

Exhibit No.:

Issues: Environmental Remediation
Costs; Uncollectibles
Expense; Infinium; Kansas
Storage Gas Property Tax
AAO; PGA Recovery of
Uncollectibles Expense and
FERC Regulatory Costs;
Updated Revenue
Deficiency

Witness: Michael R. Noack

Sponsoring Party: Missouri Gas Energy

Case No.: GR-2009-0355

Date Testimony Prepared: October 14, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

SURREBUTTAL TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

October 2009

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**SURREBUTTAL TESTIMONY OF MICHAEL R. NOACK
CASE NO. GR-2009-0355
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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. ARE YOU THE SAME MICHAEL R. NOACK THAT PREVIOUSLY FILED DIRECT, UPDATED TEST YEAR DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?

A. Yes.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to certain matters contained in the rebuttal testimony of Missouri Public Service Commission (Commission) Staff witnesses Keith Foster, Mark Oligschlaeger and David Sommerer and Office of the Public Counsel (OPC) witnesses Ted Robertson and Russ Trippensee as that testimony concerns environmental expenses, uncollectible expense, Infinium software and the Kansas property tax AAO. I am also including an Updated Revenue Deficiency Model as Surrebuttal Schedule MRN-1.

ENVIRONMENTAL EXPENSES

Q. IN HIS REBUTTAL TESTIMONY, OPC WITNESS TED ROBERTSON SUGGESTS THAT MGE HAS BENEFITTED FROM PAST FEDERAL AND STATE TAX DEDUCTIONS RELATED TO FORMER MANUFACTURED GAS PLANT (MGP) REMEDIATION EXPENDITURES (P. 2-7). HAS MGE BEEN ABLE TO DEDUCT THESE PAST EXPENSES FOR TAX PURPOSES?

A. Yes.

Q. WHAT DOES MR. ROBERTSON BELIEVE IS THE IMPORT OF THIS FACT?

A. He alleges that “to the extent that the tax deduction lowers Southern Union Company’s income tax expense and payments, it effectively reduces the actual cost of the expenditures incurred for remediation activities 37-38%”(p. 4).

Q. WHAT IMPACT SHOULD THIS ARGUMENT HAVE ON THE NORMALIZED LEVEL OF ENVIRONMENTAL EXPENSES TO BE CONSIDERED IN THE CALCULATION OF MGE’S COST OF SERVICE IN THIS CASE?

A. None whatsoever. Mr. Robertson’s argument has no relevance in regard to determining an appropriate level of environmental expenses to include in MGE cost of service on a going forward basis.

Q. WHAT IS THE PURPOSE OF ANALYZING MGE’S TEST YEAR AMOUNT OF ENVIRONMENTAL EXPENSE?

A. The purpose is to use those test year amounts as a basis for determining a level of costs for recovery that will match the level of costs MGE will incur during the time new rates

1 will be in effect. Staff ultimately uses an average of the annual environmental expenses
2 over the last three calendar years to arrive at its recommendation as does the Company.

3
4 **Q. TO THE EXTENT THE ENVIRONMENTAL COSTS ARE INCLUDED IN**
5 **OPERATING EXPENSES CONSIDERED IN SETTING RATES, WHAT AFFECT**
6 **WILL THAT HAVE ON THE INCOME TAX CALCULATION INCLUDED IN**
7 **SETTING RATES?**

8 A. It will have the effect of reducing the income tax expense included in rates.

9
10 **Q. WHY ARE PAST TAX DEDUCTIONS NOT AN APPROPRIATE**
11 **CONSIDERATION FOR THIS NORMALIZING PROCESS?**

12 A. Because they have nothing to do with the level of costs MGE will incur during the period
13 of time the new rates will be in effect. Whatever tax impact may have been associated
14 with past expenditures, the base costs are evidence of what MGE will have to spend
15 during the period of time the new rates will be in effect.

16
17 **Q. HOW MUCH MONEY DID MGE SPEND ON ENVIRONMENTAL EXPENSES?**

18 A. MGE spent the entire amount that is on its books. MGE did not have the luxury of
19 writing its contractors checks in amounts that were 37-38% less than the contract price.

20
21 **UNCOLLECTIBLES EXPENSE**

22 **Q. WHAT NON-COMPANY WITNESSES ADDRESSED BAD DEBTS OR**
23 **UNCOLLECTIBLE EXPENSE IN THEIR REBUTTAL TESTIMONY?**

24 A. Staff witness Keith Foster and OPC witness Russell W. Trippensee.

1

2 **Q. WHAT ARE THEIR RECOMMENDATIONS FOR UNCOLLECTIBLES**
3 **EXPENSE AS OF REBUTTAL TESTIMONY?**

4 A. Staff witness Foster is recommending that this expense be set at \$9,843,535, while OPC
5 witness Trippensee is recommending the use of \$9,685,323. Mr. Trippensee is further
6 recommending that his number be reduced by \$387,256 as a result of monies previously
7 received by MGE pursuant to the Emergency Cold Weather Rule amortization.

8

9 **Q. WHAT IS THE COMPANY PROPOSING?**

10 A. The Company has proposed the same level as that proposed by Mr. Foster – \$9,843,535.

11

12 **Q. STAFF WITNESS FOSTER EXPLAINS THAT THE STAFF UTILIZES A**
13 **THREE-YEAR AVERAGE IN ORDER TO DERIVE ITS BAD DEBT EXPENSE**
14 **BECAUSE STAFF BELIEVES THAT BAD DEBT WRITE-OFFS ARE**
15 **TRENDING UPWARD (FOSTER REB., P. 2). WHAT PERIOD OF TIME DOES**
16 **OPC UTILIZE?**

17 A. Five years.

18

19 **Q. DID OPC WITNESS TRIPPENSEE EXPLAIN WHY HE USED A FIVE YEAR**
20 **AVERAGE?**

21 A. Yes. After comparing the five-, four- and three- year averages, Mr. Trippensee stated
22 that “OPC included the five-year average so as to include five years of data to provide
23 consistency with the five-year period used by Staff witness Harrison in the prior case”
24 (Trippensee Reb., p. 10).

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Q. ARE THERE ANY CHANGES IN COLLECTION PRACTICES OVER THE LAST SEVERAL YEARS THAT WOULD ARGUE AGAINST USING A “CONSISTENT” TIME PERIOD FOR NORMALIZATION AS SUGGESTED BY MR. TRIPPENSEE?

A. Yes. Effective December 26, 2005, the Commission promulgated an emergency cold weather rule. This emergency amendment changed Commission rules regarding MGE’s collection practices as well as other LDCs in the State.

Q. DID THOSE RULE CHANGES BECOME PERMANENT?

A. In large measure, yes. The Commission promulgated a new permanent cold weather rule, effective November 1, 2006, that made permanent many of the features of the emergency rule.

Q. HOW DID THIS RULE CHANGE MGE’S COLLECTION PRACTICES?

A. The rule change provided additional and more lenient payment plans for residential users to obtain re-connection or avoid disconnection of natural gas service from November 1 through March 31. No longer could MGE require a customer to pay 80% of the past due balance to be reconnected, unless the customer continued to default under payment plans set up in accordance with the new cold weather rules. Instead, the lesser of 50% or \$500 would be the required payment to be reconnected. In addition, any reconnection fee, trip fee or collection fee would also be deferred.

1 **Q. WHAT IS THE SIGNIFICANCE OF THE RULE CHANGE IN REGARD TO**
2 **THE APPROPRIATE PERIOD OF TIME TO USE FOR THE**
3 **NORMALIZATION ADJUSTMENT?**

4 **A.** The three-year period used by Staff and the Company will provide the best evidence of
5 what MGE's bad debt expense will be on a going forward basis as the current collection
6 rules were effective during the entire three year period. The five-year period necessarily
7 includes experience during a period of time where now superseded collection rules were
8 in effect.

9
10 **Q. YOU MENTIONED PREVIOUSLY THAT IN ADDITION TO THE USE OF A**
11 **FIVE-YEAR AVERAGE, OPC WITNESS TRIPPENSEE WANTS TO REDUCE**
12 **THE BAD DEBT EXPENSE AMOUNT AS A RESULT OF AN EMERGENCY**
13 **COLD WEATHER RULE AMORTIZATION. WHAT WAS THE EMERGENCY**
14 **COLD WEATHER RULE AMORTIZATION?**

15 **A.** MGE was granted an accounting authority order for the purpose of addressing "the costs
16 of complying with the 2005 Cold Weather Emergency Rule (4 CSR 240-13.055(14))."
17 *See Order Granting Accounting Authority Order*, Case No. GR-2006-0422 (Issued
18 September 21, 2006). MGE later received recovery of the deferral amounts through an
19 amortization as a part of the rates set in Case No. GR-2006-0422.

20
21 **Q. DID THE PERMANENT COLD WEATHER RULE ALSO ADDRESS THE**
22 **PURPOSE OF THE EMERGENCY COLD WEATHER RULE ACCOUNTING**
23 **AUTHORITY ORDER?**

1 A. Yes. The permanent rule ultimately provided for an accounting authority order to “defer
2 and recover the costs of complying” with the rule. 4 CSR 240-13.055(14)(G). It was to
3 provide for “all incremental expenses incurred and incremental revenues that” were
4 caused by the Rule.

5
6 **Q. IS A REDUCTION RELATED TO THE EMERGENCY COLD WEATHER RULE**
7 **AMORTIZATION CONSISTENT WITH THE GOAL OF THE**
8 **NORMALIZATION PROCESS?**

9 A. No.

10
11 **Q. WHY NOT?**

12 A. The purpose of a normalizing adjustment is to adjust the amount of expense recorded in
13 the books for the test year to a level that is representative of normal operations. The cold
14 weather rule amortization has expired and will have nothing to do with MGE’s bad debt
15 expense on a going forward basis. The most representative evidence of what that
16 expense will be on a going forward basis is the three-average of bad debt write offs
17 utilized by the Staff and MGE, without any offset in regard to the one time cold weather
18 rule amortization.

19
20 **Q. MR. TRIPPENSEE IN HIS REBUTTAL TESTIMONY (AT P. 3, LL. 6-8) REFERS**
21 **TO THE FAILURE TO RECOGNIZE THE ECWR AMORTIZATION IN THE**
22 **CALCULATION AS A REGULATORY GIFT OF RATEPAYERS’ MONIES TO**
23 **THE COMPANY. DO YOU AGREE WITH THAT STATEMENT?**

1 A. No. MGE, in calculating the costs of the Emergency Cold Weather Rule, was not
2 requesting recovery of bad debts resulting from turning these customers on but rather
3 asking for the recovery of the dollars which would never be received because the
4 payment requirement was reduced from 80% to 50% or lower. A disconnected customer
5 with a balance of \$1,000 that was written off, under the old cold weather rule, would
6 have paid \$800 plus a \$45 fee to be reconnected. Under the emergency rule, that same
7 customer only paid \$500 to be reconnected. The \$345 which was not collected and
8 which did not offset the bad debt expense as it would have in the past was considered a
9 cost of the cold weather rule and properly included in rates in GR-2006-0422.

10
11 **INFINIUM**

12 **Q. ON PAGE 15 OF HIS REBUTTAL TESTIMONY, OPC WITNESS ROBERTSON**
13 **ALLEGES THAT THE ADP PAYROLL PROCESSING PROGRAMS HAVE THE**
14 **CAPABILITY TO PROCESS PAYROLL FOR ALL OF MGE'S UNION AND**
15 **NONUNION EMPLOYEES. IS THIS THE CASE?**

16 A. No. Even though the May 29, 2007 contract language states that ADP could do the MGE
17 union calculations, this programming was not completed when other areas of the
18 Company transitioned to ADP on August 11, 2007. After that initial contract was entered
19 into, the final statement of work with IDI (the company ADP provided to do the step-
20 grade pay calculations) was not signed until July 26, 2007. The project to adapt ADP
21 software for all of MGE's union calculations ran into difficulties. With the scheduled
22 implementation date for the entire Company scheduled for August 11, 2007, the decision
23 was made to have the entire Company move to ADP PayForce and ADP GL and have

1 everyone except MGE convert to ADP e-Time. The hope was at a later date, MGE
2 would be able to move to ADP e-time.

3
4 **Q. HAS MGE CONVERTED TO ADP E-TIME AS OF TODAY?**

5 A. Not yet. The Company is planning on implementing ADP E-Time for MGE, but this
6 transition has not yet been implemented.

7
8 **Q. SHOULD THE CAPABILITIES OF THE ADP PROGRAMS MAKE A
9 DIFFERENCE IN REGARD TO THE OUTCOME OF THIS ISSUE?**

10 A. No. While it may eventually be capable, it is not yet capable of performing the tasks
11 necessary while the old Infinium software does.

12
13 **Q. MR. ROBERTSON ALSO ALLEGES THAT MGE HAS NOT CARRIED ITS
14 BURDEN TO SUPPORT ITS COSTS ASSOCIATED WITH THE INFINIUM
15 SOFTWARE BECAUSE IT HAS NOT PRODUCED COPIES OF THE
16 LICENSING/MAINTENANCE CONTRACTS (ROBERTSON REB., P. 11-12).
17 HOW DO YOU RESPOND?**

18 A. First, as stated in my Rebuttal Testimony, MGE believes that it has the right to use the
19 Infinium software. There is no evidence to the contrary. Mr. Robertson has done no
20 more than ask questions. There has been no serious doubt as to MGE's right to use this
21 software that has been raised by the testimony.

1 Regardless, I do not think that this issue has any relevance. The dollars that MGE spent
2 in regard to the Infinium software were spent many years ago and MGE clearly had rights
3 to the software associated with its expenditure of funds.

4
5 Further, the Commission's order in Case No. GR-2006-0422 did not rely on any finding
6 of current usefulness. The Commission found that because the investment was not being
7 included in rate base, it did not matter whether the software was or was not used and
8 useful at this time. *See* Report and Order, p. 34, Case No. GR-2006-0422 (March 22,
9 2007).

10
11 **KANSAS STORAGE GAS PROPERTY TAX AAO**

12 **Q. DID THE STAFF REBUTTAL TESTIMONY ADDRESS MGE'S REQUEST FOR**
13 **AN ACCOUNTING AUTHORITY ORDER (AAO) RELATED TO THE KANSAS**
14 **PROPERTY TAX ON GAS HELD IN STORAGE?**

15 **A. Yes. This issue was addressed by Staff witness Mark L. Oligschlaeger.**

16
17 **Q. WHAT IS THE STAFF POSITION AS TO THIS REQUEST?**

18 **A. Staff recommends that the Commission approve MGE's request for an AAO related to**
19 **the Kansas property tax with certain additional provisions. Those provisions are that: 1)**
20 **MGE defer only the amount of property tax expense associated with assessments from**
21 **Kansas taxing authorities; 2) MGE begin to amortize the regulatory asset, over a 60**
22 **month period, beginning the month following a final judicial resolution of the legality of**
23 **the Kansas tax; 3) if MGE files its next general rate case prior to judicial resolution of the**
24 **legality of the Kansas tax, ratemaking treatment of the deferred costs will be determined**

1 in that proceeding; and, 4) the Commission include language stating that granting this
2 AAO does not in any way control how the Commission will treat this deferral for
3 ratemaking purposes in subsequent rate cases.

4
5 **Q. WHAT IS MGE'S POSITION AS TO THE PROVISIONS PROPOSED BY THE**
6 **STAFF?**

7 A. MGE does not object to the issuance of an AAO that includes the Staff-proposed
8 provisions.

9
10 **Q. IN HIS REBUTTAL TESTIMONY, OPC WITNESS TED ROBERTSON ALSO**
11 **ADDRESSES MGE'S REQUEST FOR AN AAO RELATED TO NATURAL GAS**
12 **IN STORAGE. WHAT IS MR. ROBERTSON'S POSITION?**

13 A. Mr. Robertson opposes the requested AAO because he believes the property tax at issue
14 is a "normal ongoing expense which does not meet the requirements necessary to allow it
15 the special accounting treatment an AAO provides" (Robertson Reb., p. 9). In support of
16 this proposition, Mr. Robertson states that "property tax is an expense which is always
17 included in a utility's cost of service when rates are set" (Id.; See also Id. at p. 10).

18
19 **Q. IS KANSAS PROPERTY TAX AN EXPENSE WHICH IS ALWAYS INCLUDED**
20 **IN MGE'S COST OF SERVICE?**

21 A. No. In MGE's last rate case (Commission Case No. GR-2004-0209), the Commission
22 denied MGE's attempted to include costs resulting from the 2004 Kansas property tax
23 legislation in its cost of service.

1

2 **Q. WHY?**

3 A. The Commission stated that this “potential tax liability is not currently known or
4 measurable and on that basis it cannot be included in MGE’s cost of service.” The reason
5 the taxes were said to not be known and measurable was the pendency of MGE’s appeal.

6

7 **Q. WITHOUT THE REQUESTED AAO WHAT IS MGE’S CHOICE IN REGARD**
8 **TO THE KANSAS PROPERTY TAX?**

9 A. MGE can either pursue its appeal and not obtain recovery of the property tax it pays, if
10 the appeal is unsuccessful, or drop its appeal (at which point the expense would be
11 known) and obtain recovery of the taxes paid. Without an AAO, MGE has little
12 incentive to pursue an appeal of the Kansas property taxes.

13

14 **Q. ON PAGES 10-11 OF HIS REBUTTAL TESTIMONY, OPC WITNESS**
15 **ROBERTSON ALLEGES THAT THE PROPERTY TAX IN QUESTION IS NOT**
16 **MATERIAL TO MGE’S FINANCIAL POSITION. DO YOU AGREE WITH**
17 **THIS ALLEGATION?**

18 A. No. My Direct Testimony in GU-2010-0015 (which was later consolidated with this
19 case) concerning this issue indicates that the Kansas property tax would constitute 10.6%
20 of MGE’s net income, using the rate case model in Case No. GR-2009-0355.

21

22 **Q. DID THE COMMISSION STAFF ALSO ADDRESS THE ISSUE OF**
23 **MATERIALITY?**

1 A. Yes. Staff witness Oligschlaeger indicated in his Rebuttal Testimony (p. 7) that the
2 Kansas property tax is “approximately 6.0% of MGE’s adjusted 2008 net income, based
3 upon the Staff’s current revenue requirement calculation for MGE in this case.”
4

5 **Q. IS THE KANSAS PROPERTY TAX “MATERIAL” UNDER EITHER THE**
6 **COMPANY’S OR THE STAFF’S CALCULATION?**

7 A. Yes.
8

9 **Q. WHY DOES MR. ROBERTSON’S CALCULATION DIFFER?**

10 A. Mr. Robertson does not base his calculation on net income as the USOA General
11 Instructions state he should. Mr. Robertson’s calculation is based on net operating
12 income before any deduction for income taxes or interest expense (two of the largest
13 expense items on the income statement). If those items were considered, his calculation
14 would be similar to the calculations of the Staff and Company.
15

16 **Q. HAS MGE PROPOSED AN ALTERNATIVE METHOD FOR THE RECOVERY**
17 **OF PROPERTY TAXES ASSOCIATED WITH GAS HELD IN STORAGE IN**
18 **KANSAS?**

19 A. Yes. MGE proposed tariff language that would include property taxes on gas held in
20 storage in Kansas in the current cost of gas in the Purchased Gas Adjustment portion of
21 MGE’s tariff.
22

23 **Q. HAS ANY PARTY TAKEN A POSITION IN REGARD TO THAT PROPOSAL?**

24 A. Yes. Staff witness David M. Sommerer filed rebuttal testimony addressing that proposal.

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Q. WHAT IS MR. SOMMERER'S POSITION?

A. Mr. Sommerer has taken the position that these property taxes are non-gas expenses that should not be included in the PGA (Sommerer Reb., p. 8).

Q. HOW DO YOU RESPOND TO THIS ARGUMENT?

A. This Commission has been supportive of price mitigation efforts that have been undertaken by the local distribution companies and in doing so has recognized that there is a cost associated with such efforts. Commission Rule 4 CSR 240-40.018 (Natural Gas Price Volatility Mitigation) indicates that as a part of a utility's prudent planning efforts it should structure its portfolio in an effort to mitigate upward natural gas spikes. One of the mechanisms identified for use by utilities in this regard is natural gas storage (4 CSR 240-40.018(2)(A)).

Q. DID THE COMMISSION INDICATE METHODS BY WHICH COSTS OF SUCH PRICE MITIGATION EFFORTS WOULD BE RECOVERED?

A. Yes. Commission Rule 4 CSR 240-40.018(1)(B) states in part that "financial gains or losses associated with price volatility mitigation efforts are flowed through the Purchased Gas Adjustment (PGA) mechanism, subject to the applicable provisions of the natural gas utility's tariff and applicable prudence review procedures."

Q. IS THE KANSAS PROPERTY TAX DIRECTLY ASSOCIATED WITH MGE'S PRICE VOLATILITY MITIGATION EFFORTS?

1 A. Yes. This property tax concerns the value of the gas MGE places in storage. The tax will
2 rise and fall based on the amount of gas MGE has in storage in the state of Kansas and
3 the price MGE pays for that gas. For this reason, it is very much a cost of price volatility
4 mitigation and should be recovered through MGE's PGA.

5
6 **PGA RECOVERY OF UNCOLLECTIBLES EXPENSE AND**
7 **FERC REGULATORY EXPENSE**
8

9 **Q. DO YOU AGREE WITH MR. SOMMERER THAT "FERC REGULATORY**
10 **COSTS" ARE CLEARLY NOT THE TYPE OF COSTS THAT CAN BE**
11 **CONSIDERED GAS COSTS?**

12 A. No. FERC regulatory costs are incurred by MGE solely in connection with interstate
13 pipeline transportation and storage services, the costs of which are collected exclusively
14 through the PGA clause. Rates established through the PGA clause are paid by system
15 sales customers only, and not by LV transportation customers who do not make use of
16 MGE's interstate pipeline transportation and storage service. As such, recovering FERC
17 regulatory costs through the PGA ensures that such costs are borne only by those
18 customers who benefit from such costs. In addition, FERC regulatory costs can vary
19 substantially from year to year (usually depending on whether a pipeline rate case occurs)
20 such that developing a "normalized" level of FERC regulatory costs that is fair to both
21 shareholders and customers is difficult.

22 FERC regulatory costs are exactly the type of costs Mr. Hack is referring to in his
23 surrebuttal testimony when he offers ideas for change to mitigate the earnings-eroding
24 effect of regulatory lag on MGE.

1 **Q. BOTH MR. SOMMERER AND MR. TRIPPENSEE DISAGREE WITH YOUR**
2 **PROPOSAL TO INCLUDE THE GAS PORTION OF UNCOLLECTIBLES IN**
3 **THE PGA. WHAT ARE YOUR COMMENTS TO THEIR TESTIMONY?**

4 **A.** Including the gas portion of uncollectibles in the PGA is yet another way of mitigating
5 the regulatory lag. Mr. Trippensee in his direct testimony (p 8, ln. 4-11) correctly points
6 out that the year to year fluctuation of uncollectibles can either harm the customer and
7 enrich the shareholders or harm the shareholders to the benefit of customers. By
8 including just the gas portion of uncollectibles in the PGA, 65-75% of that fluctuation
9 would be eliminated.

10
11 **UPDATED REVENUE DEFICIENCY**

12 **Q. HAVE YOU PREPARED AN UPDATED REVENUE DEFICIENCY**
13 **CALCULATION FOR MGE REFLECTING AREAS OF AGREEMENT WITH**
14 **STAFF ON RATE BASE ITEMS, REVENUES AND OPERATING EXPENSES?**

15 **A.** Yes. MGE's current revenue deficiency as shown on Surrebuttal Schedule MRN-1
16 stands at \$23,973,473. This reflects MGE's revenue deficiency updated through April
17 30, 2009, which was filed June 19, 2009, as adjusted to include adjustments made by
18 Staff to rate base, operating revenues and operating expenses and accepted by the
19 Company and to include adjustments made by the Company to rate base, operating
20 revenues and operating expenses accepted by the Staff. In addition, the model
21 incorporates the revised return on equity of 10.5% and the revised short-term debt cost
22 of 4.367% recommended by MGE witness Frank Hanley in his Rebuttal Testimony
23 filed September 28, 2009.

1 **Q. WOULD YOU PLEASE BRIEFLY LIST THE MAJOR ITEMS OF CHANGE**
2 **TO THE REVENUE DEFICIENCY MODEL?**

3 **A.** Rate Base – Staff and Company agree that the updated rate base at April 30, 2009 totals
4 \$619,181,553. To MGE’s knowledge, there are no other parties to the case that have
5 taken a position with regard to any rate base components.

6
7 Operating Revenues – Staff and Company agree that the updated total operating
8 revenues (margin revenue) totals \$186,802,702. The changes made include the
9 correction of errors in the data supplied to staff which was used to compute the
10 customer annualization adjustments, providing additional information to staff through
11 the update period of April 30, 2009 to allow them to update the adjustments to non-
12 residential customers and finally an agreement with staff to split the difference between
13 their weather normalization adjustments and the Company’s weather normalization
14 adjustments.

15
16 Operating Expenses – Company has accepted the staff adjustments to payroll, payroll
17 taxes, benefits tied to payroll dollars such as insurance and the 401k match, FAS 87
18 expense, injuries and damages, corporate allocation costs, uncollectible expense,
19 depreciation expense, property tax, franchise tax and KC earnings tax adjustments, and
20 numerous adjustments to eliminate various miscellaneous expenses such as dues, some
21 of the advertising costs and some costs associated with lobbying activities.

22
23 **Q. WHICH ITEMS ARE STILL AT ISSUE AT THIS TIME BETWEEN MGE AND**
24 **THE STAFF?**

1 A. Differences between MGE and the Staff which remain include the level of
2 environmental remediation costs to include in rates, the final amount of rate case
3 expense to include and the level of FAS 106 costs to include. Rate of return differences
4 also still exist between MGE and the Staff.

5
6 **Q. WHICH ITEMS ARE STILL AT ISSUE BETWEEN MGE AND OPC?**

7 A. The issues which still remain at issue between the Company and OPC (not Staff)
8 include whether or not the fees assessed on credit card payments should be included in
9 rates, the level of uncollectible accounts to include in rates, whether the Infinium
10 software amortization should be included in rates, the level of SLRP amortization to
11 include in rates, the level and type of rate case expense and other regulatory expenses to
12 include in rates and whether or not the funding of the natural gas conservation programs
13 should be included in rates or set up as a regulatory asset. OPC and Company (and
14 Staff) also disagree as to the proper funding level of FAS 106 costs and the proper level
15 of environmental expenses to include in rates.

16
17 There are also differences on the issues of capital structure/rate of return and rate
18 design.

19
20 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

21 A. Yes.