Exhibit No.:	_______________
Issues:	Revenue Deficiency
Witness:	Michael R. Noack
Sponsoring Party:	Missouri Gas Energy
Case No.:	GR-2009-
Date Testimony Prepared:	April 2, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

April 2009

DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2009-_______

APRIL 2009

DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2009-_______

APRIL 2009

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. WHO ARE YOU EMPLOYED BY?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

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

1. EXECUTIVE SUMMARY

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

A. The purpose of my testimony is to support MGE's requested revenue increase of $32,416,997, or 4.7% of as adjusted revenues.

- The revenue deficiency is supported by Schedule MRN-1, sections A through H, which is attached to this testimony. I will be responsible for sponsoring most of the adjustments made to the test year ending December 31, 2008 and which support the revenue deficiency.

Q. WHY DOES MGE NEED TO FILE FOR A GENERAL RATE INCREASE?

A. Simply stated, MGE is not achieving its authorized rate of return. There are two primary reasons for not achieving the authorized rate of return;

1. Plant in service has increased approximately $73 million since MGE's last rate case; and
2. Operating expenses as adjusted are significantly higher due environmental remediation costs, rising employee related costs and steadily increasing uncollectible revenue.

2. ADMINISTRATIVE MATTERS

Q. MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE DIFFERENT SECTIONS OF SCHEDULE MRN-1 ATTACHED TO YOUR DIRECT TESTIMONY?

A. Schedule A summarizes the revenue deficiency at December 31, 2008.

Schedule B summarizes and supports the various rate base components.

Schedule C summarizes and supports plant in service.

Schedule D summarizes and supports reserve for depreciation.

Schedule E summarizes and supports the various working capital components.

Schedule F summarizes the rate of return.

Schedule G is a comparison of statistical information

Schedule H summarizes and supports the operating income statement & adjustments.

Q. WHAT IS THE TEST YEAR USED IN THIS DETERMINATION OF MGE'S REVENUE REQUIREMENT?

A. The test year is the twelve months ending December 31, 2008 adjusted for known and measurable changes.

Q. WILL MGE BE REQUESTING THAT THE TEST YEAR BE UPDATED?

A. Yes. MGE will request that the test year be updated through June 30, 2006. This is consistent with the process used in the last three MGE rate cases. MGE believes that this approach will provide a relatively current time period of actual experience on which to base rates, while at the same time providing an opportunity for the Commission Staff and other parties to audit this actual experience.

Q. IS MGE REQUESTING A "TRUE-UP" PROCESS?

A. Yes. MGE will request a "true-up" through September 30, 2009 in order to mitigate regulatory lag and update the following significant cost components:

RETURN:

Capital Structure and related costs (unless a hypothetical capital structure is adopted)

RATE BASE:

Plant in Service
Depreciation Reserve
Deferred Taxes
Working Capital Components including Materials and Supplies, Natural Gas Storage Inventory and Prepaid Pensions

INCOME STATEMENT:

Revenue for Customer Growth
Payroll, Employee Levels and Current Wage Levels
Pension Costs
Injuries and Damages
Rate Case Expense
Depreciation and Amortization Expense
Property Taxes
Related Income Tax Effects
Uncollectible Revenue

3. REVENUE DEFICIENCY

Q. MR. NOACK, WOULD YOU PLEASE EXPLAIN THE SCHEDULE ATTACHED TO YOUR TESTIMONY?

A. Yes. Schedule A is a summary of the MGE revenue deficiency for the test year ended December 31, 2008. The schedule summarizes the rate base, rate of return, required net operating income, adjusted net operating income and, finally, the revenue deficiency. The net revenue deficiency shown on Schedule A is $32,416,997, or an approximate increase of 4.7% over as adjusted revenues.

Schedule A-1 is the summary of net operating income per books for the test year ending December 31, 2008, a summary of the adjustments made to operations and, finally, the as adjusted net operating income.

Schedule A-2 is a summary income tax computation both per books and as adjusted for the twelve months ending December 31, 2008.

Q. MR. NOACK, WOULD YOU PLEASE DESCRIBE SCHEDULE B, THE CALCULATION OF RATE BASE?

A. Schedule B summarizes the requested rate base of MGE at December 31, 2008. Total rate base of $603,945,933 consists of net plant of $593,052,574, Working Capital of $119,658,230, and the balance of net cost of removal costs and total rate base net offsets of $109,164,872.

Q. WOULD YOU PLEASE DESCRIBE THE SCHEDULES SUPPORTING SCHEDULE B?

A. Schedule B-1 is the summary of service line replacement program (SLRP) deferrals net of accumulated amortization for which deferred taxes have been computed and deducted from rate base. The SLRP program requires significant infrastructure replacement costs to be incurred. These deferrals represent costs that MGE was allowed to defer, before the advent of the infrastructure system replacement surcharge (ISRS) rate, pursuant to six separate Accounting Authority Orders (AAOs). The first four AAOs are now fully amortized.

Q. WHAT IS THE AMOUNT OF SLRP DEFERRED TAXES YOU INCLUDED IN RATE BASE AT DECEMBER 31, 2008?

A. Schedule B-1 details the total SLRP deferred taxes of $1,278,767 at December 31, 2008.

Q. PLEASE EXPLAIN THE OTHER COMPONENTS INCLUDED IN RATE BASE.

A. Generally there are three types of costs and related approaches considered in developing rate base. The first type of cost and approach relates to amounts that are included in rate base in compliance with Commission Orders. The deferred taxes associated with the SLRP AAOs, which I described above, and the unamortized net cost of removal balance are those types of costs.

The second type of cost and approach relates to amounts that fluctuate monthly due to many variables. Adjusting any one of these costs at a date specific may not provide a reasonable basis for determining an appropriate level of on-going cost of service. Specifically, a thirteen-month average has been utilized to more accurately reflect the on-going nature of these fluctuating balances.

The third type of cost and approach relates to actual test period amounts that are adjusted for known and measurable changes that have occurred or will take place prior to rates being placed into effect. These adjustments minimize the effects of regulatory lag. The objective is to establish rates prospectively, synchronizing the cost of service with the revenue stream so that MGE in fact has a reasonable opportunity to earn its authorized rate of return.

Q. PLEASE DESCRIBE COSTS THAT ARE AFFORDED A THIRTEEN-MONTH AVERAGE.

A. The rate base items afforded a thirteen month average are material and supplies inventory, prepayments, natural gas in storage, as well as the rate base offsets of customer deposits and customer advances. Schedules B-2 and B-3 show the monthly amounts related to customer deposits and customer advances, respectively. Schedule E provides a summary of all working capital components with the monthly amounts for Materials and Supplies, Prepayments and Natural Gas in Storage being shown on Schedules E-1, E-2 and E-3 respectively.

Q. HAVE YOU ALSO INCLUDED A CASH WORKING CAPITAL COMPONENT OF RATE BASE AT DECEMBER 31, 2008?

A. Yes. MGE witness Robert O'Brien is sponsoring testimony supporting cash working capital in rate base in the amount of $20,105,085.

Q. HAVE YOU INCLUDED ANY OTHER WORKING CAPITAL COMPONENTS IN YOUR RATE BASE?

A. Yes. Schedule E-5 includes the net prepaid pension asset in the working capital component of rate base.

Q. PLEASE EXPLAIN YOUR SCHEDULE OF PLANT IN SERVICE.

A. Schedule C, page 1 of 2 summarizes the various categories of plant investment including the direct plant MGE accounts for on its books; completed construction not classified; joint and common plant accounted for on Southern Union Company's books that is allocated to MGE; and any adjustments. There are three adjustments included in the December 31, 2008 plant in service balance. The first adjustment eliminates from rate base the investment in inactive services. This adjustment, while not having a direct effect on rate base since the retirement decreases both plant and accumulated depreciation by the same amount, does decrease depreciation expense for the test year. The second adjustment increases transportation equipment, stores equipment and power operated equipment to reflect vehicles and equipment which is currently under lease but which MGE will be purchasing because the lease has been cancelled. The $8,096,231 plant adjustment represents the original cost of the assets being purchased while a corresponding adjustment to the depreciation reserve has been made in the amount of $4,507,369 to reflect the amount already paid on the lease before cancellation. The third adjustment increases transportation equipment by $368,000 to reflect the cost associated with purchasing vehicles for the outside plant employees being hired in connection with the new MGE apprenticeship program.

Q. WHAT IS THE MGE APPRENTICESHIP PROGRAM?

A. As part of the new collective bargaining agreement reached with the unions at the end of 2008, it was agreed that MGE would begin an apprenticeship program to hire new outside plant employees to train under MGE's more experienced work force. With this program, MGE will hire 20 employees in May and June at an entry level wage level to gain experience and learn the trade of an outside gas plant employee. Each of the employees hired will have the use of a Company vehicle.

Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME THAT YOU ARE SPONSORING ON SCHEDULE H.

A. Schedule H, consisting of 21 schedules, details all of the adjustments made to cost of service. The first two pages of Schedule H detail the operating income statement summarized by the uniform system of accounts. It shows the test year balances per books at December 31, 2008, a summary of the pro forma adjustments to each account and finally the adjusted balance at December 31, 2008. The next six pages detail each adjustment individually by FERC account number.

Schedules H-1 and H-2 are the revenue adjustments that are being sponsored by MGE witness Larry Loos.

Schedule H-3 removes purchased gas costs from the operating income statement. These expenses should not be included in the determination of the cost of service. Purchased gas costs are recovered through the PGA mechanism and not base rates.

Q. PLEASE EXPLAIN THE PAYROLL RELATED ADJUSTMENTS.

A. Pro forma payroll and the related payroll adjustment are detailed by account number on Schedule H-4. The adjustment takes into consideration the employee levels at December 31, 2008 and the level of wages that are known and measurable as of April 1, 2009. The pro forma level also includes overtime, which was based on actual overtime hours worked during the test year and an adjustment to include the 20 new employees to be hired as part of the apprenticeship program. Dividing total pro forma payroll charged to operating expenses by total pro forma payroll developed a payroll expense ratio. This payroll expense ratio was subsequently applied to the pro forma levels of employee benefits, payroll taxes and injuries and damages.

A separate adjustment has been proposed on Schedule H-18, which eliminates financially based MGE incentive compensation and bonuses included in the test year.

Payroll taxes on Schedule H-6 are adjusted for the payroll annualization.

Q. WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE BENEFITS?

A. The adjustment to employee benefits on Schedule H-5 normalizes all expenses representing employee benefits paid on behalf of employees. Included in these benefits is the FAS 87 pension expense, which represents the average cash funding made for the years 2007 and 2008 and that which is scheduled for 2009. Also included is amortization of the FAS 87 regulatory asset on MGE's books at December 31, 2008 over a six year period.

Other benefits expense costs include insurance, FAS 106 post retirement benefit costs, 401k costs and other miscellaneous employee benefit costs charged to account 926. These pro forma costs were then multiplied by the payroll expense ratio to arrive at the adjustment to operating expenses.

Q. WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE AND INJURIES AND DAMAGES?

A. Schedule H-7 normalizes the property insurance and injuries and damages by taking a three-year average of workmen's compensation claims paid and auto and general liability claims paid and adding that average to the insurance premiums paid during the test year. The test year payroll expense to capital ratio is then applied to the normalized injuries and damages cost in order to compute the normalized test year operating expense.

Q. PLEASE EXPLAIN SCHEDULE H-8.

A. Schedule H-8 increases administrative and general expenses to properly assign or allocate joint and common corporate functions to MGE. These functions support the ongoing operations of MGE and include accounting, taxes, shareholder relations, treasury, human resources, environmental and legal.

Q. HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE EXPENSE?

A. Yes. I have increased bad debt expense or uncollectible expense by $1,569,363.

Q. PLEASE EXPLAIN HOW YOU COMPUTED THE ADJUSTMENT.

A. The adjustment was computed by taking the averaging bad debt write-offs for 2006 through 2008 and comparing that average to the bad debt expense recorded in 2008. The average write-offs of $9,435,379 when compared to the actual expense of $7,866,016 results in the adjustment of $1,569,363.

Q. ARE THERE ANY OTHER ALTERNATIVES THAT THE COMMISSION MIGHT CONSIDER TO ADDRESS THE UNPREDICTABLE NATURE OF THE UNCOLLECTIBLE EXPENSE?

A. In my opinion there are. One alternative would be to separate the uncollectible write-offs into two pieces; the gas cost piece and the distribution piece.

The gas cost portion of the uncollectible expense is a risk the Company should not have to bear. The purchased gas adjustment (PGA) clause is meant to be the mechanism by which the Company is reimbursed for the cost of gas including the commodity, storage, transportation costs and other costs of acquiring the gas which is delivered to end use customers. Sheet no. 14 of MGE's tariff describes the various costs that should be included in the current cost of gas but also states that the costs are not solely limited to just those costs:

> Current Cost of Gas (CCG) - A per Ccf factor to reflect the current estimate of the annualized cost of various natural gas services purchased by the Company, including but not limited to firm and interruptible gas supply, gathering, processing and treating services, firm and interruptible transportation service, storage services, gas price volatility mitigation instruments, including but not limited to financial instruments and any service which bundles or aggregates these various services.

Q. WOULD MGE HAVE AN INCENTIVE TO PURSUE UNPAID BILLS IF IT WAS ALLOWED TO RECOVER UNPAID GAS COSTS THROUGH THE PGA MECHANISM?

A. Yes. MGE would still have about 30 percent of any unpaid bill that represents distribution charge at risk and would still try to collect that balance along with the gas cost portion of that unpaid bill. If a customer wants gas service their bill needs to be paid. The gas cost portion of all uncollectible recoveries would then be credited back to the customers through the PGA mechanism.

Q. IS THERE ANOTHER APPROACH THAT CAN BE CONSIDERED BY THE COMMISSION TO ADDRESS UNCOLLECTIBLES?

A. Yes. Another alternative would be for the Commission to permit MGE to defer the gas portion of uncollectible expense in a way similar to the tracking mechanisms in place for the over/under recovery of pension expense and cost of removal. Currently MGE is allowed to recover a set amount of pension expense and cost of removal in rates. If at the end of the year, MGE has either over- or under-collected those costs from ratepayers, the difference is recorded in a deferred asset/liability account and amortized to rates in the subsequent rate filing. Using that same mechanism, MGE would be allowed to include in rates $6,478,331 of uncollectibles associated with gas costs and $2,957,048 related to non gas costs. If at the end of the year, MGE's actual uncollectible expense associated with gas costs is $8,000,000 then MGE would be allowed to defer the difference and include amortization of the deferral over 3 years in the next rate case. The non-gas portion of $2,957,048 would not be included in this mechanism and remain at risk for MGE.

Q. IF MGE WERE ALLOWED TO PASS THROUGH THE GAS PORTION OF UNCOLLECTIBLES THROUGH THE PGA, WHAT ADJUSTMENT WOULD BE MADE TO UNCOLLECTIBLES?

A. Instead of an adjustment of $1,569,363 the adjustment attributable to the non-gas portion of uncollectibles would be $491,838.

Q. HAS MGE FILED PROPOSED TARIFF LANGUAGE TO APPLY TO THE INCLUSION OF THE GAS PORTION OF UNCOLLECTIBLES IN THE PGA?

A. Yes. Proposed Sheet No. 17 contains the suggested tariff language.

Q. HAS MGE PROPOSED TO INCLUDE ANY OTHER ITEMS IN THE PGA?

A. Yes. Proposed Sheet Nos. 14 and 16 include language which would include as a cost of gas, the property taxes assessed on gas held in storage and any FERC related regulatory costs.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO REGULATORY COMMISSION EXPENSE.

A. This adjustment on Schedule H-10 first amortizes expected rate case expense over a three-year period, and the 2005 depreciation study over a five-year period, annualizes the NARUC and MPSC assessments based on invoices received in 2008 and adjusts other regulatory costs to more normal level.

Q. WHAT IS THE PURPOSE OF SCHEDULE H-11?

A. Schedule H-11 computes interest on the average thirteen-month balance of residential customer deposits at an interest rate of 4.25% or 1% over the prime rate as of December 31, 2008, consistent with MGE's tariff Sheet No. R-14 and on the average thirteen-month balance of commercial customer deposits at the statutory interest rate of 3.00%.

Q. HAVE YOU PROPOSED AN ADJUSTMENT TO DEPRECIATION EXPENSE?

A. Schedule H-12 details the adjustment to depreciation expense based upon the level of plant investment at December 31, 2008. The adjustment being proposed on schedule H-12 is a two part adjustment with the first part of the adjustment being made to annualize depreciation expense based on the year end levels of plant using the current depreciation rates approved by the Commission in Case No. GR-2006-0422. The second part of the adjustment uses the depreciation rates recommended by MGE witness Thomas J. Sullivan.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION EXPENSE.

A. Schedule H-13 details the pro forma amortization expense. The adjustment consists of three parts. The first part annualizes the amortization of all leasehold improvements and miscellaneous intangible plant at December 31, 2008. The second part of the adjustment computes SLRP amortization based upon the ten-year amortization period, which the Commission determined in Case No. GR-98-140. The third part of the adjustment amortizes the unamortized cost of the infinium software and net cost of removal balance over a five year period.

Q. PLEASE EXPLAIN SCHEDULE H-14 RELATING TO THE TRANSPORTATION AND WORK EQUIPMENT CLEARING ACCOUNT.

A. These adjustments normalize the amounts included in the test year expense accounts relating to dollars charged from clearing accounts to operating expense and capital accounts. The adjustment reflects the change in the depreciation of transportation equipment and power operated equipment because of the cancellation of the equipment lease by the lessor. The additional depreciation expense resulting from the increase in equipment has been offset by the elimination of the lease payments made during the test period resulting in an overall decrease to expense of $613,821.

Q. PLEASE EXPLAIN THE FUNCTION OF "CLEARING ACCOUNTS".

A. Clearing accounts are specific accounts required by the uniform system of accounts. They serve as a clearing house for various costs that are incurred for a similar function. For example, the TWE account accumulates various costs relating to vehicles and major work equipment including payroll, benefits, taxes, and insurance as well as the cost of tires, oil, and repairs and depreciation and/or vehicle lease expense. By accumulating varied but related costs into one account these costs can more easily and consistently be charged back to other expense and capital accounts. At the end of the year these clearing accounts should have a balance of $0.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.

A. Schedule H-15 synchronizes ad valorem taxes with plant in service excluding intangible plant and corporate allocated plant at December 31, 2008. The property tax rate is based on the 2008 actual property tax rate. Property taxes have also been increased to include an estimated amount for Kansas property tax on gas in storage in Kansas.

Q. WHY ARE YOU INCLUDING AN AMOUNT FOR KANSAS PROPERTY TAXES?

A. A previous attempt by Kansas to tax gas in storage was decided in MGE's favor by the Kansas courts in 2007, but the Kansas legislature is once again trying to pass a law which will allow the taxation of the storage gas in Kansas. As of the time of filing this testimony, the Kansas Senate has already passed the measure, and a House Tax Committee will be including it in package set to be voted on at the end of April. It is my understanding that the bill, unless changed, will be retroactive to January 1, 2009, meaning MGE will have to pay this tax in 2009.

Q. PLEASE EXPLAIN SCHEDULE H-16.

A. Schedule H-16 annualizes the postage costs to reflect the postage increase which went into effect in early 2008 and which will once again increase on May 1, 2009.

Q. PLEASE EXPLAIN SCHEDULE H-17.

A. Schedule H-17 annualizes rent expense and MGE's share of operating expenses, taxes and maintenance at the headquarters building.

Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE ON SCHEDULE H-18.

A. Schedule H-18 removes all MGE incentive compensation and bonuses during the test year which were based on meeting financial targets. Those bonuses earned as a result of meeting service level targets and other outstanding contribution awards remain in expense. The payroll expense ratio is then applied to the adjusted level in order to calculate the amount, which should be removed from expense.

Q. PLEASE EXPLAIN SCHEDULE H-19.

A. H-19 reflects an expense for the cost to accept a credit card payment from a customer for the balance of their gas bill. Currently that cost is assessed to the customer by the credit card company which reduces the incentive for a customer to pay with a credit card. It is in the Company's interest to accept a credit card payment as that debt if later unpaid would revert to the credit card company and not MGE. During 2008, credit cards were used over 195,000 times to pay a gas bill. Those payments however declined from a high of 21,000 in March to a low of 12,800 in November. MGE would like to see the number of these payments increase as they may very well help keep uncollectible accounts from increasing beyond what is expected.

Q. PLEASE EXPLAIN SCHEDULE H-20.

A. Schedule H-20 eliminates the cost of contract lobbyists from the cost of service and adds to expense one fifth of the costs incurred in negotiating a new contract with all of MGE's unions. One fifth has been used to reflect the five year length of the new union contracts.

Q. PLEASE EXPLAIN SCHEDULE H-21.

A. Currently, MGE has included in rates $750,000 for low-income weatherization programs administered by the City of Kansas City, Missouri and several other social agencies located in the other parts of MGE's service territories. MGE would recommend that this level of funding continue along with the $750,000 of funding in rates for MGE energy efficiency and education initiatives. MGE witness David Hendershot addresses this issue in his testimony.

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

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

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

Q. WHY IS IT REASONABLE FOR MGE'S CUSTOMERS TO FUND THESE INITIATIVES?

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

Q. YOU MENTIONED PREVIOUSLY IN YOUR TESTIMONY THAT ONE OF THE REASONS MGE HAS FILED THIS CASE IS THAT IT HAS EXPERIENCED HIGHER OPERATING EXPENSES DUE TO ENVIRONMENTAL REMEDIATION COSTS. TO WHAT ENVIRONMENTAL REMEDIATION COSTS ARE YOU REFERRING?

A. MGE has had significant costs during the test year associated with the clean-up of former manufactured gas plant (FMGP) sites.

Q. WHAT AMOUNT OF FMGP REMEDIATION COSTS HAS MGE INCURRED DURING THE TEST YEAR?

A. During the test year ending December 31, 2008, MGE incurred almost $5,000,000 of FMGP remediation costs.

Q. HOW HAVE THESE COSTS BEEN TREATED FOR PURPOSES OF THIS FILING?

A. These costs have been treated as a normal ongoing operating expense or as a normal cost of doing business for a local distribution company.

Q. HAS THE COMMISSION PREVIOUSLY INDICATED ITS BELIEF THAT THESE FMGP REMEDIATION COSTS ARE ONGOING IN NATURE?

A. Yes. Recently, in the Report and Order issued on December 17, 2008 in Commission Case No. GU-2007-0480, the Commission made the following findings in regard to MGE's FMGP sites and its remediation costs:

1) "Cleanup costs are certain to occur in the near future;"
2) "Remediation of former manufactured gas plant sites is a normal cost of doing business for a local distribution gas company;" and,
3) "Remediation of FMGP sites is typical of a natural gas utility."

<u>4. MISCELLANEOUS MATTERS</u>

Q. HAVE YOU PREPARED ANY OTHER SCHEDULES IN THIS FILING?

A. Yes. Section G contains schedules which compare some of MGE's statistics related to operations and maintenance (O&M) expense per customer and annual residential margin bills with other reasonably comparable LDC's regulated in Missouri and also compares MGE's actual uncollectible expense with the level allowed by the Commission in the last three rate cases.

The first schedule, Schedule G-1 compares MGE's O&M expense per customer for the years 1998 through 2007 with the O&M expense per customer for the same period for Laclede, AmerenUE and the Missouri Public Service (MoPub) division of Aquila now Empire District Gas. As shown by Schedule G-1, MGE is consistently much lower than the other utilities shown on the schedule.

Schedule G-2 is a comparison of annual residential bills on the basis of margin rates (monthly customer charge plus volumetric delivery rates). The schedule shows that MGE is considerably lower-priced than these companies. The comparison is based on the average residential usage MGE used to set rates in Case No. GR-2006-0422.

Q. PLEASE CONTINUE.

A. Schedule G-3 compares the actual uncollectible expense included in MGE's net operating income with the rate case allowance. The comparison is for each fiscal or calendar year from 1996 through 2008. For the thirteen years shown on the schedule, MGE has realized a shortfall of almost $19,000,000 in expense recovery or $1,450,000 per year on average.

Q. DO YOU HAVE ANY INFORMATION COMPARING MGE'S ACTUAL ACHIEVED EARNINGS TO MGE'S COMMISSION-AUTHORIZED RETURNS?

A. Yes. Schedule G-4 shows that in each fiscal year from 1996 through 2008, MGE's achieved rate of return was below the return authorized by the Commission in the most recent previous case. In 2005, MGE's per books achieved return was close to the return authorized in Case No. GR-2004-0209 only because MGE was able to favorably resolve a series of property tax appeals related to a number of preceding years. Absent that non-recurring event, pursuant to which MGE received property tax refunds and adjustments in 2005 of $8,309,218, MGE's achieved return for 2005 would have been 7.49%, well short of the return authorized in Case No. GR-2004-0209. In 2007 and 2008 the achieved return was again close to the return authorized in Case No. GR-2006-0422 primarily due to the improvement in residential revenues because of the SFV rate design approved in that case. However because of environmental costs in 2008, uncollectible costs in 2007 and the increase in plant, MGE still was not able to achieve its authorized return. Taken a step further, over the thirteen and one-half year period shown on Schedule G-4, MGE has realized an earnings deficiency of about $118 million, which tax adjusted equates to a revenue deficiency of over $190 million.

5. TARIFF CHANGES

Q. WOULD YOU PLEASE SUMMARIZE THE TARIFF CHANGES BEING REQUESTED BY MGE?

A. MGE is filing fifty (50) proposed tariffs sheets that contain either a language or rate change.

Proposed Sheets Nos. 10, 25, 27, 28, 30, 31, 40, 42, 76, 77, 83 and 94 reflect the new rates and tariff class volume requirements being proposed by MGE witness Russell Feingold for each of the tariff classes.

Q. IS MGE REQUESTING A CHANGE TO THE TRANPORTATION PROVISIONS OF ITS TARIFF?

A. Yes. MGE is revising the Transportation Provisions (TRPR) of the tariff to address Aggregation, Daily Scheduling Requirements, and Monthly Cash Out, and to add a Periods of Daily Balancing section. MGE considered a proposal to change the tariff to strict daily balancing, but has chosen instead to make a proposal that retains the flexibility afforded by monthly cash out and encourage customers to manage the business within the intent of daily balancing.

The tariff language change is designed to clarify the intent that customers to schedule nominations in kind with usage, as adjusted for retention for lost and unaccounted for gas.

Aggregation has been changed to clarify that the Agent will pool customer nominations and usage by pipeline. The liability section has been clarified to incorporate Section 3.19 of MGE’s tariff.

Cash out has been changed to narrow the balancing tolerances by 5%, to change the cash out value to the lower of index prices when MGE is purchasing cash out supply and to the higher of index prices when MGE is selling supply. While changing the tolerance band will not affect most customers, as customers typically balance within the +/- 5% tolerance on a monthly basis, changing the cash out price will hopefully encourage customers to reduce imbalance volumes. MGE has also removed the PGA transportation component when purchasing monthly cash out supply. MGE has already incurred this cost in the PGA and does not require this additional cost to purchase incremental supplies for the commodity customer. These provision changes will reduce the impact of cash out to MGE commodity customers.

MGE has added a Period of Daily Balancing provision to address individual circumstances where a customer or agent may continue to nominate more supply than required at receipt points. It is anticipated that MGE will only need this authority in limited circumstances. We anticipate that the changes proposed for the balancing tolerances will encourage customers to meet the daily balancing intent of the tariff.

Finally, MGE has added a Definitions section to the TRPR which includes the definitions of terms that are not well defined or not found in the other portions of the TRPR tariff language.

Q. WHAT ARE SOME OF THE OTHER TARIFF CHANGES YOU HAVE PROPOSED?

A. The PGA Sheets Nos. 14 and 16 have been changed to include any property taxes on gas held in storage in the cost of gas and also to include any FERC regulatory costs. Sheets Nos. 17 and 17.1 have been changed to contain language that includes any over or under-collected uncollectible gas costs in the costs used to calculate the annual ACA factor. PGA Sheets Nos. 24 and 24.1 restate the PGA computation volumes to reflect the current mix of pipeline transportation, storage and commodity assets under contract to MGE for purposes of calculating PGA factors after May 2, 2009.

Sheets Nos. 55 through 58.4 have the word "experimental" removed from the School Transportation Program (ESTP) tariff language. These tariffs have been in effect for over six years and should probably not be considered experimental anymore.

Finally, Sheet No. 98 has been modified to reflect that MGE is proposing to make the High-Efficiency Natural Gas Water Heating and Space Heating Incentive Program available to Small General Service (SGS) customers.

MGE is proposing to withdraw the Experimental Low Income Rate (ELIR) tariff, Sheet Nos. 103 through 103.3. This program was approved by the Commission in GR-2001-292, and was short lived. The Commission, in the Report and Order in Case No. GR-2004-0209, allowed the program to end in July 2006, at which time the remaining funds were given to the MidAmerican Assistance Coalition to be used as energy assistance funds.

The final tariff change proposed on Sheet No. R-87 would increase the following items in the Schedule of Other Charges:

Collection or disconnection from $8.00 to $20.00

Transfer charge from $6.50 to $15.00

All types of reconnection charges from $45.00 to $65.00

All of these increases in the charges are cost based and more closely reflect the MGE labor and overheads actually incurred.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.