

Exhibit No.:
Issues: Corporate Allocations,
Revenues-Customer Growth
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2009-0355
Date Testimony Prepared: October 14, 2009

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

MISSOURI GAS ENERGY
a Division of Southern Union Company

CASE NO. GR-2009-0355

Jefferson City, Missouri
October 2009

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1 testimony of Mr. Noack (page 25, line 13 through page 27, line 2). However, the Staff is not
2 using this factor for the purpose of allocating costs from SU's chairman's department to
3 MGE.

4 Q. Why did the Staff make this change?

5 A. After discussions with the Company, and a review of Mr. Noack's rebuttal
6 testimony, the Staff believes that Citrus employs its own corporate personnel to provide many
7 of the same services provided by SU corporate employees to other SU divisions. Therefore,
8 SU (MGE's parent company) does not have to provide as much corporate support to Citrus as
9 it does to its other divisions.

10 Q. Why is the Staff not using this allocation factor for the chairman's department?

11 A. Citrus is owned 50/50 by SU and El Paso Corporation. The Staff's
12 understanding is that the Chairman of SU still has joint responsibility for, and does participate
13 in, management and oversight of Citrus. Therefore, the Staff believes that a fair share of costs
14 should be allocated to Citrus from the chairman's department.

15 Q. What effect would it have on MGE if a fair share of these costs were not
16 allocated to Citrus for rate purposes?

17 A. If these costs were not allocated to Citrus, then MGE's customers would be
18 responsible for an inequitable share of corporate costs.

19 Q. Are there any other changes the Staff has made regarding corporate
20 allocations?

21 A. Yes. The Staff has made additional changes to its positions regarding
22 non-employee related costs and IT positions.

1 Q. What is the basis for the changes made by the Staff regarding non-employee
2 related costs?

3 A. The Staff's Cost of Service Report noted on page 65 that for a few areas of
4 corporate allocations, the Staff desired to review additional documentation. As stated in
5 Mr. Noack's rebuttal testimony on page 27, lines 6 through 10, this information has since
6 been provided to the Staff.

7 Q. Has the Staff had a chance to review the information MGE provided?

8 A. Yes. The Staff has reviewed this information

9 Q. What was the result?

10 A. The Staff has now included the majority of the corporate costs categorized as
11 "allocated" and "general."

12 Q. Is the Staff still recommending disallowance of some of these costs?

13 A. Yes. The Staff is recommending disallowance of costs identified in the
14 "allocated" category that are associated with employee benefits. The Staff has consistently
15 disallowed these costs for all SU employees because they relate to incentive compensation
16 expenses that the Staff believes primarily benefit shareholders, instead of MGE ratepayers.
17 This position is described fully in the Staff's Cost of Service Report on page 68, line 3
18 through 10.

19 Q. What other disallowances has the Staff recommended for corporate
20 allocations?

21 A. The Staff has also recommended disallowance of certain corporate legal costs.
22 Legal costs associated with other specifically identified SU entities and retainers paid to firms
23 representing SU within the test year have been excluded from the allocation process. The

1 Staff believes these costs provide no benefit to MGE ratepayers. In regard to a retainer paid
2 to Kasowitz, Benson, Torres & Friedman (Kasowitz), LLP, the information received by the
3 Staff in this case indicates that the retainer is not being paid to Kasowitz subsequent to the test
4 year and should be eliminated.

5 Q. What impact do all the changes in the Staff's position on corporate allocations
6 have on the Staff's recommended overall revenue requirement?

7 A. The changes described above for corporate allocations increase the Staff's
8 overall revenue requirement by approximately \$1.54 million.

9 **REVENUES-CUSTOMER GROWTH**

10 Q. Has the Staff made any changes to its position regarding revenues-customer
11 growth since the filing of rebuttal testimony?

12 A. Yes. After further discussions with the Company, the Staff has made several
13 changes regarding customer growth. First, the Staff has made all corrections identified in
14 Mr. Loos' rebuttal testimony on page 8, line 19 through page 9, line 13. The impact of these
15 changes results in a reduction of revenues by \$365,854.

16 Q. What other changes has the Staff made for revenues-customer growth?

17 A. The Staff believes that a three-year average ratio (of the April customer
18 numbers compared to the succeeding year's total customers) discussed by Mr. Loos at page 9,
19 lines 16 through 17 and page 10, lines 8 through 15, of his rebuttal testimony is an acceptable
20 approach for adjusting test year revenues for the residential class only. There was a
21 major change in residential class rate design as a result of the last general rate case,
22 No. GR-2006-0422. The Staff believes that it is more accurate to use a customer growth

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1 average that reflects the most current rate design for that class. This change reduces revenues
2 by \$391,120.

3 Q. Was there a major change to the rate design for the Small General Service
4 (SGS) or Large General Service (LGS) classes in the last rate case?

5 A. No. The same basic rate design is still in place for both the SGS and LGS
6 classes. Therefore, the Staff believes that use of a five-year average to adjust for customer
7 growth is still appropriate for these classes.

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy and Its)
Tariff Filing to Implement a General Rate)
Increase for Natural Gas Service)
)

Case No. GR-2009-0355

AFFIDAVIT OF AMANDA C. MCMELLEN

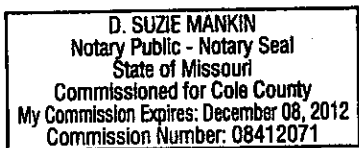
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.


Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Amanda C. McMellen

Subscribed and sworn to before me this 13th day of October, 2009.




Notary Public