, looks at it as a collaborative.

There will be a process for Staff input, City of Kansas City, we've heard from Mr. Jackson, we heard from Mr. Hack that there are some fine details that will need to be worked out about the program and there will be other parties involved. And Staff, through Ms. Ross, would certainly welcome the opportunity to participate. And certainly other parties have been invited to do so in the past, including the Office of Public Counsel and I believe Mr. Hack indicated he would welcome their participation.

And certainly Staff might, in an ideal world, have some improvements in any question -- or some suggestions for improvements in the program. Any questions about that could be directed to Ms. Ross.

And with that being said, Judge, we would -- Staff would call Anne Ross.

JUDGE JONES: I believe you've been sworn in and all your testimony has been admitted into the record.

THE WITNESS: Yes.

JUDGE JONES: Go ahead and have a seat. We'll

have cross-examination by Missouri Gas Energy.

MR. BOUDREAU: Thank you.

ANNE ROSS testified as follows:

CROSS-EXAMINATION BY MR. BOUDREAU:

Q. Just one or two questions. These are in the nature of clarification. My greatest fear here is I'm just going to create more confusion, but I wanted to direct your attention to page 5 of your Rebuttal Testimony.

A. Okay. Yes.

Q. And I just kind of wanted to get my arms around what numbers we're talking about here, because I've looked at this a number of times. I want you to -- you have a statement down here on line 16 through 19 and I'll just read it, Staff supports MGE's proposal to increase the low-income weatherization funding by $100,000 and proposes an additional 20,000 to be allocated to evaluate the program's effectiveness, etc.

Do you see that?

A. Yes, I do.

Q. So I just want to make sure I understand this, because I've seen some numbers that cause me to believe that they're not all lining up the way I would have expected. But what we're talking about here and what you've suggested is $120,000 total additional funding?

A. Yes. That was our intent.

MR. BOUDREAU: And that's the only question I had. Thank you very much.

JUDGE JONES: Do we have any cross-examination from the Office of Public Counsel?

MR. POSTON: No, thank you.

JUDGE JONES: Commissioner Appling?

QUESTIONS BY COMMISSIONER APPLING:

Q. Hi, Anne.

A. Hello.

Q. So good to see you back so quick.

A. I'm delighted.

Q. You're delighted. Huh? I bet you are.

But anyway, MGE just asked you a question a second ago about 100 versus 120,000. Would you clarify -- back just a little bit and clarify that question for me?

A. Yes. It's been several years since the MGE low-income weatherization program was evaluated. This seemed like a good time to ask that it be done again. Because we're not asking them to do the evaluation on their own, but we're hoping that they can collaborate, piggyback, whatever on the Kansas City Power & Light evaluation, I think. Yes.

Q. Were you asking for additional funds to do that?

A. Yes.

Q. And how much are you asking?

A. That's the 20,000.
Q. Another 20,000?
A. Yes.
Q. To be added onto the 100,000 --
A. Yes.
Q. -- or the 45,000 that they're giving?
A. No, to be added onto the 20,000 because it would be an evaluation of the --
Q. Why are you not asking for $50,000 instead of --
A. We -- I talked to some people on Staff that had been working with the Kansas City Power & Light case and -- and 20,000 was the number that they suggested.
Q. Thank you very much.
COMMISSIONER APPLING: And, Judge, that's my final question. Thank you.
QUESTIONS BY JUDGE JONES:
Q. Okay. It seems like I had a question. Oh, the money that's used to -- the low-income weatherization is for people who need help in Kansas City. Right?
A. Kansas City, St. Joe and Joplin. They --
Q. And -- go ahead.
A. I was just going to say, part of the money goes to all of the districts.
Q. Okay. And that money comes from ratepayers?

A. Yes, it does.
Q. Does it come from ratepayers throughout MGE's service territory or does it come from ratepayers just in those areas that will be served?
A. Well, that's one and the same. They -- the money can be used for customers system-wide --
Q. Okay.
A. -- which is where --
Q. Those are just the centers?
A. Yes.
Q. Kansas City --
A. Yeah. That's just what we call the districts.
Q. I understand.
JUDGE JONES: Okay. I don't have anything else.
Any recross from MGE?
MR. BOUDREAU: None, thank you.
JUDGE JONES: Office of Public Counsel?
MR. POSTON: Just two.
RECROSS-EXAMINATION BY MR. POSTON:
Q. Would you agree the weatherization program is a success?
A. Yes, I would.
Q. If it's a success, then why would we need 20,000 for evaluation?

A. Well, because I think we need a third party to look at it and determine that it's a success. I'm basically looking at anecdotal evidence and --

JUDGE JONES: What does that mean? What does anecdotal mean?

THE WITNESS: I've been told that the program's going well, that is successful by Bob Jackson. I have no reason to doubt him, but I think it would be more useful to get it from a third party.

MR. POSTON: That's all. Thank you.

JUDGE JONES: Any redirect? I'm sorry, recross from Missouri Gas Energy? Did I already ask you?

MR. BOUDREAU: You did, but that's fine.

JUDGE JONES: You said no.

Any redirect from Staff?

REDIRECT EXAMINATION BY MR. FRANSON:

Q. Ms. Ross, there's been a question about evaluations. Is there any money specifically proposed by MGE or anyone else that would go toward the evaluation of the water heater and the education program determining those -- whether those are successful or not if they are, in fact, implemented?

A. I don't believe that there was any amount specifically earmarked for evaluation of that program.

Q. Would you recommend that an evaluation be done

of the programs?

A. I think that we should be -- we should be looking at the program frequently, every six months, every year like we do the UE program. As far as a third-party evaluation, I wouldn't suggest doing that every six months. That might be more appropriate two or three years down the road.

MR. FRANSON: With that, your Honor, I don't believe I have any further questions.

JUDGE JONES: Thank you, Ms. Ross. You may step down.

And now we'll have OPC present its witness.

MR. POSTON: Thank you, Judge. I don't have any opening remarks. Call Barbara Meisenheimer.

JUDGE JONES: Okay. We'll have cross-examination from the Staff of the Commission. Mr. Franson, go ahead.

MR. FRANSON: Thank you, your Honor.

BARBARA MEISENHEIMER testified as follows:

CROSS-EXAMINATION BY MR. FRANSON:

Q. Ms. Meisenheimer, isn't it true that the Office of Public Counsel did not propose any specific energy conservation programs in this case?

A. Not in this case. In the last case, we did.

Q. Okay. Thank you. Now, in fact, isn't it fair

to say that your testimony contains criticisms of MGE's program; is that correct?

A. Yes.

Q. Is --

A. And questions about the program.

Q. Okay. Thank you. Now, isn't it true also that you were a witness on rate design in this case?

A. Yes.

Q. And isn't it fair to say that one of your concerns about the rate design proposed by MGE and Staff is that it doesn't contain a specific program for energy conservation?

A. That's -- that's related to our concerns about straight fixed variable, yes.

Q. Okay. You're not an attorney, are you?

A. No.

MR. FRANSON: No further questions, your Honor.

JUDGE JONES: Any cross-examination from Missouri Gas Energy?

MR. BOUDREAU: I have none. Thank you.

JUDGE JONES: Commissioner Appling, do you have questions?

QUESTIONS BY COMMISSIONER APPLING:

Q. Barb, how are you doing?

A. I'm fine. How are you?

Q. Why don't you tick off for me your major criticisms of MGE's program? We don't need a dissertation, but I just want to just run down the list right quick for me again. And who else would you suggest pay for some of this other than the ratepayers?

A. Well, in another case, a company put up money to fund a water heating and en-- and furnace rebate program. I worked on that. That was --

Q. And evaluations and --

A. Yes. And ongoing reporting to the Staff and the Public Counsel. At this -- the list of concerns, and I'll try to be brief, these are set out as four points in my testimony actually and I have a summary with a couple of other things that we had more questions about.

We think there needs to be a broader approach to looking at what it is that's going to save customers the most money. If you're going to take money out of customers' pockets to fund a conservation program, I think you need to do it in terms of looking at what's going to get them the most bang for the buck.

And a space heating program is certainly going to be something that affects a large proportion of customers' expenditures on energy. So, you know, one concern we had is why isn't this program including something having to do with

furnaces? Because that's where a lot of people's money goes to pay for energy.

A second one is that this program is tied to -- it's kind of all or nothing it seems like. The company will give this program where they're spending ratepayer money to fund it as long as they get a full decoupling that completely separates the revenue that they get from the -- from weather. So they want full weather mitigation in exchange for this.

It's not a step toward, you know, what they would like most. Instead it's you give us everything we want and we'll give you a program that covers only a portion of customer expenditures. So that's kind of a concern.

I don't think that the company provides enough information about what their proposal is or that there -- there's a -- that the program is cost effective enough. There are rules set out by the Commission. The Commission has rules in Chapter 3 and Chapter 14 that deal with promotional practices that companies are supposed to comply with.

Their rules are different from experimental or pilot programs than they are for programs that are offered on an ongoing basis. The company seems more willing to make this an experimental program but that's not how it's described in the testimony of their witness.

And it makes a big difference. Because let's

say that you approve a program that is experimental and it ends on a certain date. Well, the company still continues to collect $705,000 a year from customers to pay for a program. If it ends, do the customers get the money back? Where does the money go? $705,000 is a lot of customer money.

There -- if it is longer than an experimental program, if it's an ongoing program, then there are requirements that demonstrate that it's a cost effective program in terms of, if you will, showing that the company actually has a savings relative to the cost of the program. So their criteria -- and they're set out in Chapter 3 and Chapter 14 and I won't go through all of them to limit that dissertation.

The -- I think that it would have helped a lot if this program had been offered in Direct Testimony. I mean, you heard that at least one company witness has been looking at this for four months. I -- it would have been really helpful if they had, you know, proposed this sooner than Rebuttal Testimony so that we would have had time -- more time to hash through these issues.

I mean, I think it's great to try and get input from all parties. I think that's a good thing to do, but, you know, that requires resources being devoted by all parties, including our office. We have two economists and, you know, we want to participate in these things, we want to

help develop them, we want to have input and I think you get a better product if you have more input.

And that -- that covers the basic list of concerns that I had. I also in my testimony point out what are some things -- how does this program different -- differ a little bit from the other one that I worked on, which was that Southern Missouri Gas. Southern Missouri Gas required that you put in a better water heater than the one you're replacing, a more efficient water heater than the one you're replacing.

In the company's proposal -- and that's why we tried to get more information on what the company's intent was -- the way I read what they've got in their testimony, you could replace a water heater with a less efficient water heater in terms of the energy factor and still get the rebate.

And I'm not sure, you know, when there's -- it's not tied to any standard in terms of energy efficiency, some recognized like Energy Star. How do we know that that's truly -- how do you we know that truly benefits conservation or promotes conservation? And I'll stop there.

Q. Thank you for your information. I'm still looking for some information. And the reason I asked you the question, to give us Mr. Noack a few things that he can continue to look at as we go down the road and maybe take another shot at looking at some of the things that the company

can do to help this program. And that's the reason I asked you these questions because there are some things that I feel too that they can do here. Thank you very much.

A. In the last -- and I don't know if you're interested in a proposal that both Public Counsel and Staff supported by the end of the last case, last MGE case?

Q. I don't know what the status of getting that information before me, but I'm interested in looking at whatever I can in order to help this program out as much as I can. Okay?

A. Okay.

COMMISSIONER APPLING: Thank you. Thank you.

JUDGE JONES: Commissioner Gaw?

QUESTIONS BY COMMISSIONER GAW:

Q. What was that proposal in the last case?

A. That proposal in the last case was the PAYS program. And we went through a number of rounds, hashed out a number of issues, some concerns that the Staff had. The program kind of -- the proposal changed over time through the course of input from the Staff.

And ultimately where we ended up in that case I believe was that the Staff supported doing a pilot program for PAYS. The company opposed it. The Commission did not require it even though it said that they had -- they had an interest in it. And --

Q. Something like, The Commission is interested in further consideration and development of the PAYS program. Does that sound like a quote from that order?

A. It does. I have that order and I trust that you're reading from your own order correctly.

Q. Well, we can look at -- if you have a copy of it, why don't you just take a look and see if that's correct. Like on page 66 perhaps of that order.

A. Yes. That is what is in the order on page 66.

Q. And since that rate case -- by the way, when was that rate case?

A. The number -- the number for the -- the effective date was October 2nd of 2004 of the Report and Order.

Q. And since that rate case, have you noticed any additional work by the company on the PAYS program?

A. No.

Q. So the Commission's interest has been ignored. Is that what I can take from that? Or I guess I can ask the company that question.

A. That would probably be -- be better asked of them.

Q. But you haven't seen any level of interest in this program expressed by the company in any of the discussion that you've had?

A. No.

Q. Did anyone from Staff in this case propose some additional work on the PAYS program or having some similar program as a conservation program?

A. No.

Q. I think we've talked a bit with other witnesses about what the PAYS program or a similar program is, but just generally, you might describe it.

A. Okay. The PAYS program is a program that is designed to assist customers with the up front cost of installing efficiency measures in their home. Other programs might -- might include measures -- or measures included in programs might include things like furnaces or water heaters or other types of efficiency measures, insulation, things like that.

And the customer then repays on their bills, their monthly bills, the cost of those efficiency measures. And the reason that it is called PAYS, which stands for Pay As You Save, is that for the target products that are approved for the PAYS program are intended to be ones where the customer would actually save more than the cost of paying for the measure.

Q. And, in essence, the monthly bill would not be more than what it was before, including the amount of the loan that you're paying back for the improvements?

A. That's -- that's correct, yes.
Q. Because the thought is the bill should come down a certain level because of the efficiencies put into the residence or whatever the entity is?
A. Yes.
Q. And then that differential between the new bill and the old bill gives you room to put in an amount for the amortization of the loan for the improvements?
A. Yes.
Q. Does Public Counsel still support the Pay As You Save concept?
A. Yes, we do support the concept.
Q. Would you support it in this case?
A. Yes.
Q. I assume it would depend somewhat on how it was paid for and how it was set up?
A. I mean, there's -- there would be work to do since it is not been brought forward yet in this case.
Q. Was there a specific proposal by Public Counsel for that program to be implemented in the last rate case?
A. Yes.
Q. Do you recall how that was to be done, just generally?
A. Well, originally the -- the proposal I think

was a little broader than what -- that what we ultimately ended up with. And that was because of very helpful input by Henry Warren of the Staff.

Q. Okay.

A. And ultimately where we ended up and Henry, I believe, was the witness on that issue from the Staff. And that the proposal ended up as limited funding for a pilot program. So it would be temporary, expen-- experimental, there would be evaluation of the success of the program.

Q. Who paid for that program under the proposal?

A. That program would be paid for -- the pool of money -- it would create a pool of money from which customers could -- could get loans to -- to implement the efficiency. And that would be funded -- our proposal was that it be funded by ratepayers.

Q. Okay. I'm going to ask you the same question I asked earlier in regard to your background on learning about efficiency and conservation programs. Can you give me a little bit of an idea about what that is?

A. My background I guess goes back now to some time prior before -- or prior to that last rate case, the GR-2004-0209. We were discussing that, you know, Public Counsel wanted to come forward with some positive proposals to promote conservation. And in our office, we have -- we have a decent amount of autonomy in terms of the work that we do, so

pretty much Doug Micheel and myself focused on reviewing issues for gas.

Now, I should reasonably say that prior to that time, Ryan Kind in our office had worked extensively, I think, in reviewing various programs across the country so I kind of took the lead from him. I know that he had had many discussions with Henry Warren in other settings. And so I think there's a group of people between Public Counsel and the Staff that had focused on looking at those issues and I followed along.

I looked at programs across the country. Some -- you know, I certainly went out and looked for what is the PAYS program and where is it available. I also looked at other types of programs that were available at that time, a variety of programs across states and did -- you know, that's been a couple of years ago.

Q. Have you done much research since then on the issue?

A. For this particular case, I primarily focused on researching conservation related to the Energy Star designation and to -- in particular, things related to the proposed water heating program when that -- when that arose to try and find out whether -- you know, whether I felt that that made sense in terms of being cost effective.

Q. Okay. Is there anyone that you know of that's

a witness in that case that has extensive background in -- and knowledge in conservation programs, efficiency programs that are implemented by utilities around the country in the sense that they go to seminars, they have, as a part of their job, studying what programs are working, what programs are not working, how those programs are put together?

A. It's my opinion that there is no one testifying in this case that has the daily contact with those types of programs that would probably most benefit the Commission to -- to get an understanding of -- for example, in the -- when we did the -- we have in the past -- our office in the past has had outside consultants that -- that put together information from across the country on a particular issue.

I mean, I -- I have some -- some knowledge, but I would not say that I'm familiar with what's going on in a detailed way in other states and, thus far, have not heard any witness that sounds like they do.

Q. Do you know of any programs in those that you have looked at where the company has actually put in money in addition to ratepayer money toward a conservation effort?

A. Well, as -- as my testimony discusses, there is a company in Missouri that actually put up money that I believe helps in one -- or in one type of area, that is with the particular programs that they offer. On a broader scale --

Q. And that company is?

A. Well, the -- the Southern Missouri Gas has the furnace and water heater rebate program that I discuss in my testimony. Also it's my understanding that the Ameren program is a result of a settlement --

Q. Has some money in it that is not specifically ratepayer money?

A. Yes.

Q. And around the country, if you're familiar with it, do you know whether there are programs where the companies are contributing a part of the resources to the program? Or if you don't know, that's fine.

A. I don't know, but it wouldn't surprise me.

Q. And so far I haven't found a witness that can talk to me about this. So you don't have any to suggest so far that might be helpful to me?

A. Well, I mean you asked me about witnesses in this case. I -- I -- I think Ryan Kind has a lot of knowledge and he might be quite happy to come and speak to you about that. Henry Warren I think -- I don't know to what extent Henry's duties have taken him away from working in this area, but I know he was a witness on another issue -- briefly on another issue, but other than that, I -- I wouldn't be able to identify anyone.

COMMISSIONER GAW: Okay. I'm going to stop

now.

JUDGE JONES: Is there any recross?

MR. FRANSON: Yes.

JUDGE JONES: You got four minutes.

MR. FRANSON: That ought to do it.

RECROSS-EXAMINATION BY MR. FRANSON:

Q. Ms. Meisenheimer, the PAYS program you've talked about, we understand your testimony Staff and MGE apparently, at least to your knowledge, didn't do anything. Tell me everything OPC did to follow up to implement or proceed with the discussions about the PAYS program.

A. I -- I have raised this issue again in meetings since the time of that order and said that I would be quite happy to discuss that issue with the company, and that didn't go very far in discussions.

Q. Okay. Can you tell me the first time you raised that? Where the meeting was, the date and who was present?

A. Well, in -- in the -- when the company came in for this rate case, we had a preliminary meeting. And I don't -- I don't remember the date, I don't -- I work on a lot of cases and -- as do we all and my schedule is pretty cluttered so I don't remember the exact date, but it was, you know, when -- when we had a meeting with -- with MGE regarding their -- this rate case, I raised this as an issue again.

Q. Let me ask you, in addition to the people you mentioned that you've worked with, Dr. Henry Warren on Staff, have you worked with Ms. Ross on programs for conservation and/or low-income like the PAYS program?

A. We have -- we have worked on programs with respect to low-income. Conservation, to the extent that we have worked on some conservation programs. Okay. Go ahead. I'm sorry.

Q. Would it surprise you to learn that Ms. Ross might be very knowledgeable and may have some information that would answer some of the questions that Commissioner Gaw has put forward today?

A. I believe that Ms. Ross has some good ideas in terms of the information area on programs. I -- in terms of getting into the nuts and bolts of how a program works, I -- I don't -- at least from what I've heard, I don't feel the information she has provided has gone as deep as I would expect it to from Henry Warren.

Q. But you wouldn't know whether Ms. Ross has more specific information about some of the questions you've heard from Commissioner Gaw today, would you?

A. I -- she -- she may or may not. I don't know. That's -- that's for her to answer. She was -- I mean she had an opportunity to write testimony and to answer questions for Commissioners.

MR. FRANSON: Thank you.

Judge, I may have a few other questions, but I would guess my time is up at this point.

JUDGE JONES: It is. We'll continue tomorrow with Ms. Meisenheimer. We'll start right here with recross of Staff. With that, we're off the record.

WHEREUPON, the hearing was adjourned until 9:00 a.m. on January 11, 2007.

I N D E X

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