

Exhibit No.: _____
Issues: Revenue Requirement,
True-up
Witness: Michael R. Noack
Type of Exhibit: True-Up Direct Testimony
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2009-0355
Date Filed: November 24, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

TRUE-UP DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

November 2009

TRUE-UP DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2009-0355

November 24, 2009

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Michael R. Noack, and my business address is 3420 Broadway, Kansas
3 City, Missouri 64111.

4

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS CASE?**

6 A. Yes. I have submitted direct, updated direct, rebuttal and surrebuttal testimony
7 regarding the updated revenue requirement based upon the test period established by
8 the Commission.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP TESTIMONY?**

11 A. The purpose of my testimony is to support the True-up Adjustments accompanying
12 my testimony identified as True-Up Schedules MRN-1 through MRN-7. On May 27,
13 2009, the Commission issued an order establishing a procedural schedule including
14 the filing of true-up testimony to recognize in rates, changes in the revenue
15 requirement through September 30, 2009. MGE has prepared its True-up Revenue
16 Deficiency consistent with my understanding of the Commission's practice regarding
17 true-ups and in accordance with the terms of the Partial Stipulation and Agreement
18 filed on November 5, 2009.

19

1 Q. WOULD YOU PLEASE IDENTIFY THE ITEMS WHICH WERE SUBJECT
2 TO THE TRUE-UP?

3 A. In accordance with the Partial Stipulation and Agreement, the true-up audit addressed
4 the following items:

5 A. Rate Base -- The total rate base before true-up items are included is \$619,181,554.

6 The items included in the rate base true-up are:

- 7 • Plant in Service
- 8 • Depreciation Reserve
- 9 • Deferred Taxes
- 10 • Materials and Supplies
- 11 • Natural Gas in Storage
- 12 • Prepaid Pension Assets
- 13 • The cash working capital impact of the other true-up items

14

15 B. Operating Revenues -- The total as adjusted operating revenues before true-up are
16 \$186,802,700. Residential customer growth is the only component of operating
17 revenues trued-up.

18 C. Operating Expenses -- Total operating expenses before income taxes and true-up
19 items per the Partial Stipulation and Agreement are \$137,850,000.

- 20 • Payroll -- Per the stipulation, the base amount of payroll, payroll taxes and
21 employee benefits from which to measure the true-up adjustment is \$36,421,592.
- 22 • Rate case expense - Per the Partial Stipulation and Agreement, the base amount of
23 rate case expense from which to measure the true-up adjustment is \$72,382.

1 • Depreciation expense – Per the Partial Stipulation and Agreement, the base
2 amount of depreciation expense from which to measure the true-up adjustment is
3 \$26,224,367.

4 • Income taxes.

5 D. Return

6 • Capital structure and the embedded cost of debt (unless a hypothetical capital
7 structure is adopted).

8
9 **Q. PLEASE EXPLAIN THE REVENUE DEFICIENCY SUMMARY**
10 **SCHEDULES ATTACHED TO YOUR TRUE-UP TESTIMONY.**

11 A. The True-up schedules and resultant revenue deficiency are prepared consistent with
12 the methodology and positions MGE has previously adopted in this proceeding but
13 also modified to follow the conditions set forth in the Partial Stipulation and
14 Agreement filed on November 5, 2009. The Company's revenue deficiency as trued-
15 up to September 30, 2009, is \$21,971,243.

16
17 **Q. PLEASE DESCRIBE HOW THE COMPANY HAS TREATED TRUE-UP**
18 **ITEMS.**

19 A. Under the category of rate base, the Company has treated those individual items as
20 follows.

21 Plant in service - individual plant balances recorded as of September 30, 2009 have
22 been included. The corporate plant and reserve balance as of December 31, 2008 has
23 been used in the true-up schedules.

1
2 Depreciation reserve - all individual reserve balances as of September 30, 2009 have
3 been included. Consistent with the treatment of corporate allocated plant, the
4 associated corporate depreciation reserve as of December 31, 2008 has been included
5 and has been allocated to MGE.

6
7 Deferred income taxes (including deferred taxes associated with SLRP) - as of
8 September 30, 2009 have been included. Consistent with the treatment of corporate
9 allocated plant and depreciation reserve, the associated corporate deferred income
10 taxes as of December 31, 2008, has been allocated to MGE.

11
12 Working capital effects - material and supplies inventory and natural gas in storage
13 are included in rate base computed using a thirteen-month average ended September
14 30, 2009. The Cash Working Capital requirement has also been updated to reflect the
15 updated expense items first to April 30, 2009, the update period and then for those
16 items trued up as of September 30, 2009. In addition the prepaid pension balance as
17 of September 30, 2009 has also been included.

18
19 **Q. PLEASE DESCRIBE THE TREATMENT OF EXPENSES.**

20 A. Payroll – employee levels, current wage rates and corresponding payroll taxes and
21 benefits. Annual payroll levels were determined by utilizing the known employee
22 levels and wage levels in effect as of September 30, 2009. Corporate payroll as of
23 December 31, 2008 incorporating the Staff's adjustments has been allocated to MGE.

1 The associated payroll benefits and taxes were also determined using the known tax
2 and benefit levels in effect as of September 30, 2009.

3
4 Rate case expense - is included based upon the cumulative expenditures incurred for
5 services rendered as of the date of the filed testimony, November 24, 2009. Although
6 the true-up period concluded as of September 30, 2009, the Company continues to
7 pay invoices for services provided to date. Expenses related to outside fees associated
8 with the hearing and post-hearing process have been estimated and included for true-
9 up purposes. Using the updated and estimated rate case expense amounts through
10 November 24, 2009 results in annual rate case expense of \$293,958 based upon a
11 three-year amortization period.

12
13 Depreciation expense - Depreciation expense has been determined utilizing plant
14 balances as of September 30, 2009. Depreciation expense for corporate plant is
15 determined similarly and applied to the level of corporate plant as of December 31,
16 2008, allocated to MGE. The depreciation rates used are set forth in the Partial
17 Stipulation and Agreement filed November 5, 2009.

18
19 Income taxes have been included by synchronizing the changes of items identified
20 herein.

21
22 **Q. PLEASE DESCRIBE THE CAPITAL STRUCTURE AND RELATED COSTS.**

1 A. MGE through the direct testimony of Frank Hanley has requested a rate of return
2 based on a hypothetical capital structure and therefore is not requesting a true-up of
3 the capital structure. However, if the Commission denies the Company's request for a
4 hypothetical capital structure and decides that some form of Southern Union
5 Company's actual capital structure should be used, then that capital structure should
6 reflect the capital structure balances and embedded costs as of September 30, 2009.

7

8

9 **Q. HAS THE COMPANY CHANGED ITS METHODOLOGY IN**
10 **DEVELOPMENT OF THE TRUE-UP REVENUE REQUIREMENT?**

11 A. No.

12

13 **Q. DOES THIS CONCLUDE YOUR TRUE-UP TESTIMONY?**

14 A. Yes.

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-2009-0355

AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)

)

ss.

COUNTY OF JACKSON)

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-up Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing True-up Direct 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.

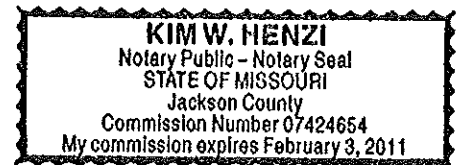


MICHAEL R. NOACK

Subscribed and sworn to before me this 24th day of November, 2009.

Notary Public

My Commission Expires: 2-3-11



MISSOURI GAS ENERGY
A Division of Southern Union Company
Test Year Ending December 31, 2008 True-up through September 30, 2009
Revenue Deficiency

Line No.	Description (a)	Required Return (c)	Earnings Deficiency (d)	Net Revenue Deficiency (e)
1	Rate Base	\$614,126,727		
2	Rate of Return	<u>8.014%</u>		
3	Required Return	<u>\$49,216,116</u>	\$49,216,116	
4	Adjusted Test Year Net Operating Income		<u>35,679,348</u>	
5	Earnings Deficiency		<u>\$13,536,768</u>	\$13,536,768
6	Multiply by Income Tax Gross-up Factor			<u>1.62308</u>
7	Net Revenue Deficiency			<u><u>\$21,971,243</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Test Year Ending December 31, 2008 True-up through September 30, 2009
Rate Base

Line No.	Description	Amount
	(a)	(c)
1	Intangible Plant	\$30,008,027
2	Distribution Plant	858,677,390
3	General Plant	73,514,596
4	Gross Plant In Service	\$962,200,014
5	Accumulated Depreciation & Amortization	(360,900,467)
6	Net Plant in Service	\$601,299,547
7	Materials and Supplies	3,022,971
8	Prepayments	468,642
9	Inventory of Natural Gas in Storage	89,393,906
10	Prepaid Pension	18,430,238
11	Cash Working Capital Requirement	16,681,834
12	Net Cost of Removal Balance and River Levee Adj	277,126
13	Customer Deposits	(4,572,625)
14	Customer Advances - Thirteen Month Average	(12,773,726)
15	Deferred Income Taxes - SLRP	(959,029)
16	Deferred Income Taxes - Other (Net of AMT)	(97,142,157)
17	Total Rate Base	\$614,126,727

MISSOURI GAS ENERGY
A Division of Southern Union Company
Test Year Ending December 31, 2008 True-up through September 30, 2009

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Accl.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
OPERATING REVENUE					
1	480	Residential	\$505,927,343	(\$375,839,864)	\$130,087,480
2	481.1	Commercial	206,472,781	(170,364,219)	36,108,562
3	481.2	Industrial	8,794,246	(6,678,667)	2,115,579
4	483	Sales for Resale	0	0	0
5	487	Late Payment Charges	445,846	(194,920)	250,926
6	488	Miscellaneous Service Revenue	4,383,636	0	4,383,636
7	489	Transport	10,950,874	2,493,638	13,444,512
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	1,626,646	(1,471,721)	154,925
10		Total Operating Revenue	<u>\$738,601,373</u>	<u>(\$552,055,752)</u>	<u>\$186,545,620</u>
OPERATING & MAINTENANCE EXPENSE					
Operation Expense					
11	805	Other Gas Purchases	\$502,616,530	(\$502,616,530)	\$0
12	807	Purchased Gas Expense	0	0	0
13	859	Other Joint Expense	0	0	0
14	870	Operation, Supervision and Engineering	697,941	3,079	701,020
15	871	Distribution and Load Dispatching	27,353	2,746	30,099
16	872	Compressor Station Labor and Expense	0	0	0
17	874	Mains and Service Expenses	3,113,677	30,001	3,143,678
18	875	Distributing Regulating Station Expenses	813,434	19,572	833,006
19	876	Measuring and Regulating - Station Expenses	(3,349)	415	(2,934)
20	877	Measuring and Regulating - Station Expenses	9,159	(714)	8,445
21	878	Meter and House Regulator Expenses	6,422,653	170,431	6,593,084
22	879	Customer Installation Expenses	3,143,640	49,469	3,193,109
23	880	Other Expenses	(867,405)	87,592	(779,813)
24	881	Rents	186,376	0	186,376
25		Total Operation Expense	<u>\$516,160,009</u>	<u>(\$502,253,939)</u>	<u>\$13,906,070</u>
Maintenance Expense					
26	885	Maintenance Supervision and Engineering	\$1,216,206	\$84,482	\$1,300,688
27	886	Maintenance of Structures and Improvements	113,741	2,254	115,995
28	887	Maintenance of Mains	9,609,573	195,847	9,805,420
29	889	Maint. of Measuring and Reg. Stat Equip - General	699,627	15,246	714,873
30	890	Maint. of Measuring and Regulating Equipment	251,595	4,081	255,676
31	891	Maint. of Measuring and Regulating Equipment	25,916	932	26,848
32	892	Maintenance of Services	935,672	16,299	951,971
33	893	Maintenance of Meters and House Regulators	329,361	16,612	345,973
34	894	Maintenance of Other Equipment	172,657	2,380	175,037
35		Total Maintenance Expenses	<u>\$13,354,348</u>	<u>\$338,133</u>	<u>\$13,692,481</u>
36		Total Distribution Expense	<u>\$529,514,357</u>	<u>(\$501,915,806)</u>	<u>\$27,598,551</u>
Customer Accounts Expense					
37	901	Supervision	\$262,744	(\$5,779)	\$256,965
38	902	Meter Reading Expense	943,699	33,867	977,566
39	903	Customer Records and Collection Expense	12,057,003	1,481,410	13,538,413
40	904	Uncollectible Accounts	7,866,016	1,977,519	9,843,535
41	905	Miscellaneous Customer Accounts Expense	43,721	(297)	43,424
42		Total Customer Accounts Expenses	<u>\$21,173,183</u>	<u>\$3,486,719</u>	<u>\$24,659,902</u>
Customer Service and Informational Expense					
43	907	Supervision	\$0	\$0	\$0
44	908	Customer Assistance	1,105,288	(747,049)	358,239
45	909	Informational and Instructional Advertising Exp.	78,181	0	78,181
46	910	Miscellaneous Customer Accounts Expense	0	0	0
47		Total Cust. Service and Information Exp.	<u>\$1,183,469</u>	<u>(\$747,049)</u>	<u>\$436,420</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Test Year Ending December 31, 2008 True-up through September 30, 2009

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
Sales and Advertising Expense					
48	911	Supervision	\$0	\$0	\$0
49	912	Demonstrating and Selling Expenses	1,021,699	4,194	1,025,893
50	913	Advertising Expenses	4,813	(4,793)	20
51	916	Miscellaneous Sales Expenses	1,646	0	1,646
52		Total Sales and Advertising Expenses	<u>\$1,028,158</u>	<u>(\$599)</u>	<u>\$1,027,559</u>
Administrative and General Expense					
53	920	Administrative and General Salaries	\$6,996,018	\$99,137	\$7,095,155
54	921	Office Supplies and Expenses	11,539,458	(339,323)	11,200,135
55	922	Administrative Expenses Transferred	(525,286)	0	(525,286)
56	923	Outside Services Employed	8,677,170	(11,272,842)	(2,595,672)
57	924	Property Insurance	24,300	7,059	31,359
58	925	Injuries and Damages	1,414,653	1,279,361	2,694,014
59	926	Employee Pensions and Benefits	16,375,933	5,369,062	21,744,995
60	927	Franchise Requirements	0	0	0
61	928	Regulatory Commission Expense	2,584,881	(591,480)	1,993,401
62	930	Miscellaneous General Expenses	2,158,307	(893,020)	1,265,287
63	931	Rents	1,022,728	140,223	1,162,951
64	932	Maintenance of General Plant	1,635,884	0	1,635,884
65		Total Administration and General Expense	<u>\$51,904,046</u>	<u>(\$6,201,823)</u>	<u>\$45,702,223</u>
66		Total O & M Expense	<u>\$604,803,213</u>	<u>(\$505,378,559)</u>	<u>\$99,424,654</u>
67	403	Depreciation	25,018,077	1,805,338	26,823,415
68	404, 405	Amortization	1,953,194	1,511,020	3,464,214
69	431	Interest on Customer Deposits	161,519	(14,928)	146,591
70	408	Payroll Taxes	2,238,216	386,522	2,624,738
71	408	Property Taxes	6,965,658	180,917	7,146,575
72	408	Gross Receipts Tax	44,258,774	(44,258,774)	0
73	408	Other Taxes	300,036	84,994	385,030
74	408	Taxes Other Than Income	<u>\$53,762,684</u>	<u>(\$43,606,341)</u>	<u>\$10,156,343</u>
75		TOTAL EXPENSES	<u>\$685,698,687</u>	<u>(\$545,683,470)</u>	<u>\$140,015,217</u>
76		OPERATING INCOME BEFORE INCOME TAX	<u>\$52,902,686</u>	<u>(\$6,372,283)</u>	<u>\$46,530,403</u>
77	409,410	Income Taxes	\$22,022,840	(\$11,137,056)	\$10,885,784
78		NET OPERATING INCOME	<u>\$30,879,846</u>	<u>\$4,764,773</u>	<u>\$35,644,619</u>

Missouri Gas Energy
Residential Customer True-Up Adjustment
True-up period 12 months ending September 30, 2009

Line No.	Residential				Annualized Customer Numbers	Total
	1	2	3	4		
	Total Company					
1	Jan-09	8.43%	449,884	5,933	443,951	443,955
2	Feb	8.46%	451,870	7,313	444,557	444,552
3	Mar	8.50%	453,837	9,779	444,058	444,055
4	Apr	8.48%	452,628	11,072	441,556	441,555
5	May	8.41%	449,086	13,272	435,814	435,817
6	Jun	8.31%	443,711	11,618	432,093	432,098
7	Jul	8.23%	439,324	11,375	427,949	427,953
8	Aug	8.18%	436,611	9,665	426,946	426,951
9	Sep	8.15%	434,880	8,248	426,632	426,633
10	Oct-08	8.17%	436,336	6,409	429,927	429,926
11	Nov	8.30%	442,938	6,716	436,222	436,218
12	Dec	8.38%	447,587	5,571	442,016	442,012
13	Total	100.00%	5,338,692	106,971	5,231,721	5,231,726
14	Avg		444,891	8,914	435,977	
15						
16	Sep analysis	435,072	0.9779	444,891	12	5,338,692
17						
18						
19						
20						
						5,242,168 updated residential customers
						(10,442) Decrease in customers
						\$ 24.62 customer charge
						\$ (257,082) True-up Adj to revenue

MISSOURI GAS ENERGY
A Division of Southern Union Company
Test Year Ending December 31, 2008 True-Up through September 30, 2009

Depreciation Expense

Line No.	Description (a)	Amount (b)	Settled Rate (c)	Proforma Depreciation Expense (d)
<u>INTANGIBLE PLANT</u>				
1	(301) Organization	\$15,600	0.00%	\$0
2	(302) Franchises	13,823	0.00%	0
3	(303) Miscellaneous Intangible	29,978,604	(see adj. H-13)	0
4	Total Intangible Plant	<u>\$30,008,027</u>		<u>\$0</u>
<u>DISTRIBUTION PLANT</u>				
5	(374.1) Land	\$139,604	0.00%	\$0
6	(374.2) Land Rights	2,180,950	2.09%	45,582
7	(375.1) Structures	9,183,660	1.49%	136,837
8	(375.2) Leasehold Improvements	0	(see adj. H-13)	0
9	(376) Mains & Mains - Cast Iron	387,133,024	2.16%	8,362,073
10	(378) Meas. & Reg. Station - General	12,464,486	2.86%	356,484
11	(379) Meas. & Reg. Station - City Gate	3,413,318	2.13%	72,704
12	(380) Services	319,987,011	3.13%	10,015,593
13	(381) Meters	32,696,855	2.89%	944,939
14	(382) Meter Installations	78,099,864	2.86%	2,233,656
15	(383) House Regulators	12,990,953	2.44%	316,979
16	(385) Electronic Gas Metering	387,666	3.33%	12,909
17	(387) Other Equipment	0	6.25%	0
18	Total Distribution Plant	<u>\$858,677,390</u>		<u>\$22,497,756</u>
<u>GENERAL PLANT - DIRECT</u>				
19	(389) Land	\$1,104,164	0.00%	\$0
20	(390.1) Structures	727,399	2.00%	14,548
21	(390.2) Leasehold Impr.	1,887,556	(see adj. H-13)	0
22	(391) Furniture & Fixtures	8,547,757	8.06%	688,949
23	(392.1) Transportation Eq - Cars and Small Truck	3,439,336	13.33%	458,463
24	(392.2) Transportation Eq - Heavy Trucks	6,860,857	7.83%	537,205
25	(393) Stores Equipment	625,539	2.70%	16,890
26	(394) Tools	5,477,120	5.30%	290,287
27	(395) Laboratory Equipment	0	6.00%	0
28	(396) Power Operated Equipment	1,221,063	6.25%	76,316
29	(397.1) Communication Equipment - AMR	38,471,602	5.00%	1,923,580
30	(397.0) Communication Equipment - Other	3,880,748	6.25%	242,547
31	(398) Miscellaneous Equipment	602,139	3.85%	23,182
32	Total Direct General Plant	<u>\$72,845,282</u>		<u>\$4,271,967</u>
<u>GENERAL PLANT - CORPORATE</u>				
33	(390) Structures	\$0		\$0
34	(390) Leasehold Impr.	3,163	0.00%	0
35	(391) Furniture & Fixtures	656,151	8.06%	53,692
36	(392) Transportation Equipment	0		0
37	(397) Communication Equipment	0		0
38	(398) Miscellaneous Equipment	0		0
39	Total Corporate General Plant	<u>\$669,314</u>		<u>\$53,692</u>
40	Total Proforma Plant & Depreciation	<u>\$962,200,014</u>		<u>\$26,823,415</u>
42	Less Test Year Depreciation Expense			<u>\$25,018,077</u>
43	Adjustment to Test Year - Acct. 403			<u>\$1,805,338</u>

MISSOURI GAS ENERGY

A Division of Southern Union Company

Test Year Ending December 31, 2008 True-Up through September 30, 2009

Payroll, Payroll Taxes and Payroll Benefits Adjustment

Line No.	Description	Amount	Totals
	(b)	(c)	(d)
1	Updated payroll charged to expense	\$ 32,108,339	
2	Updated payroll taxes charged to expense	2,528,792	
3	Updated 401K match expensed	1,104,493	
4	Updated retirement power expensed	409,976	
5	Updated Life, LTD and AD&D expensed	269,992	\$ 36,421,592
6	True-up payroll charged to expense	\$ 33,315,957	
7	True-up payroll taxes charged to expense	2,624,738	
8	True-up 401K match expensed	1,135,602	
9	True-up retirement power expensed	410,189	
10	True-up Life, LTD and AD&D expensed	279,696	\$ 37,766,182
11	True-up adjustment		\$ 1,344,590

MISSOURI GAS ENERGY

A Division of Southern Union Company

Test Year Ending December 31, 2008 True-Up through September 30, 2009

Rate Case Expense

Line No.	Description	Amount	Yearly Over a 3-Year Period
(a)	(b)	(c)	(d)
1	Staff updated rate case expense	\$ 217,147	\$ 72,382
2	True-up rate case expense	881,873	293,958
3	Adjustment		<u>\$ 221,575</u>