

EXHIBIT # A

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE
PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

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

DEPOSITION OF RUSSELL W. TRIPPENSEE,
the witness, produced, sworn, and examined on the 5th day of
December, 2006, between the hours of 8:00 a.m. and 6:00 p.m.
of that day at the offices of Brydon, Swearngen and England,
312 East Capitol Avenue, in the City of Jefferson, County of
Cole, State of Missouri, before

KAYE F. ASEL, CSR, CCR
Registered Professional Reporter
Asel Reporting
PO Box 104568, (573) 636-8499
Jefferson City, Missouri 65110-4568

and Notary Public within and for the State of Missouri,
commissioned in Cole County, in the above-entitled cause, on
the part of Missouri Gas Energy, pursuant to notice of
counsel.

A P P E A R A N C E S

DIANA C. CARTER

Attorney at Law
Brydon, Swearengen and England
312 East Capitol Avenue; PO Box 456
Jefferson City, Missouri 65101

FOR MISSOURI GAS ENERGY.

ROBERT V. FRANSON

Senior Counsel
Public Service Commission
200 Madison Street - Suite 800; PO Box 360
Jefferson City, Missouri 65102-0360

FOR THE MISSOURI PUBLIC
SERVICE COMMISSION.

LEWIS R. MILLS, JR.

Missouri Public Counsel
Office of the Public Counsel
200 Madison Street - Suite 650; PO Box 2230
Jefferson City, Missouri 65102

FOR THE OFFICE OF PUBLIC
COUNSEL.

1

2

I N D E X

3

Direct Examination by Ms. Carter

4

Cross-Examination by Mr. Franson

41

4

5

6

SIGNATURE INSTRUCTIONS:

7

(Signature requested; presentment waived)

8

EXHIBIT INSTRUCTIONS:

9

(None)

10

11

PRESENT:

12

David Murray and Matthew Barnes

13

14

15

16

17

18

19

20

21

22

23

24

25

1 RUSSELL W. TRIPPENSEE, having been duly sworn, testified as
2 follows:

3 DIRECT EXAMINATION BY MS. CARTER:

4 Q. If you could please state your full name.

5 A. Russell W. Trippensee.

6 Q. And, Russ, have you given your deposition before?

7 A. It has been a few years.

8 Q. Just briefly then to remind you, Kaye will be
9 taking down everything so it is important that we not talk at
10 the same time. If you'll wait for me to finish my question
11 and I'll do my best to wait for you to finish your answer.

12 It is also important that all your responses to be
13 verbal as opposed to a hand motion or a head nod so Kaye can
14 get that taken down for the record.

15 If you would like a break at any time, feel free to
16 ask for a break. It shouldn't be too terribly long, but if
17 you would like a break to talk with Mr. Mills, that is fine.

18 If you answer a question that I ask, I will assume
19 that you understood that question. Is that fair?

20 A. Yes.

21 Q. Okay. Certainly if you do not understand something
22 I've asked, please ask me to rephrase it and I will do my
23 best to make the question more understandable.

24 You have prescribed and filed rebuttal testimony in
25 this case, correct?

1 A. Yes.

2 Q. And by this case, I'm referring to the MGE rate
3 case before the Commission, case number GR-2006-0422. Do you
4 have a copy of that testimony dated November 21st, 2006 with
5 you today?

6 A. Yes, I do.

7 Q. A few of my questions will be directed at that
8 testimony and I'll refer to page numbers in those situations.

9 Briefly, if you could, tell us about your
10 educational background.

11 A. I attended the University of Missouri-Columbia,
12 graduated December of 1977. I have a BSBA from the
13 University of Missouri, Bachelor of Science Business
14 Administration. I had 36 hours of accounting and 30 hours of
15 finance, both of which would qualify for -- at the time the
16 University of Missouri called an emphasis, most commonly
17 referred to as a major.

18 Q. No separate degree though?

19 A. No. The University of Missouri had a BSBA in their
20 business administration school. They did not specifically
21 state a major at that point. They said an emphasis area.

22 Q. Have you had any other professional training since
23 graduating, I believe you said in '77?

24 A. I have professional training. I have passed the
25 uniform system of accounts or -- excuse me -- certified

1 public accounting. In that, it was class -- In preparation
2 for that, I took a class that involved approximately 50 hours
3 of study that was put on by the University of Missouri and
4 probably out of class required study was probably in the
5 neighborhood of 200, 250 hours on all facets of accounting,
6 which includes areas of finance.

7 Q. Any other professional training?

8 A. Attended the NARUC School at the University of
9 Michigan State in East Lansing, two week seminar on all
10 facets of regulation, and since that time, numerous seminars,
11 continuing professional education to maintain my CPA license.

12 Q. The NARUC program, is that the one you have listed
13 in 1981?

14 A. Yes, it is.

15 Q. Do you recall the focus of that program?

16 A. It was a two week intensive study of all facets of
17 utility regulation.

18 Q. I believe page 1 of your rebuttal testimony sets
19 out your work experience. Do you have anything to add to
20 what is contained there?

21 A. Not for what I get paid.

22 Q. Do you have a masters degree or a Ph.D. in any
23 topic, on any subject?

24 A. No.

25 Q. Have you taught any classes at the college level or

1 at any level?

2 A. I have put on seminars but, no, I have not
3 taught -- again, unpaid --

4 Q. Fantastic!

5 A. -- as far as a teacher at a college, high school,
6 no.

7 Q. Do you recall the subjects of the seminars you put
8 on?

9 A. One seminar, most recent one, was a continuing
10 education for Missouri Internal Accountants and it was on
11 regulatory practices, all facets.

12 Q. Have you done any seminars or classes in the areas
13 of return on equity or rate of return?

14 A. As a teacher?

15 Q. Yes.

16 A. No. Well, with the exception of the one I just
17 mentioned, finance rate of return is an integral part of
18 regulatory practices and I believe it was included in that.

19 Q. Have you written any text or a book of treatise of
20 any type?

21 A. We're understaffed, so I don't have time to do
22 that.

23 Q. Have you done professional writings or other
24 writings?

25 A. Same answer.

1 Q. Published any work on any subject?

2 A. No.

3 Q. Are you a member of the Society of Utility and
4 Regulatory Financial Analysts?

5 A. No.

6 Q. To what professional organizations do you belong?

7 A. Missouri Society of Certified Public Accountants.

8 Q. Any others?

9 A. No.

10 Q. To the extent you have not already done so, could
11 you describe your education and training specific to the area
12 of return on equity rate of return and/or cost of capital?

13 A. Training would involve experience accumulating 29
14 years in the industry. Overall rate of return is an integral
15 part of the revenue requirement so that is a fairly good
16 level of understanding. You cannot develop a revenue
17 requirement. As far as within the area of rate of return, I
18 supervised, hired and supervised the financial analysts for
19 the Office of Public Counsel for approximately 15 years,
20 until a recent budget cut eliminated the position, so all
21 testimony in preparation and testimony filed by those
22 individuals was filed under my direction and supervision.

23 Q. Do you recall any formal education specific to
24 return on equity?

25 A. All the way back into college.

1 Q. What is the general purpose, in your own words, of
2 the rebuttal testimony you filed in this case?

3 A. The general purpose is to respond to the change in
4 risks that the company, Missouri Gas Energy, would face if
5 the Commission were to authorize Missouri Gas Energy to adopt
6 the Staff's rate design proposal. Absent adoption of that
7 rate design proposal, Public Counsel supports the Staff's
8 final rate of return.

9 Q. Would it be correct to characterize at least part
10 of your testimony as return on equity testimony?

11 A. With the qualification that I just gave, yes.

12 Q. Your testimony does contain an actual return on
13 equity recommendation for MGE, correct?

14 A. Numeric recommendation?

15 Q. Yes. Page 12 is what I would be referring to in
16 your rebuttal testimony, you gave a range.

17 A. It states that the range -- that the authorized
18 return should be between that range, yes.

19 Q. And that would be OPC's recommendation for return
20 on equity in this case?

21 A. Only if the Commission authorizes the rate design
22 that is proposed by the Staff which removes the earnings
23 variability.

24 Q. How was it decided that you would sponsor this
25 testimony as opposed to some other OPC employee or outside

1 expert witness?

2 A. With regard to outside expert witness, the timing
3 of the case and the procurement procedures for -- under State
4 guidelines prohibited the ability to get a consultant in a
5 timely manner. Public Counsel was very surprised by Staff's
6 filing in the rate design area.

7 As far as within my office, I was the person who
8 supervised and directed and oversaw the filing of testimony
9 on rate of return. I have an undergrad in finance and I have
10 29 years of experience in the field of applying cost of
11 capital concepts to the rate of return --

12 Q. When --

13 A. -- to the rate base and revenue requirement.

14 Q. When did you start writing the rebuttal testimony
15 that was filed, if you recall?

16 A. The testimony is similar in nature to the testimony
17 I filed in Atmos Energy, currently pending case,
18 GR-2006-0387; so from that standpoint, the actual physical
19 writing occurred subsequent to Staff's direct testimony,
20 somewhere in that time frame, from Staff's direct until the
21 rebuttal due date in this case.

22 Q. What did you review or study before writing the
23 testimony in this case?

24 A. Reviewed the testimony of Staff witness Anne Ross.
25 Reviewed the testimony of Staff witness David Murray.

1 Reviewed the testimony of the MGE witnesses. I believe I
2 referenced a couple of textbooks in this testimony. And I
3 probably reviewed my experience.

4 Q. Were you given any testimony to use as a model or
5 were you given any specific directions as to what subject
6 should be addressed in this rebuttal testimony?

7 A. The -- As far as testimony to be used as a model,
8 the answer would be no. As far as what subject, it was a
9 decision within the office that this was an area that needed
10 to be addressed given the radical nature of the Staff's rate
11 design proposal.

12 Q. I'm not asking for privileged conversations, but
13 was your testimony reviewed by anyone prior to filing?

14 A. Yes.

15 Q. And by whom?

16 A. I believe I circulated it to Barb Meisenheimer,
17 Ryan Kind, Louis Mills.

18 Q. Were you directed to make any changes to your
19 testimony?

20 A. My grammar is not the greatest in the world, so the
21 answer would be yes.

22 Q. Were you directed to make any substantive changes?

23 A. No, I was not.

24 Q. How many times have you testified on the issue of
25 cost of capital and fair rate of return in the past?

1 A. Cost of capital? It would depend on what your
2 definition is. The cost of capital has implications in how
3 it is paid for by the ratepayers, so that gets into cash
4 working capital, which I've testified on numerous times as a
5 member of the Public Service Commission and subsequently, I
6 believe, a few times as member of Office of Public Counsel.

7 On specific rate of return number -- return on
8 equity recommendation, this would be the second case.

9 Q. And would the first case be the currently pending
10 Atmos rate case?

11 A. Yes.

12 Q. So would it be fair to say then the current Atmos
13 rate case is the first time you've given a specific common
14 equity cost rate recommendation?

15 A. Yes.

16 Q. Has there been, to your knowledge, a motion to
17 exclude your testimony filed in the Atmos case?

18 A. No, there has not. In fact, I believe it has been
19 accepted into the record.

20 Q. Do you consider your testimony in this MGE case to
21 be expert testimony?

22 A. I believe so.

23 Q. I believe in your rebuttal testimony you say you're
24 testifying on revenue requirement implications. Does that
25 sound familiar to you?

1 A. That would be familiar to me, yes.

2 Q. Do you believe you've given similar testimony at
3 any time previously other than in the Atmos case?

4 A. Yes, I do.

5 Q. And when was that?

6 A. I believe Mr. Fischer pointed out Northeast
7 Missouri Rural Telephone.

8 Q. Do you recall when that case was?

9 A. 1985, approximately.

10 Q. Any other times that you can recall?

11 A. Implications of cost of capital in the cash working
12 capital calculation, income tax calculation, the level of
13 interest on debt included in the cost of service, there were
14 numerous cases where I testified on taxes or developed the
15 revenue requirement back from 1978 until around 1984, when I
16 transferred or was employed by the Office of Public Counsel.
17 I mean, it is an integral part. It is very difficult to say
18 you're not doing it when it is an integral part, especially
19 when the Commission was changing procedures and finally
20 getting it right.

21 Q. In your rebuttal testimony you cite to a textbook,
22 Fundamentals of Financial Management. Have you read the
23 entire text of that book?

24 A. Yes, I have, but not cover to cover recently. I
25 was aware of the positions in the book that we have utilized

1 prior.

2 Q. When did you first look to that text? In other
3 words --

4 A. You mean the first time I read it?

5 Q. Yeah. In other words, was that a book when you
6 were back originally educated or is that something you pulled
7 out for this case?

8 A. It was, it was not a book I just pulled out for
9 this case. It is in our library. I usually read stuff that
10 comes in in the area. I cannot tell you when we received it.

11 Q. I have a fairly broad question for you, but what is
12 your understanding of the responsibility of the Office of
13 Public Counsel in the rate setting process?

14 A. The Office of Public Counsel is to represent the
15 interest of the customers before the Public Service
16 Commission and other regulatory bodies and courts and with an
17 emphasis probably that we choose on smaller business and
18 residential customers.

19 Q. Are you familiar with the 1944 case decision of
20 *Federal Power Commission versus Hope Natural Gas Company*?

21 A. I have read it.

22 Q. And are you familiar with the 1923 decision
23 *Bloomfield Water Works versus Public Service Commission*?

24 A. I have read that one, too.

25 Q. If you recall, what books have you read on the

1 subject of return on equity?

2 A. Quite frankly, I don't recall any off the top of my
3 head. Like I said, we have several books in our library and
4 I've read numerous articles and over 29 years, I don't retain
5 all of that.

6 Q. You were cross-examined as to your qualifications
7 in that Atmos rate case?

8 A. Uh-huh.

9 Q. Since that time, have you taken any steps to become
10 more familiar with the subject matter?

11 A. Specifically Northeast Missouri Rural Telephone,
12 yes, I have.

13 Q. And you looked to that case?

14 A. Yes, I did.

15 Q. Any other steps?

16 A. Just thought about the cross-examination and the
17 relationships of cost of capital, rate of return, cost of
18 debt, and its relationship to the revenue requirement and how
19 the -- an understanding and a knowledge is necessary to --
20 and how I've applied that knowledge in determining revenue
21 requirements.

22 Q. How did you arrive at the opinion in this case that
23 is given at page 12 of your rebuttal testimony, lines 5 and
24 6? In other words, what methodology did you utilize to
25 produce that opinion?

1 A. I would say that the opinion is based on basic
2 financial concepts of risks, that if you reduce the financial
3 risks of a company, the return on, on the investment in that
4 company will demand for a lower risk, investment will
5 decrease. As far as the specifics, I reviewed the Staff's
6 filed case and did not find any issues with it, so that set
7 the upper boundary and the market in MGE set the lower
8 boundary, which is the cost of debt, because equity, with the
9 rare exception of the late seventies, equity has always
10 been more expensive than debt. In the late seventies that
11 was not the case. So the cost of debt set the lower end of
12 that range, all be it a higher cost of debt than I would have
13 expected. However, I have not explored why MGE's cost of
14 debt is as high as it is relative to other companies.

15 Q. Did you perform any mathematical calculations or
16 take any steps on your own to calculate what would be a fair
17 return on equity for MGE in this case?

18 A. I saw no reason to replicate the Staff's work.

19 Q. Are you aware of any experts that utilize a similar
20 methodology that would simply take the number from another
21 witness and then make an adjustment from there?

22 A. I'm not aware of anybody who has mathematically
23 calculated the reduction of risks of an earned variability
24 resulting from a fixed -- from a straight -- I think what the
25 Company witness calls a straight fixed variable charge.

1 Staff witness uses a delivery charge. So to some degree I
2 would suggest we're in uncharted waters, so there is nobody
3 out there. I think over my years experience have talked to
4 several rate of return people and asked how they quantify
5 changes in risks as a result of Commission actions that the
6 market had not had an opportunity to be privy to and I have
7 never been given an answer of a method to calculate that
8 mathematically. It has been a much more conceptual
9 calculation, so in that regard you're looking at ranges and
10 that is why I filed the testimony.

11 Q. Where and when do you believe you learned to
12 conduct the sort of quantification analysis that you told us
13 about?

14 A. When you say the "quantification analysis," you're
15 telling me about --

16 Q. I'm using my own words to summarize that one
17 paragraph you just gave us on what I would call the
18 methodology.

19 A. The basic fundamentals of risks I learned during
20 college. The concepts of risks are re-enforced each and
21 every day of my 29 years of work. Risk is an integral part.

22 Risk reward and intensives are all a part of the regulatory
23 model. When you get into regulatory lag that provides
24 incentives, it also provides risks. So it is something we
25 work with each and every day and over 29-1/2 years has just

1 been re-enforced and further learned. So I can't give you a
2 date specific.

3 Q. What data did you rely on in rendering your opinion
4 other than the numbers in Staff's testimony?

5 A. The data is from Staff's testimony. The concepts
6 are from, as I said, education and experience and other
7 research as I've indicated previously, articles, seminars --

8 Q. Based on your --

9 A. -- discussions.

10 Q. I'm sorry?

11 A. Discussions.

12 Q. Based on your prior testimony, I assume your answer
13 would be no to these questions but I need to ask them. Did
14 you read any case law or regulatory decisions specific to
15 this topic?

16 MR. FRANSON: Could I ask what you mean -- Could
17 you state what you mean by this topic?

18 BY MS. CARTER:

19 Q. And I don't want to put words into your mouth, but
20 I believe what you would be saying is a change in risk and,
21 therefore, a lowering in the return of equity recommendation
22 based on --

23 A. Did I read any case law? I don't know if you would
24 call the Commission order approving the LaClede stipulation
25 case law and, to be honest with you, I'm not sure I read the

1 order, I don't believe I did, but I did read the stipulation
2 they approved, which referenced a reduction in risk as a
3 result of weather mitigation, weather mitigation rate
4 decision. Weather mitigation is only a component of what the
5 Staff has proposed in this case, so any risk reduction would
6 be greater. I read the order out of a, I believe, North
7 Dakota case where, again, there was a rate -- it was
8 quantified as a revenue requirement reduction if this type of
9 rate design or a similar type of rate design was adopted, so
10 that would be two areas.

11 The general concept of risk reduction, other case
12 law, again, there is not a whole lot out there with this
13 specific quantification or there is not any out there where
14 there is specific mathematical quantifications as it applies
15 to a specific return on equity, so it is hard to read
16 something that doesn't exist.

17 Q. That goes into another question I had for you. Are
18 you aware of any other regulatory commissions or other
19 authorities that have taken the position that you are taking
20 in this case?

21 A. The specific quantification, no. Am I aware of a
22 commission that has accepted a lower revenue requirement,
23 from what I can see, the only variable would be resulting
24 return on equity. As a result of adopting this type of rate
25 design, I mentioned the North Dakota case.

1 Q. Is that the only case you recall?

2 A. That's the only company that has this type of rate
3 design.

4 Q. Would you agree that return on equity is not
5 directly observable and must be estimated or inferred as
6 capital market data and trading activity, among other things?

7 A. Those have been used over the last 30 years.

8 Q. So you would agree with that statement?

9 A. It is not a contractual arrangement, so, yes, I
10 would agree with that.

11 Q. Did you personally look at capital market data or
12 trading activity in this case before reaching your opinion on
13 return of equity?

14 A. To the extent data was included in Staff and
15 Company's testimony, yes, I did.

16 Q. Did you look at --

17 A. I did not go verify all of their sources.

18 Q. Did you look outside the Staff's or the Company's
19 testimony?

20 A. No, I did not. This is rebuttal testimony.

21 Q. Other than looking at Staff's testimony and MGE's
22 testimony, did you review or look at the relative risks of
23 other similar companies?

24 A. No other company that I'm aware has this rate
25 design, so I would assert, I would assert that they are not

1 similar or what is often called comparable companies with
2 this dramatic change in reconciling.

3 Q. I'm assuming you did not use a proxy group or a
4 selection of other companies in reaching your opinion?

5 A. There is no proxy group to my knowledge.

6 Q. Have you personally calculated a return on equity
7 for an LDC, what you would recommend as an authorized return
8 on equity?

9 A. Absent the two cases we've discussed, no.

10 Q. And just --

11 A. I have supervised probably 20 to 30 recommendations
12 before the Commission, but I have not personally did the --
13 did not personally file the testimony.

14 Q. And just to be clear, are the other two cases
15 you're referring to --

16 A. Atmos and MGE.

17 Q. The current MGE case?

18 A. Yes.

19 Q. And in this case, you did not actually calculate
20 the return on equity, correct?

21 A. That is correct.

22 Q. Have you ever performed a DCF or CAPM or a similar
23 type of modeling technique analysis?

24 A. As a part of analyzing party positions, I have gone
25 through the mechanical calculations, yes. Have I started one

1 from scratch that resulted in testimony, the answer is no.

2 Q. You're familiar with testimony that was filed by
3 Staff witness Anne Ross?

4 A. In the MGE case?

5 Q. Yes, in this case.

6 A. Yes, I am.

7 Q. Do you dispute her qualifications to offer expert
8 opinions in this case?

9 A. I'll leave that up to my attorney to make in this
10 case.

11 Q. Are you familiar with the testimony filed in this
12 case by MGE witness Russell Feingold?

13 A. I believe I read it, yes.

14 Q. Do you personally have any problems with his
15 ability to offer expert opinions in this case?

16 A. Again, I'll leave that up to my attorney in the
17 case.

18 Q. And do you not personally have any opinion on that
19 issue?

20 A. I don't have an opinion one way or the other.

21 Q. Are you familiar with the testimony filed in this
22 case by Staff witness David Murray?

23 A. Yes, I am.

24 Q. And are you familiar with the testimony filed in
25 this case by MGE witness Frank Hanley?

1 A. Yes, I am.

2 Q. And do you personally have any problem or dispute
3 with Mr. Hanley's qualification to render expert opinions in
4 this case?

5 A. I personally do not.

6 Q. What studies have you performed or steps have you
7 taken to determine whether the proxy companies utilized by
8 either Staff or the Company in this proceeding have in place
9 any revenue decoupling mechanisms or similar mechanisms?

10 A. Could you just repeat that again? I was trying to
11 think of the answer and lost the question.

12 Q. It is a long question. I'll be happy to repeat it.
13 What studies have you performed or steps have you
14 taken to determine whether the proxy companies utilized by
15 either staff or the company in this case have in place any --
16 what could be called revenue decoupling mechanisms?

17 A. As a part of our analysis in both the Atmos case --
18 As a result of the Atmos case and this case, we have looked
19 at some studies that discuss the various LDC's throughout the
20 country. We have gone to the websites of several LDC's for
21 public information on their rate design. I think it is

22 probably fair to state that a significant number of the
23 companies in both proxy groups have some sort of weather
24 mitigation rate design or tariffs -- well, excuse me -- not
25 tariffs but clauses as a part of their rate structure. To

1 term those as revenue decoupling, I do not believe is an
2 accurate description. What revenue decoupling usually refers
3 to is the elimination of usage variation with earnings from
4 sales to those customers. Decoupling is decoupled. There
5 isn't a partial decouple or anything like that. So the
6 semantics there are, I think, critical to the conversation.

7 Q. So then is it your opinion that the weather
8 mitigation clauses that these comparable companies have, that
9 those are not similar to what is being proposed in this case
10 with regard to a reduction in risk?

11 A. I think if they were in a 100 yard dash, they might
12 be in the first ten yards, but they are a long way from
13 revenue decoupling, which is what the Staff has proposed. I
14 mean, when I say "the first ten yards," I'm talking about the
15 effect.

16 Q. Have you performed any studies or taken any steps
17 to determine how those weather mitigation clauses that you
18 spoke of with regard to the proxy companies, how those relate
19 to authorized rate of return?

20 A. To the extent that they are known by the market,
21 financial theory would hold that the market has taken those
22 into account and how the market has taken those into account
23 would be contained in Mr. Murray's analysis. To the extent
24 you have additional risk reductions that the market cannot
25 take into account, you would have to make a determination of

1 how to modify Mr. Murray's recommendation to reflect that
2 risk reduction. I have not done the -- a study that
3 identifies individual risk component effects on the overall
4 rate of return that risks that are already inherent in it.
5 To break that out, I don't know of a method. I have not seen
6 any return analyst ever determine a method.

7 Just as I have stated earlier, I haven't seen
8 anybody develop a specific method or even, quite frankly,
9 have a good idea of how to say, okay, the Commission is
10 adopting a radical rate design, at least radical for Missouri
11 standards, what is the effect going to be? Mr. Hanley, I
12 believe, talks about a 25 bases point adjustment for a
13 weather normalization clause if the Commission adopts it, but
14 he had no calculation. It was just his professional opinion.

15 Q. Are you --

16 A. He is going in the right direction but this is much
17 more radical than a weather normalization.

18 Q. Are you aware of any LDC that has what you would
19 call a revenue decoupling mechanism?

20 A. As I stated, I think the North Dakota case, and it
21 is northwest or north -- I'm sorry, I don't have it written
22 down, the specific company. I have it written down somewhere
23 else. That was the only company that had something that is
24 very similar to the Staff proposal in this case. And as I
25 indicated, the Commission was given a choice in that case of

1 a more traditional rate design or this decoupled rate design
2 and with a difference, significant difference in revenue
3 requirement, depending on which they chose.

4 Q. Have you performed any studies to determine how a
5 revenue decoupling mechanism would relate to rate of return?

6 A. My only study would be financial literature and
7 financial education of the concepts of risk. If I reduce the
8 variability of earnings or if I increase the certainty of
9 revenue streams, I decrease the variability of earnings. It
10 is a conceptual issue that I have seen -- have not seen
11 anybody come up with a specific method for measuring.

12 Q. On that subject, on page 9 of your rebuttal
13 testimony, you discuss financial and business risks. To what
14 risks do you believe the common shareholders are exposed?

15 A. What type -- Can I ask you what type of risk? Are
16 you defining financial risks, business risks?

17 Q. Yes. Would you agree that common shareholders are
18 exposed to both financial and business risks?

19 A. Yes.

20 Q. And the financial risks aren't eliminated by
21 Staff's proposed rate design, correct?

22 A. Not entirely, that is why I recommended -- The
23 appropriate return is somewhere between the current market
24 return and the risk that the or the costs rather that
25 reflects the risk of the long-term debt holder.

1 Q. So I understand then, you would agree that common
2 shareholders would still be bearing financial risks in
3 Staff's proposed capital structure?

4 A. In Staff's proposed capital structure, they would
5 be bearing the risk that debt holders have first obligation
6 or first right to the assets of the company before the
7 stockholder, so that is an additional risk that they face.

8 Q. So ROE wouldn't be guaranteed?

9 A. ROE is not ever guaranteed. That can be a result
10 of -- If you eliminate the variability of revenue streams
11 from the customers, however some of that risk falls back onto
12 management actions and/or lack of actions or imprudent
13 actions, it could cause the company to have issues.

14 Q. Looking at page 10 of your rebuttal testimony,
15 lines 11 and 12, if I read that, that would be saying that a
16 delivery charge as proposed by Staff would eliminate all
17 risks?

18 A. Well, I guess the term probably should be relative
19 risks there, similar risks.

20 Q. And what do you mean by that?

21 A. The variability of earnings. The variability of a
22 revenue stream from its customers that are charged one of
23 these two type of rate designs.

24 Q. And can you provide any theoretical or empirical
25 support for that assertion?

1 A. If you call understanding how rates in weather and
2 gas technology changes and size of houses change and the
3 demands placed on the system by the customers, all how that
4 relates, if that is theoretical, yes, I would be happy to
5 you.

6 Q. Have you conducted any studies yourself?

7 A. I don't have to study to know -- Yeah, I guess you
8 could say I've conducted studies. Any time you price out and
9 determine normal usage per customer, you see the variations
10 that occur between what is normal and what is actual. When
11 you look at five year periods trying to determine what the
12 customer's use is per customer, use per customer is, you see
13 changes in that. Those changes are all the accumulation of
14 the various things such as house size, gas technology
15 changes, customer response to gas price, those are all
16 accumulated together in the end result. Also, the effect of
17 weather changes the level of actual sales as compared to the
18 normalized level of sales that the rates were based on, that
19 can also then effect the revenue streams, so the answer I
20 guess is yes, I have conducted the study. That is part of
21 what we do, I've done for 29 years.

22 Q. I'm assuming you haven't conducted any tests or
23 studies specific to this type of proposal; as you say, this
24 is the first you've seen of this proposal?

25 A. Well, this type of proposal eliminates half of the

1 analysis or virtually all of the analysis that is necessary.
2 You simply have to look at the number of customers and price
3 them out at a set rate. The only issue you would have is if
4 you had significant changes in customers. And as far as
5 downsize risks of variability, it is virtually eliminated for
6 any company in this state as I've not seen, with the
7 exception of telephones, a decline in customer base for any
8 Missouri utility. Last time I heard, we just topped 300
9 million people in the United States and Kansas City is
10 particularly growing, so I don't see a customer loss.

11 Q. And on that note, on page 5 of your rebuttal
12 testimony you state that absent a decline in number of
13 customers, the Commission determined that the non-gas revenue
14 requirement intended to be collected will, in fact, be
15 collected by MGE. Do you see a problem with that?

16 A. No.

17 Q. So then it is not OPC's position that MGE should
18 not be able to actually collect the Commission's non-gas
19 requirement?

20 A. They should be given the opportunity to earn an
21 authorized rate of return. They do not -- they are not
22 guaranteed the -- to collect a specific dollar amount.
23 Regulation in this state, regulation covered under *Hope* and
24 *Bloomfield* is rate of return regulation, not revenue
25 requirement collection regulation, not expense collection.

1 There is a difference, a fundamental difference there.

2 Q. And I understand that. So you on behalf of OPC do
3 not have a problem with MGE actually collecting the intended
4 non-gas revenue requirement?

5 A. Again, you use the term non-gas revenue requirement
6 and I do have a problem with them collecting a specific
7 revenue requirement, setting up a regulatory scheme to
8 collect a specific revenue requirement. That is not rate of
9 return.

10 Q. I understand that. I'm confused because just a few
11 minutes ago you said to me that there still would not be a
12 guarantee --

13 A. Of a rate of return. That is not revenue
14 requirement.

15 Q. So you do have a problem that they would be
16 guaranteed to collect the non-gas revenue requirement?

17 A. A specific revenue amount, yes.

18 Q. Do you believe that in the past Missouri LDC's have
19 been able to collect the Commission's determined non-gas
20 revenue requirement?

21 A. I haven't gone back and looked whether they collect
22 a revenue requirement or not. I look at the rate of return.
23 Again, that is a different animal.

24 Q. So you believe they've been able to achieve an
25 authorized rate of return?

1 A. Some companies have. Currently some companies are
2 not. MGE is asserting they need on an on-going forward basis
3 an increase which means they do not believe that, if their
4 rates don't change, that they will be able to earn a
5 reasonable return over the next 12 months.

6 Q. Do you believe MGE has been able to collect the
7 non-gas costs?

8 A. Again, you're using the term non-gas costs. Have
9 they earned their authorized rate of return or have they
10 earned a positive return, they've earned a positive return.
11 I haven't looked at their specific earnings historically.

12 Q. At the bottom of page 10 of your rebuttal testimony
13 you mention an appropriate weather normal. Do you believe an
14 appropriate weather normal can, in fact, be determined?

15 A. I believe the Commission has found that it can
16 based on 30 years. They've changed that position a couple of
17 times using different methods but --

18 Q. Do you believe an appropriate weather normal can,
19 in fact, be determined?

20 A. I believe that is an appropriate weather normal,
21 yes.

22 Q. And do you have an opinion about the appropriate
23 period of time to use to establish normal weather?

24 A. I think the best data and the most -- the best data
25 going is the NOAA, N-O-A-A, 30 year normal. If that is

1 applied consistently over time to set rates for a company, it
2 should result in any variations being equaled out over time.

3 Q. You said should result. Do you believe it has
4 resulted in that?

5 A. I haven't looked specifically if it has or not.
6 I'm not testifying on that issue in this case.

7 Q. What studies have you performed which support your
8 position that a rate design like is being proposed by Staff
9 in this proceeding guarantees that a utility will earn its
10 authorized rate of return? Or am I correct now that you're
11 not saying that?

12 A. What this rate design is guaranteeing that they
13 will earn -- that they will achieve a specific level of
14 revenue at a minimum and after any other changes in their
15 cost structure, they will earn their rate of return. They
16 will earn their rate of return.

17 Q. And have you performed any studies or taken any
18 steps to have support for that position?

19 A. Twenty-nine years experience of understanding how
20 regulation -- the revenue requirement, the relationship and
21 the revenue requirement formula works.

22 Q. You state the Commission should not authorize a WNA
23 until rules are in place in Senate Bill 179. Once rules are
24 in place, will the Office of Public Counsel support the
25 authorization of weather normalization adjustment mechanisms?

1 A. It will depend on the form of the mechanism
2 proposed. We have supported some weather mitigation rate
3 design in a LaClede case. Actually, I think two LaClede
4 cases. I was not the witness on that issue, nor would I be
5 the responding witness in all probability on that issue in
6 the future case, unless we have some more budget cuts that
7 I'm not a part of.

8 Q. And so when OPC did support those type of
9 mechanisms in the LaClede cases, I'm assuming that was before
10 the implementation of Senate Bill 179?

11 A. Senate Bill 179 has not been implemented. There
12 have been -- I don't want to say just customer groups --
13 various parties, both the industry, customer groups, agents,
14 state agencies that have participated in round tables to
15 discuss proposed rules or draft proposed rules to implement
16 179 with regard to that section that deals with weather and
17 conservation. Those rules -- That process has been
18 currently, for lack of a better term, shelved by the
19 Commission and we will continue to participate in that
20 process if and when the Commission revives it.

21 Q. When OPC supported the weather normalization
22 adjustment for LaClede that you just mentioned, was that
23 before Senate Bill 179 was passed into law?

24 A. The first time it was. I do not remember the exact
25 date of the second LaClede case.

1 Q. I had a question for you that may need to be
2 revised based on your, I believe, your testimony that a
3 company in North Dakota, I believe is the only company you're
4 aware of what you would call a revenue decoupling mechanism
5 in place, is that correct?

6 A. That is my understanding based on our office.

7 Q. I'm going to limit my question then just to that
8 one North Dakota company. Are you aware of whether that
9 utility has been able to consistently earn its authorized
10 rate of return?

11 A. I believe it is a fairly recent case, but I would
12 have to verify exactly when that case -- those rates did go
13 into effect or that rate design, but the answer to your
14 question is, I have not gone back and looked at earnings of
15 that company since that time. I was under the impression
16 that it was a rather recent case, so there wouldn't be a
17 large amount of data available.

18 Q. So you have not studied any data that would support
19 your opinion that a revenue decoupling mechanism would result
20 in a company earning its authorized rate of return
21 consistently?

22 A. Well, every proponent of revenue decoupling, that
23 is the exact reason they propose it, is that it will
24 stabilize earnings and divorce earnings from sales levels,
25 sales level, so the exact theory of revenue decoupling is

1 what it is.

2 Q. And OPC would oppose revenue decoupling in any
3 form, I'm assuming then?

4 A. I believe Ms. Meisenheimer testified to that
5 yesterday in questions from the bench, so I will support her
6 testimony.

7 Q. On page 11 of your rebuttal testimony you discuss
8 management incentives.

9 A. On page 11?

10 Q. Yes. There in the middle of the page.

11 A. Uh-huh.

12 Q. If Staff's proposal is implemented in this case, do
13 you believe MGE will no longer have any incentive to operate
14 the utility in an efficient manner?

15 A. It has a significantly reduced incentive. It does
16 not, as we discussed earlier, eliminate all risks. So to the
17 extent other risks are present or potentially changes in
18 factors affecting the business, the company management still
19 will have to respond to that. But as far as the major risks
20 of earnings, the variability associated would be eliminated
21 with a complete decoupling.

22 Q. And you believe that would result in MGE no longer
23 wanting to operate its business in an efficient manner?

24 A. It reduces the financial impact of their actions
25 and -- Would MGE react that way? I don't know. But I know

1 what would be required and that would be more regulatory
2 oversight after the fact, oversight to ensure that they are
3 operating correctly, and that is something that Public
4 Counsel does not support of more government intrusion into
5 their business.

6 Q. At the bottom of page 11, the question you were
7 proposed mentions stepping into unchartered regulatory
8 practices and abandoning proven rate design principles.

9 A. Yes.

10 Q. If Staff's proposal regarding non-gas costs is
11 implemented in this case, could you explain for me how the
12 Commission will be stepping into unchartered regulatory
13 practices in abandoning proven rate design principles?

14 A. If the Staff's rate design is adopted?

15 Q. Yes.

16 A. Well, since Missouri has never had a revenue
17 decoupling and knows only one company, not an entire state,
18 that has done that, I would suggest it is by definition
19 unchartered regulatory practices. It is even well beyond
20 what is contemplated by Senate Bill 179, so it is unchartered
21 with regard to the legislature and beyond the legislative
22 alternatives that were provided under Senate Bill 179. In
23 fact, it is effectively mandated, not mandated, but it
24 would be -- the Commission wouldn't even have the opportunity
25 to -- Well, they would have the opportunity to reject the

1 Staff proposal in this case, so, so that is the unchartered
2 side of it.

3 As far as proven rate design principles, current
4 rate design of a customer charge, fixed charge with commodity
5 charge, the component has served Missouri customers and
6 served Missouri utilities over the last 75 years. I'm not
7 aware of any utility in this state that has ever filed for
8 Chapter 11, so by definition they've been making money. They
9 may not have made as much as they want but they also do not
10 face competition in the vast majority of their service areas.
11 We have healthy utilities in general in this case, with the
12 exception of Aquila, and I think that, again, is rate of
13 return regulation.

14 MS. CARTER: Off the record.

15 (AN OFF-THE-RECORD DISCUSSION WAS HAD AT THIS
16 TIME.)

17 THE WITNESS: I think as far as unchartered --
18 Just to summarize, this rate design has not been used in this
19 state so it is an unchartered area. I think some of the
20 results are not known of what will happen, the impact on
21 customers, especially low end, low use customers, and as far
22 as proven rate design principles have at least, as I
23 indicated, served companies well in that they have healthy
24 companies. They may not be as healthy as they'd like, but
25 neither is my budget at home, so from that standpoint -- And

1 we don't have Missourians, significant amount of Missourians
2 off the system on a perpetual basis, so they're getting -- We
3 don't have deaths, which is the ultimate things of natural
4 gas.

5 BY MS. CARTER:

6 Q. You said the current system serves Missouri
7 utilities. Are you aware whether MGE has been able to earn
8 its authorized rate of return over time?

9 A. I haven't looked at MGE's specific earnings for the
10 last couple of years recently.

11 Q. Do you believe MGE has any management efficiency
12 problems that have contributed to their inability to return
13 their rate of return?

14 A. I know MGE has a lot of turnover relative to other
15 utilities at management, top management, so I have not delved
16 into the reasons for that, but it is unusual.

17 Q. On page 12 of your rebuttal testimony at line 20,
18 you cite to a 9.6 percent authorized return for gas
19 distribution companies during the third quarter of 2006. Are
20 you aware of how many companies contributed to that, to that
21 average?

22 A. I believe there was only one reported decision in
23 the third quarter.

24 Q. So then 9.6 was just one company?

25 A. That is correct.

1 Q. And are you aware if that was a settlement or a
2 fully litigated case?

3 A. It was a reported case. I did not go back and look
4 at the order itself. I relied upon a well known group of
5 work.

6 Q. Do you know if the test year in that case was a
7 future or historic test year?

8 A. No, I do not.

9 Q. And do you know if the rates that were authorized
10 provided or provide for a sharing mechanism?

11 A. No, I do not.

12 Q. Do you know if the rates are to be phased in or to
13 be implemented all at once?

14 A. Again, I was just looking at the data supplied for
15 returns by -- as researched by Regulatory Research
16 Associates.

17 Q. Do you believe your ROE recommendation for MGE in
18 this case between 7.7 and 8.65 percent, do you believe that
19 is commensurate with return on investments in other
20 enterprises having corresponding risks?

21 A. I believe the Staff's filed testimony represents a
22 commensurate rate of return for similar risks as MGE exists
23 today, where Staff's rate design would take MGE is into
24 uncharted waters, but regardless, the fact that the waters
25 are uncharted, the fact that there is a significant

1 reduction in earning variability, revenue flow variability,
2 the risks to MGE would go down, closer to a risk free or rate
3 of return.

4 Q. Did you take any steps, other than looking at
5 Staff's testimony?

6 A. I also looked at the Company's testimony. Found
7 Staff to be a little more credible.

8 Q. Do you believe ROE recommendation for MGE would be
9 sufficient to assure confidence in the financial integrity of
10 MGE so that MGE could maintain its credit and capital also?

11 A. If Staff's rate design and the revenues result in
12 revenue streams were guaranteed as Staff's rate return would
13 do and the resulting effect on earnings, investors have
14 assurances that would then allow them to have lower returns,
15 so I would believe it would be commensurate. It would be
16 consistent with what I have seen in some water cases where
17 surcharges have been put in place, guaranteed streams of
18 revenue to allow that water company to obtain financing.

19 Q. Did you take any steps to reach your opinion that
20 your recommendation would allow MGE to maintain its credit?

21 A. I'm not sure that I have seen any specific steps,
22 ever looked at any, because it is very difficult to judge
23 what somebody six months down the road is going to do.

24 MS. CARTER: That is all the questions I have for
25 now.

1 MR. FRANSON: I've got a few.

2 Can you continue, Russ?

3 THE WITNESS: For you, Robert.

4 MR. FRANSON: That means yes.

5 CROSS-EXAMINATION BY MR. FRANSON:

6 Q. Are you offering yourself in this testimony as an
7 expert on rate design?

8 A. No. That would be Ms. Meisenheimer.

9 Q. What I'm asking about is not who is the official
10 expert in the Office of Public Counsel. I'm asking, in your
11 testimony, are you holding yourself out as an expert on rate
12 design in this case?

13 A. With regard to the implications of the rate design
14 on the revenue streams, I guess the answer would be yes. If
15 you're talking about the formulation of the rate design, I
16 did not file the testimony in this case on behalf of our
17 office.

18 Q. Are you qualified to formulate rate design
19 testimony and policy and file it in a case if you so desire?

20 A. I believe I would be able to do it, yes.

21 Q. Okay. Are you holding yourself out in this case as
22 a qualified cost of capital expert witness through your
23 testimony?

24 A. I have made a recommendation on the appropriate
25 revenue requirement or return on equity. I've reviewed the

1 other testimony and found it reasonable, so the answer I
2 guess would be yes.

3 Q. Okay. You have offered an opinion about the proper
4 return on equity if the Company and Staff's rate design is
5 implemented, correct?

6 A. If the change in -- Yes. The change that it
7 would be necessary to reflect additional revenues, the answer
8 is yes. With regard to if there is no change, I'm offering
9 testimony that the position of the Staff should be adopted;
10 so the answer, I guess, there also would be if you want to
11 say -- it would be yes, I'm saying the Staff is correct.

12 Q. Okay. Did you review the testimony of MGE witness
13 Frank Hanley as a part of this -- as a part of preparing your
14 testimony?

15 A. Yes, I did.

16 Q. You also reviewed the testimony of Staff witness
17 David Murray?

18 A. Yes, I believe I did.

19 Q. And I believe you were asked by Ms. Carter if Mr.
20 Hanley was a qualified expert to offer his opinion. Do you
21 recall that?

22 A. I believe -- Yes, I do.

23 Q. What was your answer to that?

24 A. I believe I said he was qualified to offer his
25 opinion. It doesn't mean I agree with his opinion.

1 Q. I didn't ask if you agreed with it. I asked if he
2 were qualified. What Ms. Carter failed to ask was, do you
3 believe Mr. Murray is qualified to offer the cost of capital
4 opinions that he has offered?

5 A. I haven't spoken with Mr. Murray, but I think he is
6 well qualified, yes.

7 Q. In fact, do you agree with his proposals?

8 A. Yes, I do.

9 Q. Do you agree with his proposals, except if a
10 particular rate design is adopted?

11 A. If the Staff radical rate design is adopted, given
12 your off-the-record comments, yes.

13 Q. Now, there were other off-the-record comments,
14 weren't there? I'm not asking what they were, but there were
15 some --

16 A. Yes, there were.

17 Q. -- by other people besides me, right?

18 A. (Laughter).

19 Q. A couple of -- Let's go back where we were. Isn't
20 it true that what you have termed Staff radical rate design
21 is virtually identical to the Company's rate design?

22 A. I believe the Company's filed a weather
23 normalization rate design, and I believe Ms. Meisenheimer has
24 indicated that is not similar.

25 Q. Okay. That is their alternative proposal. What

1 about their main proposal?

2 A. Yeah, they have a straight fixed variable rate
3 design, and I would have to go back and look at the
4 specifics, but I think it is fairly similar to what Staff has
5 filed.

6 Q. Okay. And isn't it true that the Office of Public
7 Counsel knew about that proposal at the time that MGE filed
8 this case in May or June of 2006?

9 A. Yes, it is.

10 Q. And would you call that proposal radical?

11 A. I'm sure we would.

12 Q. Okay. So --

13 A. But at the time it was the Company's position. We
14 have seen numerous companies talk about this before. We had
15 no idea that Staff, especially based on Staff comments, that
16 the round tables on SB 179, we had no idea that Staff would
17 be supporting the Company.

18 Q. But isn't it primarily the obligation of the Office
19 of Public Counsel to provide support for positions that it
20 may wish to take in litigation?

21 A. We did file direct testimony in this case, I
22 believe, on rate design.

23 Q. Okay. And if you had wanted to in rebuttal get an
24 expert witness to provide something regarding the
25 implications that are covered in your testimony, you would

1 have had that opportunity since May or June of 2006, isn't
2 that correct? And I'm talking straight opportunity, Mr.
3 Trippensee.

4 A. If we wanted to address -- If we expected to only
5 address the Company's position, we would have had that
6 opportunity.

7 Q. Thank you. Now, you're not a chartered financial
8 analyst, are you?

9 A. I believe I already answered no.

10 Q. All right. Thank you. Okay. The position that
11 you've taken in your testimony, who made the policy decision
12 in the Office of Public Counsel that you would offer this
13 testimony?

14 A. I would say it was a discussion within the office
15 of -- it is hard to have management when you don't have a lot
16 of staff -- of the principles in this case, Ms. Meisenheimer,
17 myself, Mr. Mills, Mr. Poston.

18 Q. Mr. Poston would have been involved in this, those
19 discussions?

20 A. Yes.

21 Q. Okay. Have you considered Staff's position in
22 general radical only when they don't agree with the position
23 of the Office of Public Counsel?

24 A. I consider them radical when they don't agree with
25 the positions of the Public Service Commission.

1 Q. In fact --

2 A. And on this issue.

3 Q. Okay.

4 A. Specifically, a dramatic set change in the specific
5 position being espoused by the Staff.

6 Q. Doesn't the Office of Public Counsel sometimes
7 advocate on issues that are not accepted by the Commission?

8 A. Been known to.

9 Q. And --

10 A. And proven right subsequently, but been known to.

11 Q. But, in fact, it does happen, isn't that true?

12 A. It does happen.

13 Q. And, in fact, sometimes the positions that the
14 Office of Public Counsel advocates are not in complete
15 agreement with past Commission precedence, is that correct?

16 A. We do not work with the Commission.

17 Q. So the answer to my question would be yes?

18 Sometimes positions advocated by the Office of Public
19 Counsel --

20 A. Are not consistent with past Commission decisions?
21 That would be true.

22 Q. Okay. And are you suggesting that Staff can only,
23 as a party in the case, advocate positions that have been
24 approved by the Commission in past cases?

25 A. I am not advocating that but that has been the

1 recent operation of the Commission, the Staff.

2 Q. But you believe that Staff would make the ultimate
3 decision on what positions it takes in the case as a party?

4 A. I think Commissioner Gaw explored that a little bit
5 yesterday. Yes, I would agree with that.

6 Q. Thank you. Okay. You referred earlier in your
7 testimony that Ms. Meisenheimer testified yesterday about
8 OPC's position on revenue decoupling, is that correct?

9 A. That is correct.

10 Q. Is that in the Atmos case?

11 A. Yes, it was.

12 Q. What was her testimony regarding the Office of
13 Public Counsel's position on revenue decoupling?

14 A. Generally it was that complete decoupling was not
15 something the Office of Public Counsel would support. There
16 are -- There has been some discussion of larger -- some
17 recognition of some weather sensitive sales and
18 recognizing -- providing some additional protection to the,
19 effectively to the utility's earnings, but that any movement
20 in that area should be coupled with extensive programs to
21 address customer conservation, efficiency, ability to pay
22 issues; that they go hand in hand, they cannot be separated.

23 Q. Thank you. Could you turn to page 9 of your
24 testimony, specifically lines 14 through 20.

25 A. Yes.

1 Q. Starting at line 14 where Public Counsel believes
2 that Staff's return on equity recommendation has taken this
3 risk reduction into consideration, your answer was no, is
4 that correct?

5 A. Yes.

6 Q. Okay. Let's assume that you're wrong in that.
7 Would that have any impact on your testimony in this case?
8 If you became convinced that you're wrong on that, would that
9 impact your testimony?

10 A. Strictly speaking, yes.

11 Q. Thank you.

12 A. At least the part about the reduction, I would
13 still support Mr. Murray's -- I would have to look -- Well,
14 I take that back.

15 Q. Okay. You've answered my question.

16 A. I believe I can answer in a deposition.

17 Q. I believe you have finished answering.

18 MR. MILLS: I can allow him to finish answering the
19 question or we're going to have some problems here.

20 MR. FRANSON: Okay.

21 MR. MILLS: He is still trying to explain the
22 answer. There is not another question pending. He is trying
23 to answer your previous question and I request that you allow
24 him to do so.

25 MR. FRANSON: That is fine. We will allow him to

1 do but, also, please note, he has a habit throughout this
2 thing, coming up with afterthoughts well after he seems to be
3 finished.

4 BY MR. FRANSON:

5 Q. Please, if you have more to add, please continue.

6 A. If Mr. Murray is advocating a revenue requirement
7 that -- return on equity that incorporates Staff -- the risk
8 associated with Staff's rate design and that rate design is
9 rejected, under the assumption, again, that his incorporates
10 the risk reduction, then Staff revenue return on equity would
11 be too low if Public Counsel's rate design is accepted.

12 However, there is nowhere in -- I have found nowhere in his
13 analysis where he makes an adjustment and his comparable
14 companies do not have this type of rate design, so absent an
15 adjustment of some factor quantified, I do not see how it can
16 be in there. And based on discussions with Mr. Murray, I
17 don't know -- he did not indicate any adjustment was made to
18 his comparable companies.

19 Q. Now have you finished, Mr. Trippensee?

20 A. Yes, I am.

21 Q. Thank you. Isn't it true that on October 31st,

22 2006 you filed your rebuttal testimony in the Atmos case,
23 specifically GR-2006-0387?

24 A. Subject to check of the October 31st date, I would
25 agree.

1 Q. Okay. Let me rephrase the question. Let's not use
2 subject to check. Let's give you an opportunity to check
3 that. Could you take a look at that. What is that?

4 A. It is labeled my rebuttal testimony in
5 GR-2006-0387.

6 Q. Could you take a look at that and see if that, in
7 fact, appears to be a true and accurate copy of your rebuttal
8 testimony?

9 A. It appears to be and it is October 31st.

10 Q. Thank you. Now, you filed similar testimony about
11 the risk reduction of the rate design proposal in the Atmos
12 case to what you filed in the MGE case, isn't that true?

13 A. That is correct.

14 Q. However, not identical in your proposals, correct?

15 A. That is correct.

16 Q. What was the nature of your proposal in the Atmos
17 case?

18 A. The nature of the proposal in the Atmos case
19 included a specific return on equity recommendation. That is
20 not -- In this case it is a range.

21 Q. Okay. Why are they different?

22 A. Quite frankly, the major difference is, I could not
23 in the time allowed fully analyze why the relative cost of
24 debt to MGE was so much -- was significantly higher than the
25 risk free rate of return contained in Staff witness Murray's

1 testimony. It appears that MGE has, for lack of a better
2 term, a high, a very high cost of debt. They are held --
3 They are a division of Southern Union Company who has
4 aggressively, as I understand it, done some refinancing but
5 that refinancing has not flowed through to the debt held by
6 MGE. I think that is an issue, but I just simply did not
7 have time to look into it. Because I did not have that bench
8 mark, what I felt was a sound bench mark of debt costs of
9 what it possibly should be, I did not feel it would be
10 something I should utilize to make a specific recommendation.
11 It just simply served as a range because it is still out
12 there as a current cost of debt.

13 Q. Let me turn a couple different ways. Do you know
14 whether in case GR-2002-356, which I believe was the LaCleda
15 rate case that resulted in a weather mitigation rate design,
16 how that case ended? Was there a unanimous stipulation
17 agreement or was there a Commission order?

18 A. I believe there was a settlement. I do not know if
19 it was unanimous simply because I don't know.

20 Q. Do you know whether Office of Public Counsel signed
21 any settlement in that case?

22 A. I would have to check. I believe we did, but I'm
23 not sure.

24 Q. Okay. Well, I'm not asking you to check. I'm just
25 asking your knowledge here, so I'm not asking you to come

1 back and report any. I just wanted to know if you knew that.

2 Do you know who filed the rate of return testimony
3 for the Office of Public Counsel in that case, if anyone?

4 A. I do not know if we filed in that case. It would
5 have been Mark Burdett, I believe, if we did.

6 Q. Okay. Well, if Office of Public Counsel filed rate
7 of return testimony, would you know whether they sponsored
8 any testimony about the weather mitigation rate design?

9 A. I would have to go back and review.

10 Q. Okay. So here today you don't know?

11 A. At this moment in time I do not know.

12 Q. Thank you. Do you believe a utility's stocks are a
13 long-term investment?

14 A. Traditionally they have been. There has been some
15 change in that recently.

16 Q. Do you have a personal opinion here today about
17 whether utility stocks are a long-term investment?

18 A. I have a personal opinion that they should be.

19 Q. Okay. What is your understanding of the investors
20 required equity risk premium?

21 A. Fundamentally it is a premium above the risk rate
22 of return that the investors are required to take on the
23 investment and the risk associated with that investment.

24 Q. Okay. Could you turn to your rebuttal testimony,
25 page 10, beginning at line 17, and please tell me when you're

1 there.

2 A. Yes.

3 Q. Do you agree with Staff witness Ross' assertion
4 that everybody is traditionally under a rate design and your
5 answer was no?

6 A. That is correct.

7 Q. Are there any winners under that traditional rate
8 design?

9 A. I believe there are winners under the traditional
10 rate design. As I answered earlier, customers have been
11 enjoying safe and adequate service, adjustable and reasonable
12 rates and the companies have not gone bankrupt, and have
13 earned returns, positive returns, so I think both parties
14 have won. I do not think that is the question that Ms. Ross
15 was addressing here.

16 Q. But the way you wrote your question and your
17 testimony is, that apparently is how you at least framed it
18 during -- when you were at your testimony yesterday?

19 A. No. Ms. Ross' testimony was that because the risk
20 can go up and the risk can go down that that results in all
21 parties losing. That is just nonsensical. I completely
22 disagree with her testimony on that comment. The fact that
23 somebody says that weather can go up -- Weather is higher
24 relative to normal so sales go down and conversely, that
25 weather is cooler than normal and, therefore, sales can go up

1 result in all parties losing at all times is just simply
2 wrong. I can't explain wrong.

3 Q. Have you finished your answer?

4 A. Yes.

5 MR. FRANSON: No further questions.

6 MS. CARTER: Russ, I just have one thing.

7 MR. MILLS: Sure, go right ahead.

8 MS. CARTER: The North Dakota case, would you
9 supply that name? I think you said you weren't sure of it
10 here today.

11 MR. MILLS: We can do that.

12 THE WITNESS: Yeah, no problem. Especially since
13 he now said so.

14 COURT REPORTER: Signature?

15

16

17

18

19

20

21

22

23

24

25