

Exhibit No.:
Issue: ISRS Rates
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GO-2016-0332
Date Testimony Prepared: December 16, 2016

MISSOURI PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

MISSOURI GAS ENERGY

CASE NO. GO-2016-0332

Jefferson City, Missouri
December, 2016

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DIRECT TESTIMONY
OF
DAVID M. SOMMERER
MISSOURI GAS ENERGY
CASE NO. GO-2016-0332**

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1 **DIRECT TESTIMONY**

2 **OF**

3 **DAVID M. SOMMERER**

4 CASE NO. GO-2016-0332

5 Q. Please state your name and business address.

6 A. David M. Sommerer, P.O. Box 360, Jefferson City, MO. 65102.

7 Q. By whom are you employed and in what capacity?

8 A. I am employed by the Missouri Public Service Commission (“Commission”) as
9 the Manager of the Procurement Analysis Unit, which, among other duties, is responsible for
10 part of the Staff’s recommendation in natural gas ISRS cases.

11 Q. Please describe your education, background, and work experience.

12 A. Please see Schedule DMS–d1, for my education, background, and work
13 experience, attached to my testimony.

14 Q. Have you previously filed testimony before this Commission?

15 A. Yes. Please see Schedule DMS–d1, for a list of cases and the issues I have
16 addressed in testimony, attached to my testimony.

17 **EXECUTIVE SUMMARY**

18 Q. What is the purpose of your direct testimony?

19 A. My direct testimony will explain that Staff continues to support its
20 recommendation (a copy of which is attached as Schedule DMS–d2) that addressed the
21 Infrastructure System Replacement Surcharge (“ISRS”) application that was filed by Missouri
22 Gas Energy (“MGE” or “Company”) on September 30, 2016 in Case No. GO-2016-0332. Staff
23 witness Caroline Newkirk is also addressing the ISRS application. Staff witness Jennifer

1 Grisham will address the ISRS application filed by Laclede Gas Company “Laclede”, in Case
2 No. GO-2016-0333.

3 Q. Are you the same David Sommerer who contributed to the Memorandum
4 attached as Appendix A and Appendix B of the Staff Recommendation filed on November 29,
5 2016 in Case No. GO-2016-0332?

6 A. Yes.

7 Q. Is the information contained in the Staff Recommendation still true and accurate
8 to the best of your knowledge?

9 A. Yes.

10 **STAFF RATE DESIGN FOR THE GAS ISRS**

11 Q Please describe the Staff’s proposed rate design.

12 A. Staff’s proposed rates are consistent with the methodology used to establish the
13 Company’s past ISRS rates and consistent with the overall methodology used to establish ISRS
14 rates for other natural gas utilities. Staff’s proposed ISRS rates are contained in Appendix B of
15 Schedule DMS–d2. The rate design contained on Appendix B of the Staff memorandum, and
16 attached as part of Schedule DMS–d2, was prepared under my supervision. The Staff used the
17 customer levels from the most current annual report available at the time of the preparation of
18 Staff’s November 29, 2016, memorandum to provide the basis of the rate design.

19 Q. Does this conclude your direct testimony?

20 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) Case No. GO-2016-0332
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID M. SOMMERER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Direct Testimony; and that the same is true and correct according to his best knowledge and belief.

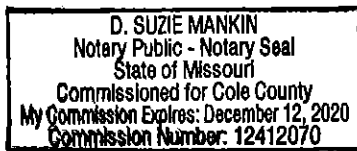
Further the Affiant sayeth not.

David M. Sommerer

DAVID M. SOMMERER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of December, 2016.



D. Suzie Mankin

Notary Public

David M. Sommerer

Educational Background and Work Experience

In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department (now known as the Procurement Analysis Unit). This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the Procurement Analysis staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section was transferred to the Procurement Analysis Unit. That group analyzes filings made before the Federal Energy Regulatory Commission (FERC). During the reorganization in August 2011, the Federal Issues/Policy Analysis Section was transferred to the Secretary/ General Counsel Division. In 2015, I assumed the responsibility for the rate design aspects of the Gas Infrastructure System Replacement Surcharge (ISRS) process. The Gas ISRS allows for a more expedited process of including eligible pipeline replacements in rates prior to general rate cases.

**CASES WHERE TESTIMONY
WAS FILED
DAVID M. SOMMERER**

COMPANY	CASE NO.	ISSUES
Laclede Gas Company (MGE)	GO-2016-0197	ISRS rates
Laclede Gas Company	GO-2016-0196	ISRS rates
Liberty Utilities (Midstates Natural Gas) Corp d/b/a Liberty Utilities	GR-2014-0152	Special Contact Customers Gas Contract
Missouri Gas Energy	GR-2014-0007	Gas Supply Incentive Plan Property Tax PGA Recovery
Laclede Gas Company	GR-2010-0171	Bad Debt in PGA, CAM
Atmos Energy Corporation	GR-2009-0417	Affiliated Transactions
Atmos Energy Corporation	GR-2008-0364	Affiliated Transactions
Missouri Gas Energy	GR-2009-0355	PGA tariff
Laclede Gas Company	GT-2009-0026	Tariff Proposal, ACA Process
Missouri Gas Utility	GR-2008-0060	Carrying Costs
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan

COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs
United Cities Gas Company	GO-97-410	PGA Clause
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues
Empire District Electric Company	WR-86-151	Revenues
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost

cont'd David M. Sommerer

COMPANY	CASE NO.	ISSUES
Grand River Mutual Telephone	TR-85-242	Cash Working Capital
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2016-0332, Tariff Tracking No. YG-2017-0048
Missouri Gas Energy

FROM: Caroline Newkirk, Regulatory Auditor, Auditing Department
Michael J. Ensrud, Rate & Tariff Examiner II, Procurement Analysis

/s/ Mark L. Oligschlaeger 11/29/16
Auditing Department / Date

/s/ David M. Sommerer 11/29/16
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 11/29/16
Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory

DATE: November 29, 2016

BACKGROUND

On September 30, 2016 Missouri Gas Energy (“MGE” or “Company”), an operating unit of Laclede Gas Company, filed the “Verified Application and Petition of Missouri Gas Energy, an Operating Unit of Laclede Gas Company, to Change its Infrastructure System Replacement Surcharge in its Missouri Gas Energy Service Territory” with the Missouri Public Service Commission (“Commission”). The Application proposes to increase MGE’s Infrastructure System Replacement Surcharge (ISRS) rates and implement a revised Tariff Sheet with a proposed effective date of October 30, 2016.

MGE made its filing pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rules 4 CSR 240-2.060, 2.080, and 3.265, which allow Missouri natural gas corporations to file a petition and proposed rate schedule with the Commission to recover certain infrastructure system replacement costs outside a formal rate case, through a surcharge on customers’ bills.

MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements since the Commission’s last decision in Case No. GO-2016-0197 and submitted its Application to reflect ISRS investments for the period from March 1, 2016 through August 31, 2016, with pro-forma ISRS costs updated through October 31, 2016. MGE estimated in its Application that it was entitled to an incremental increase of ISRS revenues in this case of \$3,451,810.

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In relation to notice requirements, Laclede Gas Company, on behalf of MGE, has filed the following on June 9, 2016:

LACLEDE GAS AND MISSOURI GAS ENERGY'S REQUEST FOR WAIVER OF
RULE 4.020(2) FOR ISRS CASE FILINGS, OR IN THE ALTERNATIVE, NOTICE OF
INTENDED CASE FILINGS

This submission suffices for notice under 4 CSR 240-4.020(2). However, the waiver request should be denied, particularly in light of the fact that revisions to the Commission's *ex parte* rules are currently under consideration by the Commission.

On October 3, 2016, the Commission issued an "Order Directing Notice, Setting Intervention Deadline, Directing Filing and Suspending Tariff." That Order set the following dates:

- Staff's Recommendation shall be filed no later than November 29, 2016
- Suspension of the tariff sheet until January 28, 2017

STAFF REVIEW AND REVENUE CALCULATIONS

On September 30, 2016, Missouri Gas Energy ("MGE" or "Company"), an operating unit of Laclede Gas Company, filed an application and tariff sheet in Case No. GO-2016-0332 to change its Infrastructure System Replacement Surcharge (ISRS). This is the fifth ISRS filing since the Company's most recent general rate case, Case No. GR-2014-0007. The results of the preceding ISRS cases are currently included in MGE's ISRS rates: Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, and GO-2016-0197.

Section 393.1015.3, RSMo, states, "A gas corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months." The MGE tariff filed with this Application has been suspended until **January 28, 2017**. In Case No. GO-2015-0343, which was filed in August of 2015, the effective date for MGE's revised ISRS rates was December 1, 2015. Since that date, MGE has changed its ISRS surcharge one additional time, in Case No. GO-2016-0197. Based upon MGE's previous ISRS filings and the statute, Staff recommends the tariff for this ISRS filing should not go into effect prior to December 1, 2016.

Commission Rule 4 CSR 240-3.265(18) states, "... The commission shall reject an ISRS petition after a commission order in a general rate proceeding unless the ISRS revenues requested in the petition, on an annualized basis, will produce ISRS revenues of at least the lesser of one-half of one percent (1/2%) of the natural gas utility's base revenue level approved by the commission in the natural gas utility's most recent general rate case proceeding or one (1) million dollars, but

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not in excess of ten percent (10%) of the subject utility's base revenue level approved by the commission in the utility's most recent general rate proceeding." MGE's requested ISRS revenues exceeds the one-half of one percent of the natural gas utility's base revenue level approved by the commission in the most recent MGE rate case and MGE's cumulative ISRS revenues, including this filing, do not exceed ten percent of the base revenue levels approved by the commission in the last MGE rate case.

In this Application, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of March 1, 2016 through October 31, 2016. The ISRS recovery requested for September and October 2016 plant additions was included on an estimated basis at the time MGE's Application was filed, but documentation supporting actual ISRS plant addition costs for these months was supplied by MGE during the course of Staff's review and audit in this case.

As part of its examination of MGE's application, Auditing Staff reviewed supporting workpapers, a representative sample of work orders, invoices, and other applicable documentation, such as work order authorizations. Staff also communicated with MGE personnel to clarify MGE's application when necessary.

The following documentation was provided to Staff on the following dates:

- October 3, 2016 - Work order authorizations for ISRS projects over \$50,000 for the months of March 1, 2016 thru August 31, 2016.
- October 10, 2016 - Work authorizations for September 2016.
- November 10, 2016 – Work authorizations for October 2016 and a sample of invoices and work orders related to costs incurred between March 1, 2016 and September 30, 2016.
- November 18, 2016 - A sample of invoices for October 2016.
- November 21, 2016 – A sample of a work order for October 2016.

Commission Rule 4 CSR 240-3.265 sets forth the definitions of natural gas utility plant projects that are eligible for ISRS treatment. Staff concluded each of the projects reviewed meets the ISRS rule qualifications.

The methodology used by the Auditing Staff allows for consideration of all accumulated depreciation and deferred income taxes on ISRS qualifying infrastructure replacement costs through December 15, 2016. This methodology is consistent with past reviews conducted by Auditing Staff and with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

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Auditing staff also included incremental accumulated depreciation, accumulated deferred income tax, and any change in property tax rates for replacements associated with the currently effective ISRS authorized for MGE in Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, and GO-2016-0197 as required by 4 CSR 240-3.265(20)(K).

STAFF RECONCILIATION

Commission Rule 4 CSR 240-3.265(17) requires a reconciliation of the ISRS revenue MGE collected from customers in the prior 12-month period to account for over or under-collection of ISRS revenue. Since a reconciliation of revenues collected thru December 31, 2015 was performed in the last ISRS rate case, Case No. GO-2016-0197, it is not necessary for Staff to perform a reconciliation of surcharges for purposes of this case because the required twelve-month (12) period provided in 4 CSR 240-3.265(17) has not elapsed.

AUDITING SUMMARY AND CONCLUSIONS

Based upon its review and calculations made in response to this ISRS Application, Staff recommends MGE receive additional ISRS revenues of \$3,362,598. This amount differs from MGE’s updated work papers in that staff removed a \$72 transposition error on one of the Company’s journal entries. Staff found this error when reviewing invoices. Upon Commission approval, this amount will be included with ISRS rates currently in effect from Case Nos. GR-2015-0025, GO-2015-0270, GO-2015-0343, and GO-2016-0197. The following table shows the cumulative amount to be included in rates:

ISRS Case No.	Revenue Requirement	Cumulative
GR-2015-0025	\$1,990,296	
GO-2015-0270	\$2,814,926	\$4,805,222
GO-2015-0343	\$1,878,151	\$6,683,373
GO-2016-0197	\$3,570,050	\$10,253,423
GO-2016-0332	\$3,362,598	\$13,616,021

THE ISRS RATE SCHEDULES

Staff’s recommended rates are consistent with the methodology used to establish MGE’s past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff’s recommended ISRS rates are contained in Appendix B, attached hereto and incorporated by reference herein.

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Staff has verified that MGE has filed its 2015 annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is affected by this filing, other than MGE's last two ISRS cases which are currently on appeal.

RECOMMENDATION

Based upon the rationale stated above, Staff recommends the Commission issue an order in this case that:

1. Rejects MGE's ISRS tariff sheet (YG-2017-0048) P.S.C MO No. 6 Seventh Revised Sheet No. 10 cancelling P.S.C. MO No. 6 Sixth Revised Sheet No. 10 filed on September 30, 2016;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$3,362,598;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$13,616,021 annually.

MGE
 ISRS Rate Design
 Total ISRS Revenues

CASE NO. GO-2016-0332

FILE NO. YG-2017-0048

Total Revenue Requirement **\$ 13,616,021**

Customer Rate Class	Number of Customers	Customer Charge	Ratio to Residential Customer Charge	Weighted Customer Nos.	Customer Percentage	Proposed ISRS Charge	Proposed ISRS Revenues
Residential	445,941	\$ 23.00	1	445941	78.5626%	\$ 2.00	\$ 10,697,098
Small General Service	57,881	\$ 34.00	1.478261	85563.21739	15.0739%	\$ 2.96	\$ 2,052,465
Large General Service	3,421	\$ 115.40	5.017391	17164.49565	3.0239%	\$ 10.03	\$ 411,737
Large Volume	482	\$ 904.56	39.328696	18956.4313	3.3396%	\$ 78.62	\$ 454,721
	<u>507,725</u>			<u>567,625</u>			<u>\$ 13,616,021</u>

*Due to rounding to the nearest penny, the designed **ISRS rates will under collect by \$8986**. However, it should be noted that the total amount will be trued-up at a later date.

Appendix B

