

Exhibit No.: _____
Issues: General Background
Waiver Request
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: GE-2011-0282
Type of Exhibit: Direct Testimony
Date: October 26, 2011

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GE-2011-0282

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

October 2011

**** ** DENOTES HIGHLY CONFIDENTIAL INFORMATION**

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INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Michael R. Noack and my business address is 3420 Broadway, Kansas City, Missouri 64111.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Missouri Gas Energy, a division of Southern Union Company (MGE or Company), as Director of Pricing and Regulatory Affairs.

Q. WHAT IS THE NATURE OF MGE'S BUSINESS IN MISSOURI?

A. MGE currently conducts business as a "gas corporation" and provides natural gas service to approximately 500,000 customers in the Missouri counties of Andrew, Barry, Barton, Bates, Buchanan, Carroll, Cass, Cedar, Christian, Clay, Clinton, Dade, Dekalb, Greene, Henry, Howard, Jackson, Jasper, Johnson, Lafayette, Lawrence, McDonald, Moniteau, Pettis, Platte, Ray, Saline, Stone, and Vernon, subject to the jurisdiction of the Missouri Public Service Commission as provided by law.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

1 A. I received a Bachelor of Science in Business Administration with a major in
2 Accounting from the University of Missouri in Columbia in 1973. Upon
3 graduation, I was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a
4 Certified Public Accounting Firm in Kansas City, Missouri. I spent
5 approximately 20 years working with TKWK or firms that were formed by former
6 TKWK employees or partners. I was involved during that time in public utility
7 consulting and financial accounting, concentrating primarily on rate cases for
8 electric and gas utilities and financial audits of independent telephone companies
9 across the United States. In 1992, I started Carleton B. Fox Co. Inc. of Kansas
10 City which was an energy consulting company specializing in billing analysis and
11 tariff selection for large commercial and industrial customers. In July of 2000, I
12 started my employment with MGE. Presently, I hold, in good standing, a
13 Certified Public Accountant certificate in the state of Kansas and am a member of
14 the Kansas Society of Certified Public Accountants.

15
16 **PURPOSE**

17
18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my testimony is to support MGE's request that the Commission
21 grant MGE a waiver/variance from the Order in Case No. GM-2003-0238 such
22 that MGE – beginning July 1, 2010 (the start of the 2010/2011 ACA period) – is
23 allowed to calculate its PGA utilizing the actual transportation and storage costs

1 being paid to Panhandle Eastern Pipeline Company ("PEPL") subject, of course,
2 to audit and prudence review during the ACA (actual cost adjustment) process
3 which the Staff has undertaken annually.
4

5 **BACKGROUND**
6

7 **Q. PLEASE DESCRIBE THE NATURE OF COMMISSION CASE NO. GM-**
8 **2003-0238.**

9 A. On January 13, 2003, in Case No. GM-2003-0238, Southern Union Company
10 filed an application asking the Commission for authority to acquire, directly or
11 indirectly, up to and including one hundred percent of the equity interests of
12 PEPL, including its subsidiaries.
13

14 **Q. HOW DID CASE NO. GM-2003-0238 CONCLUDE?**

15 A. A Stipulation and Agreement ("Stipulation") signed by MGE/Southern Union
16 Company, the Commission Staff, and the Office of the Public Counsel was filed
17 on March 25, 2003. The remaining parties in the case - Kansas City Power &
18 Light Company, Union Electric Company d/b/a Ameren Missouri, Midwest Gas
19 Users' Association, the Missouri Attorney General and Laclede Gas Company --
20 indicated that they did not object to the Stipulation and did not request a hearing.
21 The Commission issued its Order Approving Stipulation and Agreement on
22 March 27, 2003, effective April 6, 2003. Southern Union acquired PEPL on June
23 11, 2003.

1

2 **Q. IS PEPL STILL A SUBSIDIARY OF SOUTHERN UNION COMPANY?**

3 A. Yes.

4

5 **Q. DOES MGE SEEK IN THIS CASE A WAIVER FROM A PROVISION OF**
6 **THE STIPULATION IN CASE NO. GM-2003-0238?**

7 A. Yes.

8

9 **Q. FROM WHAT CONDITION DOES MGE SEEK A WAIVER?**

10 A. The condition contained in the Stipulation that states as follows:

11 MGE agrees, for purposes of calculating its purchase gas adjustment
12 ("PGA") and actual cost adjustment ("ACA") rates, to maintain at least the
13 same percentage of discount it is currently receiving on Panhandle and
14 Southern Star Central for purposes of transportation and storage costs
15 passed through the PGA clause to MGE's ratepayers as provided in Highly
16 Confidential Appendix 2 hereto.

17

18

19 **Q. WHAT WAS THE PURPOSE OF THAT CONDITION?**

20 A. The condition appeared to be premised upon Staff's concern about the affiliate
21 relationship between MGE and PEPL that would result from the transaction and
22 the impact that relationship might have on MGE's ability to obtain discounted
23 rates from PEPL. Staff witness Sommerer pointed out at the time that "Although
24 the *maximum* transportation rates paid by MGE are regulated by the Federal
25 Energy Regulatory Commission (FERC), it is not uncommon for LDCs like MGE

1 to negotiate discounted rates.” Sommerer Rebuttal, p. 5, Case No. GM-2003-0238
2 (March 2003).
3

4 **Q. DOES MGE BELIEVE THAT THE SITUATION DESCRIBED BY**
5 **WITNESS SOMMERER HAS CHANGED?**

6 A. Yes. It is now “uncommon” for LDCs, such as MGE, affiliated or not, to
7 negotiate discounted rates on the PEPL system. MGE witness Kurt Gregson will
8 address the current circumstances related to PEPL transportation and storage
9 agreements in his Direct Testimony.
10

11 **Q. WHAT LEVEL OF DISCOUNTS IS PRESERVED BY THE SUBJECT**
12 **CONDITION?**

13 A. This condition, for purposes of PGA calculation, preserves transportation
14 discounts of ** _____ ** and storage discounts of ** _____ **.
15

16 **IMPACT**

17 **Q. DOES THIS CONDITION RESULT IN MGE PAYING LESS FOR ITS**
18 **PEPL TRANSPORTATION AND STORAGE THAN IT OTHERWISE**
19 **WOULD?**

20 A. No. The effect is that MGE must pay PEPL the non-discounted, higher amount,
21 but is not allowed to recover this cost from its customers. In other words, MGE is
22 required to utilize transportation and storage expense in the calculation of its PGA
23 that is far less than the actual expense incurred by MGE.

1

2 **Q. HAVE YOU CALCULATED THE AMOUNT OF UNRECOVERED**
3 **EXPENSE THAT MGE HAS INCURRED AS A RESULT OF THIS**
4 **CONDITION?**

5 A. Yes. In compliance with the discount provision approved by the Commission in
6 Case No. GM-2003-0238, MGE has imputed non-existent discounts of
7 approximately \$**_____** through ACA adjustments from July of 2005 through
8 June 2010, as shown in Highly Confidential Schedule MRN-1. This figure
9 pertains to the contracts between MGE and PEPL that were effective from
10 October 1, 2005 through March 31, 2010. Continued imputation of the non-
11 existent and unavailable PEPL discounts will reduce MGE's earnings by
12 approximately \$**_____** annually as is shown on Highly Confidential Schedule
13 MRN-2.

14

15 **Q. WHAT IMPACT WILL THAT REDUCTION HAVE ON MGE'S ABILITY**
16 **TO ACHIEVE ITS AUTHORIZED RATE OF RETURN?**

17 A. Continued imputation of non-existent PEPL discounts will reduce MGE's
18 earnings by approximately **\$_____** per year beginning July 1, 2010. To put
19 this amount in context, in MGE's most recently concluded general rate
20 proceeding (Case No. GR-2009-0355), the equity return component of MGE's
21 cost of service amounted to approximately \$23.7 million per year. Thus,
22 continued imputation of non-existent PEPL discounts will eliminate
23 approximately **____** of MGE's authorized equity earnings. Said another way,

1 if all of the assumptions embedded in MGE's rates come to pass and imputation
2 of non-existent PEPL discounts continues, MGE's actual achieved return on equity
3 will be ** ____ ** basis points less or ** ____ **, compared to the Commission-
4 authorized level of 10%.

5
6 **Q. HOW DO MGE'S PAYMENTS TO PEPL TODAY COMPARE TO THOSE**
7 **MGE WAS MAKING TO PEPL IN 2003?**

8 A. With the transportation and storage contracts that became effective April 1, 2010,
9 MGE was able to restructure the PEPL contracts such that MGE's actual usage of
10 PEPL's services has decreased, resulting in a significant reduction in
11 transportation and storage fees paid by MGE to PEPL. The total, annual amount
12 paid by MGE for PEPL transportation and storage capacity cost (i.e., beginning
13 with the new contract term effective April 1, 2010, which has no discounts) is
14 now approximately \$** ____ ** per year less than the annual discounted amount
15 paid by MGE for PEPL transportation and storage capacity when the Commission
16 approved the Stipulation in Case No. GM-2003-0238 (when MGE's PEPL rates
17 were discounted considerably). The detail is shown on Highly Confidential
18 Schedule MRN-3.

19
20 **REQUEST**

21 **Q. WHAT RELIEF DOES MGE SEEK IN THIS CASE?**

22 A. MGE seeks a waiver/variance from the Commission's Order in Case No. GM-
23 2003-0238, to allow MGE – beginning July 1, 2010 (the start of the 2010/2011

1 ACA period) – to calculate its PGA utilizing the actual transportation and storage
2 rates currently being paid to PEPL (under new contracts which became effective
3 on April 1, 2010) subject to audit and prudence review during the ACA process
4 which has been undertaken by the Staff annually.

5

6 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

7 **A. Yes it does.**

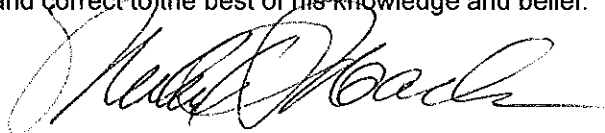
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter Southern Union Company)
d/b/a Missouri Gas Energy's) Case No. GE-2011-0282
Application for Waiver/Variance)

AFFIDAVIT OF MICHAEL R. NOACK

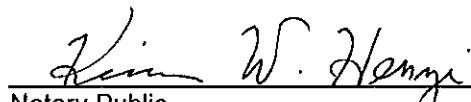
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

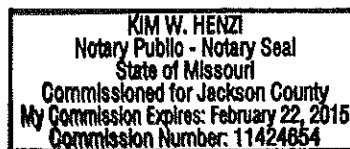


MICHAEL R. NOACK

Subscribed and sworn to before me this 25th day of OCTOBER 2011.


Notary Public

My Commission Expires: Feb. 22, 2015



Missouri Gas Energy
Panhandle Eastern Pipeline Discount Adjustments

Highly Confidential in its entirety

Missouri Gas Energy
Computation of Impact of Discount Imputation
Per Stipulation in GM-2003-0238
Current Panhandle Contracts

Schedule MRN-2

Schedule MRN-2 is Highly Confidential in its entirety

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Schedule MRN-3 is Highly Confidential in its entirety.