

Exhibit No.:
Issues: *Rate of Return, Capital Structure*
Witness: *David Murray*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *True-Up Rebuttal Testimony*
Case No.: *GR-2009-0355*
Date Testimony Prepared: *December 3, 2009*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

TRUE-UP REBUTTAL TESTIMONY
OF
DAVID MURRAY

MISSOURI GAS ENERGY,
a Division of Southern Union Company

CASE NO. GR-2009-0355

Jefferson City, Missouri
December 2009

TRUE-UP REBUTTAL TESTIMONY

OF

DAVID MURRAY

**MISSOURI GAS ENERGY,
a Division of Southern Union Company**

CASE NO. GR-2009-0355

Q. Please state your name.

A. My name is David Murray.

Q. Are you the same David Murray who earlier filed rebuttal, surrebuttal and true-up direct testimony in this proceeding on behalf of the Staff of the Missouri Public Service Commission (Staff) and, in addition, was responsible for the section of the Staff's Cost of Service Report (COS Report) filed August 21, 2009 concerning cost of capital issues?

A. Yes, I am.

Q. In the COS Report, did you recommend a fair and reasonable rate of return (ROR) for the Missouri jurisdictional natural gas utility rate base for Missouri Gas Energy, a Division of Southern Union Company (MGE)?

A. Yes, I did.

Q. What is the purpose of your true-up rebuttal testimony?

A. The purpose of my true-up rebuttal testimony is to reply to Company Witness Mike Noack's True-up Direct Testimony, which did not include a true-up of Company Witness Frank J. Hanley's recommended hypothetical capital structure and hypothetical embedded costs.

Q. Why didn't MGE true-up the hypothetical capital structure and the embedded costs associated with this capital structure?

1 A. Mr. Noack maintains that MGE is not requesting a true-up of capital structure
2 and embedded costs of capital because the Company's rate-of-return (ROR) witness
3 recommended using a hypothetical capital structure and embedded costs.

4 Q. Should the type of methodology used to estimate a fair ROR be the primary
5 driver in determining whether to true-up ROR costs?

6 A. No. Costs of capital and capital structures continually change due to changes
7 in the capital markets. This point is equally true regardless of whether a party advocates for a
8 hypothetical capital structure or an actual company-specific capital structure. If the parties
9 agreed to perform a general true-up of cost of service items in this case, then the ROR costs
10 (both capital structure and debt rates) should be trued-up as well.

11 Q. Is there a specific reason in this case that emphasizes the need to evaluate ROR
12 information through the true-up date?

13 A. Yes, because short-term debt costs are generally more volatile than long-term
14 capital costs and the revenue requirement difference between the Staff's trued-up cost of
15 short-term debt and MGE's updated cost of short-term debt is material in this case
16 (approximately \$1.5 million). For these reasons, the use of the true-up period in evaluating
17 evidence on the current cost of short-term debt is very valuable.

18 Q. What did the evidence on the cost of short-term debt that you provided in your
19 true-up direct testimony prove?

20 A. It proves that natural gas companies continue to benefit from an environment
21 of low cost of short-term debt. This should be reflected in MGE's cost of service.

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

23 A. Yes, it does.

Elizabeth A. Szymellankin
Notary Public