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

1	TRUE-UP REBUTTAL TESTIMONY
2	$\mathbf{OF}$
3	DAVID MURRAY
4 5	MISSOURI GAS ENERGY, a Division of Southern Union Company
6	CASE NO. GR-2009-0355
7	Q. Please state your name.
8	A. My name is David Murray.
9	Q. Are you the same David Murray who earlier filed rebuttal, surrebuttal and
10	true-up direct testimony in this proceeding on behalf of the Staff of the Missouri Public
11	Service Commission (Staff) and, in addition, was responsible for the section of the Staff's
12	Cost of Service Report (COS Report) filed August 21, 2009 concerning cost of capital issues?
13	A. Yes, I am.
14	Q. In the COS Report, did you recommend a fair and reasonable rate of return
15	(ROR) for the Missouri jurisdictional natural gas utility rate base for Missouri Gas Energy, a
16	Division of Southern Union Company (MGE)?
17	A. Yes, I did.
18	Q. What is the purpose of your true-up rebuttal testimony?
19	A. The purpose of my true-up rebuttal testimony is to reply to Company Witness
20	Mike Noack's True-up Direct Testimony, which did not include a true-up of Company
21	Witness Frank J. Hanley's recommended hypothetical capital structure and hypothetical
22	embedded costs.
23	Q. Why didn't MGE true-up the hypothetical capital structure and the embedded
24	costs associated with this capital structure?

8

9 10

11 12

13 14

15

16 17

18 19

20 21

22 23

- A. Mr. Noack maintains that MGE is not requesting a true-up of capital structure and embedded costs of capital because the Company's rate-of-return (ROR) witness recommended using a hypothetical capital structure and embedded costs.
- Q. Should the type of methodology used to estimate a fair ROR be the primary driver in determining whether to true-up ROR costs?
- A. No. Costs of capital and capital structures continually change due to changes in the capital markets. This point is equally true regardless of whether a party advocates for a hypothetical capital structure or an actual company-specific capital structure. If the parties agreed to perform a general true-up of cost of service items in this case, then the ROR costs (both capital structure and debt rates) should be trued-up as well.
- Q. Is there a specific reason in this case that emphasizes the need to evaluate ROR information through the true-up date?
- A. Yes, because short-term debt costs are generally more volatile than long-term capital costs and the revenue requirement difference between the Staff's trued-up cost of short-term debt and MGE's updated cost of short-term debt is material in this case (approximately \$1.5 million). For these reasons, the use of the true-up period in evaluating evidence on the current cost of short-term debt is very valuable.
- Q. What did the evidence on the cost of short-term debt that you provided in your true-up direct testimony prove?
- A. It proves that natural gas companies continue to benefit from an environment of low cost of short-term debt. This should be reflected in MGE's cost of service.
  - Q. Does this conclude your prepared true-up rebuttal testimony?
  - 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 D	OAVID MURRAY
STATE OF MISSOURI ) ) ss. COUNTY OF COLE )	
David Murray, of lawful age, on his or preparation of the foregoing True-Up Rebutt consisting of pages to be presented foregoing True-Up Rebuttal Testimony were matters set forth in such answers; and that such knowledge and belief.	in the above case; that the answers in the given by him; that he has knowledge of the
	David Murray
Subscribed and sworn to before me this $3$	day of December, 2009.
D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 08, 2012 Commission Number: 08412071	Dinellankin Notary Public