

Exhibit No.: _____
Issues: Response to Staff's
Recommendations
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2007-0256
Date Testimony Prepared: October 15, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2007-0256

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

October 2009

****DENOTES HIGHLY CONFIDENTIAL MATERIAL****

DIRECT TESTIMONY OF MICHAEL R. NOACK
CASE NO. GR-2007-0256
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2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

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

5

6 **Q. WHO ARE YOU EMPLOYED BY?**

7 A. I am employed by Missouri Gas Energy (MGE), a division of Southern Union Company
8 (Company), as Director of Pricing and Regulatory Affairs.

9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **EXPERIENCE.**

12 A. I received a Bachelor of Science in Business Administration with a major in Accounting
13 from the University of Missouri in Columbia. Upon graduation, I was employed by
14 Troupe Kehoe Whiteaker & Kent (TKWK), a Certified Public Accounting Firm in
15 Kansas City, Missouri. I spent approximately 20 years working with TKWK or firms
16 that were formed from former TKWK employees or partners. I was involved during that
17 time in public utility consulting and financial accounting, concentrating primarily on rate
18 cases for electric and gas utilities and financial audits of independent telephone
19 companies across the United States. In 1992, I started Carleton B. Fox Co. Inc. of
20 Kansas City which was an energy consulting company specializing in billing analysis and
21 tariff selection for large commercial and industrial customers. In July of 2000 I started
22 my employment with MGE. Presently I hold in good standing, a Certified Public

1 Accountant certificate in the state of Kansas and am a member of the Kansas Society of
2 Certified Public Accountants.

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4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

5 A. The purpose of my testimony is to explain MGE's position in regard to the issues raised
6 by the Staff's Recommendations that were filed on December 15, 2008 and Staff's
7 Amended Recommendations that were filed on June 3, 2009. While there are broad areas
8 of agreement in this case, disagreement between the parties on Staff's June 3, 2008
9 Recommendations initiated a procedural schedule in this matter.

10
11 **Q. HAS MGE PREVIOUSLY STATED ITS POSITION ON STAFF'S**
12 **RECOMMENDATIONS?**

13 A. Yes, in its July 6, 2009 filing – Missouri Gas Energy's Response to Staff
14 Recommendation.

15
16 **Q. WHAT IS THE COMPANY'S POSITION RELATED TO STAFF'S DECEMBER**
17 **15, 2008 RECOMMENDATIONS?**

18 A. I believe that the Company and Staff have broad areas of agreement related to Staff's
19 Recommendations in Staff's December 15, 2008 filing. I do not believe that there are
20 issues in Staff's Recommendations that need Commission resolution. As noted in the
21 Company's July 9, 2009 filing, the Company has either agreed to follow certain of Staff's
22 Recommendations, or it has agreed to continue to work with Staff in areas where the
23 parties have different approaches. I do not believe that there are substantive
24 disagreements that require Commission resolution.

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Q. WHAT IS THE COMPANY'S POSITION RELATED TO STAFF'S JUNE 3, 2009 RECOMMENDATIONS?

A. As noted in the Company's July 6, 2009 Response to Staff's Recommendations, there are certain areas in which the Company disagrees with Staff's June 3, 2009 Recommendations.

Q. PLEASE PROVIDE SOME BACKGROUND ON THIS ISSUE.

A. **

. **

MGE notified the Staff of this issue in late December 2008 in an effort to ensure that Staff was aware of the issue and to obtain input from Staff prior to the time that MGE rendered a bill for past amounts to **. ** Staff provided several data requests after the Company's initial report prior to filing its June 3, 2009 Recommendations.

Q. WHAT WERE THE STAFF'S RECOMMENDATIONS?

A. Staff recommended that the Company

- 1) Credit its ACA balance by ** for this billing error and provide documentation of the adjustment to Staff. The Company should add interest in the amount of ** for each month past May 2009 until the adjustment is made and the ACA balance is corrected.
- 2) Provide verification that Standard 3270, Electronic Gas Measurement Standard, and Standard 3271, Electronic Correctors, and any other procedures or standards are modified to include Procedures to assure the Scaling Factor is appropriately adjusted and that the procedures document how MGE will review the billing volumes (after the scaling factor adjustment) and the meter volumes for possible problems. MGE indicated that it is in the process of updating several standards.
- 3) For all open ACA cases, MGE should identify all events or transactions the Company discovered which would affect the Company's ACA filing. MGE should describe in detail each and every such event, including the circumstances of each and the impact on the ACA filing and provide this information within 30 days.
- 4) Respond to recommendations included herein within 30 days.

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Q. WHAT AREAS OF AGREEMENT AND DISAGREEMENT DO YOU HAVE WITH STAFF’S RECOMMENDATIONS?

A. MGE agrees with three of Staff’s four proposals. As to Staff’s second recommendation, MGE has already made revisions to certain standards and procedures pursuant to the Staff’s second recommendation which it has provided to Staff for review. The Company has agreed to identify all events or transactions which to the best of the Company’s knowledge would affect its ACA, which was the suggestion contained in Staff’s third recommendation. The Company has already responded to Staff’s recommendations in the time period that Staff requested in its fourth recommendation.

MGE disagrees with the Staff’s proposals regarding **

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Q. WHY DO YOU DISAGREE WITH STAFF’S FIRST RECOMMENDATION?

A. First, the Staff is not using the proper time period for the proposed ACA credit. Staff has asked the Company to credit its ACA for the 2006-2007 ACA year, which is the time period which is the subject of this case. This error, however, was not discovered until July 2008 and was not billed to the customer until September 2008, both of which are part of the 2008/2009 ACA year. According to Sheet No. 16 of MGE’s tariff, under item III, CALCULATION OF THE ACTUAL COST ADJUSTMENT, “[T]he ‘cost recovery’ for a particular month shall be determined by calculating the product of the volumes

1 **billed during the month** and the sum of that month's regular Purchase Gas Cost as
2 adjusted by the FAF and the prior year 'Actual Cost Adjustment' (ACA), as hereinafter
3 defined." (emphasis supplied) Clearly, the Staff's proposal is inconsistent with the
4 applicable tariff language.

5
6 Second, Staff has retroactively added interest to the amount that that they propose to have
7 as an ACA credit. Staff has also proposed to add interest for each month past May 2009
8 until the adjustment is made and the ACA balance is corrected. MGE tariff Sheet No. 17
9 provides for the computation of ACA interest once the adjustment is included in the ACA
10 balance. The relevant part of Sheet No. 17 reads as follows:

11 For each month during the ACA period and for each month thereafter interest, at a
12 simple rate equal to the prime bank lending rate (as published in the Wall Street
13 Journal on the first business day of the following month), minus two (2)
14 percentage points (but not less than zero) shall be credited to customers for any
15 over-recovery of gas costs or credited to the Company for any under-recovery of
16 gas costs. Interest shall be computed based upon the average of the accumulated
17 beginning and ending monthly ACA account balances.

18
19 There is, however, no tariff provision for the retroactive computation of interest. The
20 Staff's computation of interest is simply not authorized by tariff and, therefore, improper.

21
22 Third, Staff has in the Company's opinion improperly limited the time frame that the
23 Company may recover the unbilled amounts to five years. It is my understanding that the
24 Staff has done so in reliance on the provision of MGE tariff sheet No. R-44 that limits
25 recovery of billing errors to five years. However, this issue is not technically a billing
26 error. The customer's bills were computed correctly using the incorrect recording of the
27 usage. Accordingly, the five year limitation does not apply. While MGE regrets the
28 technical error that led to this issue, the Company believes that it is required under its

1 tariffs to seek the full amount of charges that the customer should have paid. This would
2 require the Company to bill an additional three months of service beyond the five year
3 limitation imposed by Staff.

4
5 **Q. HAVE YOU PREVIOUSLY PROVIDED STAFF WITH THE COMPANY'S**
6 **CALCULATIONS OF THE AMOUNTS THAT SHOULD HAVE BEEN BILLED**
7 **TO THE CUSTOMER?**

8 A. Yes. Schedule MRN-1 details the calculations back to April of 2003 which are outside
9 the 60 month window.

10
11 **Q. WHAT IS THE DOLLAR VALUE OF THE DIFFERENCES BETWEEN THE**
12 **COMPANY'S CALCULATIONS AND THE STAFF'S CALCULATIONS?**

13 A. The amount of the interest which Staff has included in the ACA adjustment which MGE
14 disagrees with is **. **. The value of the additional three months of the
15 error which MGE included in the ACA adjustment and the billing but Staff did not
16 include is ** ** making a total of the differences ** **.

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19 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes, it does.