Yes. The Commission adopts Staff and MGE's proposal to allocate $705,000 for a water heater rebate program and $45,000 for educating MGE's customers about weather conservation.

8. Environmental Response Fund

> ***Issue Description:*** *Should the environmental response fund proposed by MGE be adopted and what, if any, level of environmental costs should be used in calculating MGE's cost of service? MGE requests that the amount of the fund be $500,000, annually.*

The Commission rejects the Environmental Response Fund proposed by MGE.

9. Infinium Software

> ***Issue Description:*** *Should the unrecovered cost associated with MGE's Infinium Software be included in rates through an amortization and, if so, over what period of time?*

The Unrecovered cost associated with MGE's Infinium Software should be included in rates and amortized over 5 years as proposed by Staff and OPC.

10. Rate Case Expense

> ***Issue Description:*** *What is the appropriate amount and treatment of rate case expense, including amortization of prior rate case expense, in this case?*

MGE shall be allowed to amortize the combined amounts over a three-year period.

11. Emergency Cold Weather Rule AAO Recovery

> ***Issue Description:*** *What is the proper rate treatment for costs deferred under the Emergency Cold Weather Rule AAO Recovery Mechanism?*

The Commission will grant MGE's request to amortize the deferred cost through an AAO.

12. Seasonal Disconnects

> ***Issue Description:*** *Should the seasonal disconnect tariff language proposed by MGE be approved?*

Missouri Gas Energy
Case: GR-06-422T
Twelve Months Ending 12/31/05,True-up as of 10/31/06

Adjustments to Income Statement

Adj No	Description		Total Co Adjustment	Mo Juris Adjustment
3.	To adjust postage expense to reflect postage increase. (Mapeka)		$ 81,495	
4.	To remove miscellaneous expenses. (Mapeka)		$ (531)	
5.	To remove miscellaneous dues and donations. (Mapeka)		$ (145)	
6.	To adjust PMI collections expense to reflect new contract rate. (Bolin)		$ 115,340	
7.	To adjust for the transportation and work equipment clearing account. (Bolin)		$ 24,185	
8.	To adjust for the stores clearing account. (Bolin)		$ 57	
	Uncollectible Accounts	S-36	$ 1,906,553	
1.	To include ECWR AAO as of 6/30/06. (Harrison)		$ 300,444	
2.	To normalize bad debt expense. (Harrison)		$ 1,519,296	
3.	To inlcude ECWR AAO as of 10/31/06. (Harrison)		$ 86,813	
	Misc Customer Accts Expense	S-37	$ 279	
1.	To annualize paryoll at October 31, 2006. (Bolin)		$ (185)	

387,257 annual
x 3 years
1,161,771 total

Missouri Gas Energy
Case: GR-06-422T
Twelve Months Ending 12/31/05, True-up as of 10/31/06

Adjustments to Income Statement

Adj No	Description			Total Co Adjustment	Mo Juris Adjustment
	Rents	S-55	$	(23,977)	
1.	To include an annualized level of rent received from Broadway Ford for parking lot space. (Harrison)		$	(12,336)	
2.	To adjust for office and computer lease expense. (Harrison)		$	(11,641)	
	Maint of General Plant	S-56	$	171,573	
1.	To annualize payroll at October 31, 2006. (Bolin)		$	(87)	
2.	To adjust for the stores clearing account. (Bolin)		$	36	
3.	To adjust for office and computer lease expense. (Harrison)		$	171,624	
	Interest on Customer Deposits	S-57	$	28,382	
1.	To adjust test year to reflect an annualized level of customer deposit interest as 10/31/06. (Mapeka)		$	28,382	
	Amortization of Net Cost of Removal	S-58	$	170,051	
1.	To amortize net cost of removal over 5 years. (Winter)		$	170,051	

x 5 years
850,255 Total

Exhibit No:	
Issues:	*Revenues, ECWR AAO, Bad Debt Expense, Pension Expense, Prepaid Pension, OPEBs, Income Taxes*
Witness:	*Paul R. Harrison*
Sponsoring Party:	*MOPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2006-0422*
Date Testimony Prepared:	*October 13, 2006*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

PAUL R. HARRISON

MISSOURI GAS ENERGY
CASE NO. GR-2006-0422

Jefferson City, Missouri
October 2006

TABLE OF CONTENTS

DIRECT TESTIMONY OF

PAUL R. HARRISON

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Q. Please explain adjustment S-2.4.

A. Adjustment S-2.4 adds the Succession Rate Code 48 costs (the "Company use" gas costs) to commercial small general service gas sales.

Q. Please explain adjustment S-1.9.

A. Adjustment S-1.9 removes the W/O unpostable cash report entry from the cost of service to derive the appropriate actual test year margin results.

Q. Please explain adjustment S-2.8.

A. Adjustment S-2.8 removes the gas used by the Company from the cost of service to derive the appropriate actual test year margin results.

Q. Please explain adjustment S-9.3.

A. Adjustment S-9.3 removes the Infrastructure System Replacement Surcharge revenue not in included in base rates from the cost of service to derive the appropriate actual test year margin results.

Q. Please explain adjustment S-3.4.

A. Adjustment S-3.4 removes the daily balancing not in MGE's Customer Service Software (CSS) from the cost of service to derive the appropriate actual test year margin results.

Q. Please explain adjustment S-9.2.

A. Adjustment S-9.2 removes the credit adjustment not in CSS from the cost of service to derive the appropriate actual test year margin results.

ECWR ACCOUNTING AUTHORITY ORDER

Q. Please provide the history of MGE's Emergency Cold Weather Rule (ECWR) Accounting Authority Order (AAO) pertaining to ECWR costs in this case.

A. On December 13, 2005, in Case No. GX-2006-0181, the Commission approved an Emergency Amendment to the Cold Weather Rule, 4 CSR 240-13.055. The amendment contained special provisions only applicable to providers of natural gas services to residential customers. The rule was effective from January 1, 2006 through March 31, 2006.

Q. Please explain the ECWR amendment for the Cold Weather Rule.

A. This amendment provided additional repayment plans for residential users of natural gas for heating purposes which allowed numerous customers that were unable to pay eighty (80) percent of preexisting bills, under the previous Cold Weather Rule, to be reconnected to receive gas service.

This amendment stated that from January 1, 2006, through March 31, 2006, a gas utility shall restore service upon initial payment of fifty (50) percent or $500 whichever is lesser, of the preexisting arrears, with the deferred balance to be paid at a later date. Between January 1, 2006, and April 1, 2006, any customer threatened with disconnection could retain service by entering into a payment plan as described in the ECWR.

Q. Did MGE apply for an AAO to recover the costs associated with the ECWR?

A. Yes. On August 7, 2006, Missouri Gas Energy (MGE) filed its Motion for an AAO in this rate case docket concerning the Emergency Cold Weather Rule. On September 21, 2006, the Commission issued an Order Granting Motion for MGE's AAO. In the Order, the Commission stated that MGE is authorized to maintain on its books a regulatory asset representing the costs of complying with the 2005 Cold Weather Rule (4 CSR 240-13.055(14)) as such costs are defined in the rule. The Commission further ordered that the parties will advise the Commission on this issue in testimony and briefing.

Q. Please describe MGE's ECWR costs.

A. Per the response to Staff Data Request No. 52.8, the Company identified an amount of $901,331 incurred from January to March 2006 that it believes was associated with the ECWR amendment. In its response, the Company identified 11,554 customers that took advantage of the ECWR and were reconnected to receive gas service. Of the 11,554 customers that were reconnected, 2,976 of them have subsequently either been disconnected or scheduled to be disconnected. The $901,331 represents the difference between the amount that the Company could have collected from these customers under the old cold weather rule and the amount that they actually collected under the ECWR.

The customers that were either disconnected or scheduled to be disconnected are either accounts that were connected under terms of the ECWR and were subsequently disconnected and written off or customers who have broken ECWR pay agreements, have been issued final bills and are scheduled for disconnection.

Q. What rate treatment is the Staff proposing for the ECWR AAO that was approved by the Commission?

A. Based on the Staff's review of the Commission's Report and Order Case No. GX-2006-0181, the Company's workpapers and responses to data requests concerning this matter in this proceeding, the Staff has verified that the costs MGE is seeking recovery of related to the ECWR are accurately quantified and were incremental to the issuance by the Commission of the ECWR. The Staff has proposed adjustment S-36.1 to amortize these costs over a three-year period.

<u>BAD DEBT EXPENSE</u>

Q. Please explain adjustment S-36.2.

A. Adjustment S-36.2 reflects the Staff's recommended normalized level of bad debt expense to be included in this case.

Q. What adjustments did the Staff perform in its analysis of the Company's actual bad debt write-offs for the test year?

A. The Staff adjusted the test year per book balance in the bad debt expense account to reflect the average of the Company's actual bad debt write-offs for the last five years ending June 30, 2006.

Q. Why does the Staff propose a five-year normalization adjustment for bad debt expense in this case?

A. MGE's level of bad debt write-offs over the last five years has been very volatile. This suggests that the balance for this expense in any twelve-month period may not be a reasonable representation of an ongoing level of expense for this item. Based on the Staff's analysis, the Staff believes that use of the five-year average level of actual bad debt write-offs is appropriate in this proceeding.

Staff Witness Anne M. Allee of the Procurement and Analysis Department will address the Company's proposal to reflect a portion of its bad debt expense through the PGA mechanism in her direct testimony.

PENSION EXPENSE

Q. What level of pension expense is the Staff proposing in this case?

A. The Staff is proposing that MGE continue the method that was agreed to in the "*Corrected* Partial Non-unanimous Stipulation and Agreement as to Alternative Minimum Tax, Depreciation, Accounting for Net Cost of Removal, Accounting for Pension Expenses, Revenues, Bad Debts and May 1, 2004 Union Wage Increase Issues" (2004 Stipulation) from

RESOLUTION

Calling Upon State Regulatory Authorities to resist the efforts of Local Gas Distribution Companies to expand the interpretation of gas cost to include a calculated portion of their uncollectible accounts expense or other non-gas costs in purchased gas cost recovery mechanisms.

Whereas, many natural gas Local Distribution Companies (LDCs) are permitted by State laws or regulations to change rates from time to time to track changes in the cost of natural gas supply and transportation through gas cost adjustments without a review of general rates;

Whereas, many such gas cost adjustment mechanisms provide for the periodic adjustment of rates to true up the difference between gas costs billed to consumers and gas costs incurred;

Whereas, the gas cost adjustment mechanisms have been found justified due to characteristics of the costs associated with purchasing and transporting gas to an LDC's distribution system; i.e., that such cost may make up a sizable portion of the total rate for natural gas service, that such costs are affected by many market conditions that are not within the control of the LDC, that such gas costs are volatile and may change significantly in a short time;

Whereas, some State regulatory authorities have been petitioned by LDCs to broaden the sort of expenses that may be recovered through gas cost adjustment mechanisms to include a portion of the expenses associated with uncollectible charges experienced by the LDC;

Whereas, the characteristics of uncollectible accounts are materially different from gas costs; i.e., while they are somewhat affected by variations in rates caused by changes in gas costs, uncollectible accounts expenses do not make up a sizeable portion of the total rate for natural gas service, they are affected by factors such as staffing and procedures within the control of the LDC, and the changes in uncollectible costs do not tend to be volatile;

Whereas, an expanded definition of gas costs would shift more risk to ratepayers and may remove traditional or performance based incentives for utilities to minimize costs;

THEREFORE BE IT RESOLVED, that NASUCA encourages state regulatory authorities to limit the use of gas cost adjustment mechanisms to the cost of purchasing and transporting natural gas supply to the LDC's distribution system.

BE IT FURTHER RESOLVED, that the Gas Committee of NASUCA, with the approval of the Executive Committee of NASUCA, is authorized to take all steps consistent with this Resolution in order to secure its implementation.

Approved by NASUCA:

Place: Austin, Texas

Date: June 15, 2004