

Exhibit No.: _____
Issue: **Revenue Requirement**
Seasonal Disconnects
Energy Conservation
Program
Witness: **Michael R. Noack**
Type of Exhibit: **Rebuttal Testimony**
Sponsoring Party: **Missouri Gas Energy**
Case No.: **GR-2006-0422**
Date Testimony Prepared: **November 21, 2006**

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

REBUTTAL TESTIMONY

OF

MICHAEL R. NOACK

Jefferson City, Missouri

November 2006

REBUTTAL TESTIMONY OF MICHAEL R. NOACK
ON BEHALF OF
MISSOURI GAS ENERGY

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REBUTTAL TESTIMONY OF MICHAEL R. NOACK
ON BEHALF OF
MISSOURI GAS ENERGY
NOVEMBER 2006

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Michael R. Noack. My business address is 3400 Broadway, Kansas City
3 Missouri, 64111.

4 **Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?**

5 A. Yes I did.

6 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A. In my rebuttal testimony I will:

- 8 1. Provide schedules showing the Company's revenue deficiency following changes
9 made as a result of the prehearing conference held from October 30 through
10 November 2, 2006;
- 11 2. Explain MGE's understanding concerning the agreed-upon true-up procedure to
12 be used in this case;
- 13 3. Rebut the direct testimony of Staff witness Allee regarding the addition of ACA
14 documentation requirements to MGE's PGA tariff;
- 15 4. Rebut the direct testimony of Staff witness Winter regarding the rate making
16 treatment of property tax refunds received by MGE during the test year;
- 17 5. Rebut the direct testimony of Staff witness Mapeka regarding rate recoverability
18 of rate case expense not only from this case but also the recoverability of the
19 unamortized portion of the rate case expense from GR-2004-0209;
- 20 6. Rebut the direct testimony of Staff witness Ensrud regarding Staff's proposal for
21 a "Seasonal Disconnect Charge" and address certain other positions he has taken
22 regarding other tariff language proposed by MGE;
- 23 24 25 26 27 28 29

1 7. Explain, in response to the direct testimony of Staff witness Anne Ross, why it is
2 reasonable for the cost of natural gas conservation initiatives implemented by
3 MGE to be included in the calculation of rates to be established in this case.
4

5 **1. MGE'S Revenue Deficiency after the Prehearing Conference**

6 **Q. PLEASE DESCRIBE THE REVENUE DEFICIENCY SCHEDULES ATTACHED**
7 **TO YOUR REBUTTAL TESTIMONY.**

8
9 A. During the prehearing conference held from October 30 through November 2, 2006, a
10 number of discussions took place among the parties concerning the issues in this case.
11 Many of these discussions focused on differences between the revenue deficiency
12 presented in MGE's updated direct testimony (filed on August 7, 2006) and the revenue
13 requirement presented in the direct testimony of the Staff (filed on October 13, 2006).
14 These discussions resulted in changes to MGE's revenue deficiency calculation as well as
15 changes to the calculation of Staff's revenue requirement. Included in the new revenue
16 requirement schedules is MGE's adoption, for purposes of this case, of several
17 accounting adjustments made by the Staff as well as several accounting adjustments
18 made by MGE which have been accepted by Staff for purposes of this case. Also as a
19 result of the settlement discussions which were held, at least a couple of issues were
20 settled to the satisfaction of both Company and Staff. MGE's current revenue
21 deficiency, as set forth in Rebuttal Schedule MRN-1 appended hereto, which does not
22 currently include the cost of funding natural gas conservation initiatives discussed in the
23 rebuttal testimony of MGE witness Hendershot amounts to **\$37,513,421**. Including the

1 \$750,000 funding for the natural conservation program would increase the revenue
2 deficiency to **\$38,263,421**.

3
4 **Q. WHAT SPECIFIC ADJUSTMENTS DID MGE INCLUDE IN THE NEW**
5 **REVENUE REQUIREMENT SCHEDULES?**

6 A. First, it is my understanding that the methodology for determining the value of all of the
7 components of rate base has been agreed upon between MGE, Staff and OPC for
8 purposes of this case. There will be some differences in the resulting value of cash
9 working capital due to the differences in property taxes, rate case expense and all other
10 expense items which remain in dispute but the revenue and expense lags used in the
11 computation have been agreed upon.

12
13 The other adjustments include the following:

14 Customer annualization revenue adjustment
15 Payroll and employee benefits including incentive compensation
16 Insurance and injuries & damages
17 Corporate allocation
18 Uncollectible expense, excluding the amortization of the cost of the ECWR
19 Clearing accounts
20 State franchise and local income taxes
21 Postage expense
22 Office lease expense
23 Customer collection costs
24 Non-recurring / non-utility activity
25 Amortization expense (excluding retired software)

26 MGE and Staff both have included the remaining unamortized balance of MGE's
27 accounting software (also know as Infinium) in rates through a a five-year amortization
28 period, and have also used a consistent methodology for calculating the cost of the

1 emergency cold weather rule ("ECWR") to be included in rates. It is my understanding
2 that OPC disputes the latter two items.

3
4 In addition to the above, it should also be noted that, at least for purposes of this case,
5 MGE is no longer requesting that gas cost-related bad debts be recovered through either
6 the PGA mechanism or through a tracker-type deferral mechanism. Consequently, these
7 proposals can be considered as not at issue for this case.

8
9 **2. True-up Procedure**

10 **Q. DO THE PARTIES DISPUTE MGE'S TRUE-UP DATE AND THE ITEMS TO BE**
11 **INCLUDED IN THE TRUE-UP?**

12 A. No, I do not believe so. The true-up was discussed among the parties during the
13 prehearing conference and, based on those discussions, it is my understanding that both
14 MGE and the Staff are recommending a true-up through October 31, 2006, to include the
15 following items:

16 Capital structure and related costs (unless a hypothetical capital structure is adopted)
17 Plant in service and reserve for depreciation
18 All other rate base components (excluding cash working capital)
19 Revenue for customer growth
20 Payroll – Employee levels, current wages and benefits including pensions
21 Rate case expense
22 Depreciation and amortization expense
23 Related income taxes
24

25 As I understand the true-up process, a party's methodology is not to change for the true-
26 up mechanism. I am not aware of any objections to the true-up process agreed to by
27 MGE and the Staff.

1
2 **3. ACA Documentation in the PGA**

3 **Q. PLEASE DESCRIBE THIS ISSUE.**

4
5 A. This issue concerns the recommendation by Staff witness Allee that MGE be required to
6 provide significant documentation regarding its gas procurement activity applicable to
7 each ACA period. By this proposal, the Staff is requesting that the Commission order
8 MGE to provide all documentation concerning the Company's gas purchasing decisions
9 to the Staff at the same time the Company makes its annual ACA filing each November.
10

11 **Q. DOES MGE AGREE WITH STAFF WITNESS ALLEE REGARDING THIS**
12 **RECOMMENDATION?**

13 A. No. Currently MGE provides to the Staff the workpapers used to prepare the annual
14 ACA filing at the time it makes that filing. Other information which the Staff requests is
15 then supplied as a response to a data request. Staff witness Allee has made no allegation
16 that the documentation currently provided by MGE is inadequate, that the annual filings
17 MGE makes to true-up its gas costs and revenues is otherwise insufficient, or that MGE
18 is not properly planning for its future gas needs. If the Staff believes MGE should be
19 required to provide additional documentation with the ACA filing, whether this
20 requirement is to be documented through a tariff sheet or in some other fashion, then the
21 Staff should initiate a rule making – which includes all of the LDCs in the State of
22 Missouri – for that purpose. This rate case is not the appropriate forum in which to
23 impose this type of requirement.

4. Property Tax Refunds

Q. WHAT IS THE ISSUE RELATED TO STAFF WITNESS WINTER'S TREATMENT OF PROPERTY TAX REFUNDS RECEIVED DURING THE TEST YEAR?

A. Staff witness Winter is proposing to set up a regulatory deferred credit for the \$5,554,068 of property tax refunds received during the test year and amortize this credit as an offset to property tax expense over the next five years in the amount of \$1,110,814 per year.

Q. DO YOU BELIEVE THAT IS THE PROPER TREATMENT OF THE REFUNDS FOR RATE MAKING PURPOSES?

A. No, I do not. Staff witness Winter properly recognizes that the refunds are non-recurring and adds back these refunds to the property tax account through Adjustment No. 60.1. He then makes a second adjustment to amortize the refunds over a five year period and reduce property tax expense.

Q. DO YOU CONSIDER STAFF WITNESS WINTER'S TREATMENT OF THESE REFUNDS RETROACTIVE RATEMAKING?

A. Yes I do. Mr. Winter is saying that since the property taxes for 2002, 2003 and 2004 have been included in rates and collected from ratepayers, the Commission should now reach back and adjust those property tax expenses because MGE subsequently got a refund of a portion of those taxes.

1 **Q. WHY DO YOU BELIEVE STAFF’S PROPOSED ADJUSTMENT S-60.1,**
2 **RELATING TO PROPERTY TAX REFUNDS, CONSTITUTES**
3 **IMPERMISSIBLE RETROACTIVE RATEMAKING?**

4 A. Retroactive ratemaking is defined as the setting of rates that permit a utility to recover
5 past losses or that require it to refund “excess profits” or “windfalls” that result when
6 actual expenses are less than had been assumed for ratemaking purposes. Although I am
7 not a lawyer, I am aware that as recently as 1979, in the case of State ex rel. Util.
8 Consumer Council of Missouri, Inc. v. Pub. Serv. Comm’n, 585 S.W.2d 41, the
9 Missouri Supreme Court re-affirmed that retroactive ratemaking is not permitted in
10 Missouri. In that case, the court declared that the Commission can consider any past
11 excess recovery only insofar as is necessary to determine what rate a utility should charge
12 to eliminate excess recovery in the future. The Commission cannot, however, order the
13 utility to return the excess recovery to customers if the recovery occurred as a result of
14 rates approved by the Commission.

15
16 During the test year in this case, MGE booked tax refunds totaling \$5,554,068 that relate
17 to property taxes paid in prior years. Staff is proposing that the full amount of these
18 refunds be set up as a deferred credit to be amortized as an offset to property tax expense
19 over a five-year period. But Staff’s proposed adjustment asks the Commission to do what
20 the state Supreme Court has said the Commission cannot do – compel MGE to return to
21 customers an amount that the Company collected under approved rates. Customers have
22 no legitimate claim on the tax refunds that MGE received and it would be inappropriate

1 to reach into the past and use those refunds to artificially reduce property tax expense
2 used for setting rates to be charged in the future.
3

4 **Q. DO THE PROPERTY TAX REFUNDS THAT MGE RECEIVED IN 2005**
5 **REPRESENT “EXCESS PROFITS” OR A “WINDFALL” TO THE COMPANY,**
6 **AS STAFF’S ADJUSTMENT SEEMS TO SUGGEST?**

7 A. No, the tax refunds do not constitute either excess profits or a windfall for MGE. Rates
8 are set based on estimates of the levels of revenue, expense, and investment that a utility
9 will experience in the future. Generally, the estimates of individual elements of the cost
10 of service are not precisely accurate and, therefore, can be either too high or too low.
11 Seldom, if ever, do the estimates match a utility’s actual experience during the period the
12 rates are in effect. Unexpected gains in some expense categories – such as these property
13 tax refunds – are offset by unexpected shortfalls in others. So the tax refund must be
14 considered in context with other categories of expense where amounts collected from
15 customers were less than the costs actually incurred by MGE to provide service. And just
16 as it would be wrong to allow the Company, when it incurs a shortfall, to attempt to
17 recoup that shortfall through future rates, it would be equally wrong to require the
18 Company, when it realizes an unexpected gain, to return that gain to customers.
19

20 **Q. HAS STAFF WITNESS WINTER ALLEGED THAT MGE’S EARNINGS WERE**
21 **EXCESSIVE DURING THE YEARS IN QUESTION?**

22 A. No. In fact, Schedule G-4, Page 1 in my direct testimony establishes that MGE’s

1 earnings in 2002, 2003 and 2004 were, on a cumulative basis, \$32.4 million dollars lower
2 than the authorized level. Consequently, even if retroactive ratemaking was permitted in
3 Missouri, the facts do not warrant the adjustment proposed by the Staff for property tax
4 refunds obtained by MGE in 2005 that were attributable to the tax years 2002, 2003 and
5 2004.

6
7 **Q. IS STAFF'S PROPOSED AMORTIZATION OF PROPERTY TAXES FOR**
8 **YEARS 2002, 2003 AND 2004 THE CONSEQUENCE OF ANY PRIOR**
9 **ACCOUNTING AUTHORITY ORDER OF THE COMMISSION PROVIDING**
10 **FOR AN ASSOCIATED DEFERRED CREDIT?**

11 A. Staff did not request and the Commission did not grant any special accounting treatment
12 for the property tax refunds that would justify the regulatory amortization proposed by
13 Mr. Winter.

14
15 **5. Rate Case Expense**

16 **Q. PLEASE DESCRIBE THIS ISSUE.**

17
18 A. MGE has requested recovery of the unamortized portion of the rate case expense allowed
19 in GR-2004-0209. Staff has made an adjustment to eliminate this unamortized portion of
20 rate case expense. Staff's position is explained on page 28 of Witness Mapeka's direct
21 testimony at lines 13 and 14: "This exclusion is appropriate because the Staff's policy is
22 to recommend recovery in rates of normalized rate case expense only on a prospective
23 basis." However in the Commission's Order in Case No. GR-2004-0209, the

1 Commission first adjusted the total amount of rate case expense downward by reducing
2 the amount of legal fees allowed, finding allowable rate case expense to be \$893,823.75
3 and then concluded by stating that “[A]mortizing that amount over three years, results in
4 an annual amount of \$297,941.25.” (*Re: Missouri Gas Energy*, Report and Order dated
5 September 21, 2004, p. 78.) At the time the rates from this case go into effect, the
6 amortization of these rate case expenses will not be complete and so MGE has requested
7 the Commission to be allowed to amortize the remaining balance over the same term as
8 is allowed for the cost of prosecuting the current case. MGE is not asking for anything
9 more than to recover the amount of rate case expense the Commission found to be
10 appropriate in GR-2004-0209.

11 12 13 **6. Miscellaneous Tariff Changes**

14 **A. Seasonal Disconnects**

15 **Q. PLEASE BRIEFLY EXPLAIN MGE’S PROPOSAL TO CHARGE A SEASONAL**
16 **DISCONNECT CHARGE TO CUSTOMERS WHO LEAVE THE SYSTEM**
17 **SIMPLY TO AVOID PAYING THE PROPOSED BASIC SERVICE CHARGE.**

18 **A.** MGE has proposed that any customer, who voluntarily requests a disconnection of
19 service and then subsequently requests within seven months a reconnection of service at
20 the same address or premise, will be charge a reconnection charge equal to the greater of
21 the current \$45.00 reconnection charge or the number of months disconnected, up to
22 seven, times the basic service charge.

1
2 **Q. WHAT IS STAFF'S POSITION ON THIS NEW RECONNECTION CHARGE?**

3 A. Staff generally seems to be in agreement with the concept of the charge and the amount
4 proposed. However Staff Witness Ensrud in his direct testimony proposes four changes
5 to MGE's proposal. I will address each in the order listed on page 6 lines 14 through 31
6 of Mr. Ensrud's direct testimony.

7
8 **Q. WHAT IS STAFF'S FIRST PROPOSED CHANGE?**

9 A. The first proposal is to "Institute a two-component reconnection charge. First, MGE
10 should charge the traditional reconnection charge plus the monthly Customer charge (in
11 today's environment) or the Delivery Charge (in the proposed environment) that are
12 foregone during the disconnection period".

13
14 MGE believes this proposed change is reasonable.

15
16 **Q. WHAT IS STAFF'S SECOND PROPOSED CHANGE?**

17 A. On page 6 of his direct testimony, Staff witness Ensrud states: "In MGE's response to
18 Staff's DR No. 127, MGE asserts it will exempt customers from the proposed seven-
19 month back-billing provision if they are disconnected for reasons other than requesting a
20 seasonal disconnect. MGE proposes exemptions for "other" types of disconnection, such
21 as a disconnection for non-payment, from the cumulative recovery aspect. Whatever the

1 reason for the disconnection, the two-component reconnection fee should apply with no
2 exceptions, except as noted in this testimony.”

3
4 MGE is not trying to increase the reconnection charge in this case for those customers
5 who have been disconnected involuntarily. Those customers who have been shut off for
6 no-payment have trouble catching up with their gas balance now. To attach still more
7 charges to these customers would be counter productive, in my opinion. It would make it
8 harder for MGE to collect enough money to turn people back on and it would further
9 decrease the effectiveness of any government or charitable funds available to assist low
10 income customers. Once again it should be pointed out that MGE has not requested an
11 increase to the reconnection charge but rather proposed a new charge which would help
12 provide MGE with a reasonable chance of recovering its costs through rates.

13
14 **Q. WHAT IS STAFF’S THIRD PROPOSED CHANGE?**

15 A. On page 6 of his direct testimony, Staff witness Ensrud states: “Staff proposes that the
16 threshold to avoid the two-component charge should be for a period of at least 12-
17 months.”

18
19 By proposing to increase the threshold to 12 months or more, Staff is moving away from
20 the true purpose of MGE’s proposal: to serve as a disincentive for customers to
21 disconnect during the non-heating months simply to avoid paying the Basic Service
22 Charge. The twelve-month proposal goes hand-in-hand with Staff’s second adjustment

1 to MGE's seasonal disconnect proposal which would subject all disconnects to the
2 proposed seasonal disconnect rate.

3
4 **Q. WHAT IS STAFF'S FOURTH CHANGE?**

5 A. The fourth change proposed by the Staff is to "use the Delivery Charge in lieu of MGE's
6 proposed term of a "minimum bill" in its proposed language".

7
8 "Minimum bill" is not a new term being proposed by MGE but is rather an existing term
9 included in MGE's current tariffs. However MGE does not really care what the term is
10 called; minimum bill, delivery charge or basic service charge so long as the intent to
11 collect monthly charges missed during the time of voluntary disconnection is understood.

12
13 In summary, MGE recommends adoption of one of the changes proposed by the Staff and
14 rejection of the other three; the resulting tariff language would read as follows: "In the
15 event a customer orders a disconnection and a reconnection at the same premises within a
16 period of seven (7) months, Company will collect, as a reconnection charge, the sum of
17 such minimum bills as would have occurred during the period of disconnection plus the
18 reconnection charge provided for in Section 14, herein."

19
20
21
22 **B. Withdrawal of Certain Tariff Language Proposed by MGE**

1 **Q. THE STAFF HAS OPPOSED A NUMBER OF TARIFF LANGUAGE CHANGES**
2 **PROPOSED BY MGE, i.e., TARIFF SHEET NOS. R-6, R-7, R-8, R-9, R-10, R-14,**
3 **R-15 and R-26. WHAT IS THE COMPANY’S RESPONSE?**

4 A. Because the tariff language changes proposed by MGE in these tariff sheets were made in
5 anticipation of rule changes by the Commission that have not come to pass, MGE is not
6 asking the Commission to approve these changes.

7
8
9 **7. Natural Gas Conservation Initiatives**

10 **Q. HAS MGE PROPOSED TO IMPLEMENT NATURAL GAS CONSERVATION**
11 **INITIATIVES IN THIS CASE?**

12 A. Yes. MGE witness Hendershot has put forth a proposal in his rebuttal testimony where,
13 under certain conditions, MGE would implement natural gas conservation initiatives to
14 include the following elements:

- 15 • Communication and education regarding natural gas conservation and energy
- 16 efficiency; and
- 17 • Promotion of a water heater rebate program designed to encourage the
- 18 installation of energy efficient appliances and, therefore, improve natural gas
- 19 conservation efforts.
- 20

21 **Q. WHAT IS THE COST OF THESE NATURAL GAS CONSERVATION**
22 **INITIATIVES AND HOW DOES MGE PROPOSE THAT THEY SHOULD BE**
23 **FUNDED?**

24 A. The proposed cost, which would be included in the calculation of rates to be set in this
25 case, is \$750,000 annually.

1

2 **Q. WHY IS IT REASONABLE FOR MGE’S CUSTOMERS TO FUND THESE**
3 **INITIATIVES?**

4 A. These programs are designed to provide direct benefits to MGE’s customers and
5 therefore should be funded through customer rates.

6

7 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?**

8 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's
Tariff Sheets Designed to Increase Rates
for Gas Service in the Company's Missouri
Service Area.

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Case No. GR-2006-0422

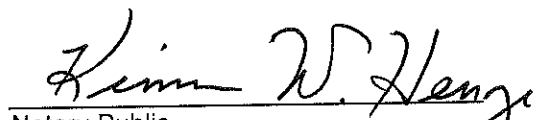
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Rebuttal 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 13th day of November 2006.


Notary Public

My Commission Expires: Feb. 3, 2007

