

Exhibit No.:
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Depreciation Expense*
Witness: *Mark L. Oligschlaeger*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *True-up Rebuttal Testimony*
Case No.: *GR-2009-0355*
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MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

TRUE-UP REBUTTAL TESTIMONY
OF
MARK L. OLIGSCHLAEGER

MISSOURI GAS ENERGY,
a Division of Southern Union Company

CASE NO. GR-2009-0355

Jefferson City, Missouri
December, 2009

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OF
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1 A. Based upon the testimony and attachments filed by MGE witness Michael R.
2 Noack and The Office of the Public Counsel witness Ted Robertson, the Staff believes that
3 issues involving MGE's prepaid pension asset, depreciation expense, rate case expense and
4 capital structure are being raised in this phase of the Company's rate proceeding. Staff
5 witness Keith D. Foster of the Auditing Department will address rate case expense and
6 certain aspects of the prepaid pension asset issue in his true-up rebuttal testimony. Staff
7 witness David Murray of the Financial Analysis Department will address the capital
8 structure issue in his true-up rebuttal testimony. As previously mentioned, I will also
9 address the prepaid pension asset issue, as well as present the Staff's position on the
10 depreciation issue raised by MGE in its true-up direct testimony.

11 **PREPAID PENSION ASSET**

12 Q. What issues is MGE raising regarding the prepaid pension asset (PPA) in the
13 true-up phase of this case?

14 A. The schedules attached to Mr. Noack's direct testimony show a higher rate
15 base balance for its PPA balance than the amount reflected in the Staff's true-up accounting
16 schedules. Based upon discussions with MGE, the Staff believes this different balance is
17 based upon the following divergent approaches between the Staff and the Company regarding
18 the PPA quantification: 1) MGE's PPA balance is higher than the Staff's balance because
19 MGE assumes a later starting point for the PPA amortizations; and 2) MGE is asserting that it
20 is inappropriate for the Staff to apply a "transfer rate" (expense ratio) to the PPA balance.

21 Q. Does the Staff agree with these criticisms?

22 A. No. Staff witness Foster will address the reasons the Staff disagrees with
23 MGE's first claim concerning the starting point for PPA amortizations. I will briefly address

1 MGE's second claim. However, regardless of any technical merit to MGE's contentions, the
2 Staff believes that it was inappropriate for MGE to wait until now to raise these issues.

3 Q. Does the Staff agree with MGE that no "transfer rate" should be applied to the
4 PPA amount included in rate base?

5 A. No. The essence of MGE's position is that no part of the difference between
6 its ongoing actual level of pension contributions and the amount of pension costs it recovers
7 in rates (i.e., the pension tracker regulatory asset/liability) should be assigned to construction
8 and capitalized. This is inconsistent with how MGE treats its pension costs that are not
9 deferred through the pension tracker mechanism. Again, though, MGE has not raised this
10 issue in a timely manner in this proceeding, and MGE's contentions should be rejected on this
11 basis alone.

12 Q. Did the Staff change its approach to calculation of its recommended PPA
13 balance in any way between its direct filing on August 21, 2009 and its true-up direct filing on
14 November 24, 2009?

15 A. No. The calculation was performed in exactly the same manner in both filings.
16 To the extent that MGE objects to the Staff's PPA calculation methodology, the Company
17 should have raised those concerns in earlier phases of the case, in particular the initial rebuttal
18 filing.

19 Q. Why does it matter whether a party raises an issue in the initial testimony
20 filings or in its true-up testimony filing?

21 A. The Staff's (and other parties') initial testimony filings in rate proceedings are
22 based upon months of audit work. Once the Staff makes its positions known by filing direct
23 testimony, other parties generally have over a month to respond to the Staff's positions in
24 rebuttal testimony, with these filings due after an additional opportunity to discuss issues in

1 detail at a settlement conference. Subsequently, for major rate cases, hearings are normally
2 set for at least two weeks, allowing for a thorough examination by opposing parties and the
3 Commission of any remaining contested issues.

4 In contrast, true-up audits normally take place over a period of several weeks, with
5 very little time allowed between the direct true-up filing and rebuttal filing, if a true-up
6 rebuttal filing is even scheduled. Settlement conferences have not been scheduled in true-up
7 phases of rate proceedings. Finally, true-up hearings are generally ordered for a one or two-
8 day period.

9 Q. What are the consequences of truncating the true-up evidentiary process in
10 comparison to the initial phases of a rate proceeding?

11 A. Obviously, there is much less time to develop and try issues in the true-up
12 phase of a case compared to the initial phase of a case. Presumably, this has been viewed as
13 acceptable because a true-up audit is primarily intended to update a utility's financial results
14 using the same methods employed in the initial phase of the case, so it should be rare that any
15 truly "new" issues arise in the true-up phase. But, to make the true-up process reasonably
16 workable, it is crucial that issues that exist in the initial phase of a case be developed and tried
17 in the initial phase of the case, and not "held" until the true-up phase.

18 Q. By raising its concerns regarding the PPA for the first time in the true-up
19 phase, has MGE acted on a timely basis?

20 A. No. There is no reason that MGE could not have raised these issues in a timely
21 manner. MGE's concerns on the prepaid pension asset are not based upon new information
22 only available to it as a result of the true-up audit. The issues they are raising in the true-up
23 phase existed at the time of the Staff's initial direct testimony filing, and these issues could
24 have been, and should have been, raised in the initial phase of this proceeding.

1 Q. How does the Staff recommend the Commission handle the prepaid pension
2 asset issue raised in the true-up?

3 A. For the reasons outlined in Staff witness Foster's and my true-up rebuttal
4 testimony, the Staff believes its calculation of the PPA in rate base is correct in any case.
5 However, notwithstanding this position, the Staff recommends that the Commission deny
6 consideration to ratemaking claims raised in the true-up phase of a case when such claims are
7 properly heard in the initial phase of the case, especially when such claims are not based upon
8 financial information only available as a result of a true-up audit.

9 **DEPRECIATION EXPENSE**

10 Q. What is the issue regarding MGE's depreciation expense in the true-up phase
11 of this proceeding?

12 A. According to the schedules attached to the true-up direct testimony of
13 Company witness Noack, MGE believes it should be allowed to recover approximately
14 \$45,000 more in annual depreciation expense than the amount reflected on the Staff's true-up
15 accounting schedules. Based upon discussions with MGE, the Staff believes this difference is
16 due to the Company's belief that a depreciation rate should be applied to an additional
17 account that is not included in the Staff's Depreciation Expense Accounting Schedule.

18 Q. What is this additional account?

19 A. This account is No. 374.2, Land Rights.

20 Q. What is the basis for the Staff's depreciation expense recommendation in this
21 proceeding?

22 A. The plant in service accounts and depreciation rates incorporated in the Staff's
23 Depreciation Expense Accounting Schedule were taken directly from the Commission's

1 Order in Case No. GE-2010-0030 which concerned MGE's request for a waiver of
2 Commission's rules regarding the required timing of depreciation studies. The Staff made a
3 proposal to resolve the issues in that proceeding which included, among other things,
4 agreement on a schedule of depreciation rates to be authorized in this general rate proceeding.
5 That depreciation schedule was attached to the Staff's Recommendation filed in that
6 proceeding. The other parties to that proceeding, including MGE, agreed to the Staff's
7 proposed conditions for settlement of this case, including its proposed depreciation rates.

8 Q. Did the Staff's proposed depreciation rates in Case No. GE-2010-0030 include
9 a depreciation rate for Account 374.2?

10 A. No.

11 Q. Did MGE object at that time to the exclusion of a depreciation rate for
12 Account 374.2 from the Staff's proposed depreciation rates in Case No. GE-2010-0030?

13 A. No.

14 Q. Did the Commission order MGE to use the Staff's proposed depreciation rates
15 as part of its Order in Case No. GE-2010-0030?

16 A. Yes.

17 Q. Has the Staff based its recommendation for depreciation rates in this case on
18 the rates approved by the Commission in Case No. GE-2010-0030?

19 A. Yes. In fact, the Staff attached a schedule of the rates approved by
20 the Commission in Case No. GE-2010-0030 to its Cost of Service Report in this case,
21 No. GR-2009-0355.

22 Q. Did MGE challenge the proposed rates attached to the Staff's Cost of Service
23 Report in this case in its rebuttal testimony, on the basis that it omitted a rate for
24 Account 374.2 or for any other reason?

1 A. No, it did not.

2 Q. Has the Staff, MGE or other parties previously reached an agreement regarding
3 the depreciation rates to be authorized for MGE in this proceeding?

4 A. Yes, they have. A schedule of depreciation rates was attached as Appendix C
5 to the *Partial Stipulation and Agreement* filed November 5, 2009 in Case No. GR-2009-0355.
6 The parties agreed to these depreciation rates, which were identical to the rates approved by
7 the Commission in Case No. GE-2010-0030. There was no depreciation rate listed on
8 Appendix C for Account 374.2.

9 Q. Based upon the above information, should the Commission entertain MGE's
10 request to include depreciation expense applicable to Account 374.2 in this true-up
11 procedure?

12 A. No. The Company has previously agreed to, acquiesced to and stipulated to a
13 set of depreciation rates that did not include a rate for Account 374.2, Land Rights. To the
14 extent MGE believed that it should received depreciation expense rate recovery on
15 this account in this case, the proper time to raise that contention would have been in Case No.
16 GE-2010-0030, and certainly no later than in the initial phase of the current rate case, No.
17 GR-2009-0355. Similar to the earlier situation discussed in this testimony concerning the
18 prepaid pension asset, this issue is being raised in an untimely manner by MGE and their
19 proposal should not be entertained in the true-up phase of this case.

20 Q. Does this conclude your true-up rebuttal testimony?

21 A. Yes, it does.

Suzanne Hankin
Notary Public