

Exhibit No.:
Issue: ISRS Rates
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GO-2016-0197
Date Testimony Prepared: April 18, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

PROCUREMENT ANALYSIS

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

MISSOURI GAS ENERGY

CASE NO. GO-2016-0197

Jefferson City, Missouri
April, 2016

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DIRECT TESTIMONY OF
DAVID M. SOMMERER
MISSOURI GAS ENERGY
CASE NO. GO-2016-0197**

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1 **DIRECT TESTIMONY**

2 **OF**

3 **DAVID M. SOMMERER**

4 **MISSOURI GAS ENERGY**

5 **CASE NO. GO-2016-0197**

6 Q. Please state your name and business address.

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

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

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

13 Q. Please describe your education background and work experience.

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

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

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

19 **EXECUTIVE SUMMARY**

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

21 A. My direct testimony will explain that Staff continues to support its
22 recommendation (a copy of which is attached as Schedule DMS–d2) that addressed the ISRS
23 application that was filed by Missouri Gas Energy (MGE or “Company”) on February 1, 2016 in

1 Case No. GO-2016-0197. Staff witness Jennifer K. Grisham is also addressing the ISRS
2 application. Staff witness Brian Wells will address the ISRS application filed by Laclede Gas
3 Company “Laclede”, in Case No. GO-2016-0196.

4 Q. Are you the same David M. Sommerer who contributed to the Memorandum
5 attached as Appendix A and Appendix B of the Staff Recommendation filed on April 1, 2016 in
6 Case No. GO-2016-0197?

7 A. Yes.

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

10 A. Yes.

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

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

13 A. Staff’s proposed rates are consistent with the methodology used to establish the
14 Company’s past ISRS rates and consistent with the overall methodology used to establish ISRS
15 rates for other natural gas utilities. Staff’s proposed ISRS rates are contained in Appendix B of
16 Schedule DMS–d2. The rate design contained on Appendix B of the Staff memorandum, and
17 attached as part of Schedule DMS–d2, was prepared under my supervision. The Staff used the
18 customer levels from the most current annual report available at the time of the preparation of
19 Staff’s April 1, 2016, memorandum to provide the basis of the rate design.

20 Q. Does this conclude your direct testimony?

21 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)
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory) Case No. GO-2016-0197

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.

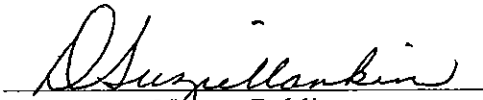


DAVID M. SOMMERER

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 April, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070



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
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
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan

cont'd David M. Sommerer

COMPANY	CASE NO.	ISSUES
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
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-2016-0197, Tariff Tracking No. YG-2016-0194
Missouri Gas Energy

FROM: Jennifer K. Grisham, Regulatory Auditor, Auditing Department
Michael J. Ensrud, Rate & Tariff Examiner II, Procurement Analysis

/s/ Mark L. Oligschlaeger 03/31/16
Auditing Department / Date

/s/ David M. Sommerer 03/31/16
Commission Staff Division / Date

/s/ Jeffrey A. Keevil 03/31/16
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 and Request for Waiver of Commission Rule 4.020(2)

DATE: March 31, 2016

BACKGROUND

On February 1, 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 and Request for Waiver of Commission Rule 4.020(2)" 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 March 2, 2016. It also seeks waiver of the 60-day notice requirement.

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 also requested a waiver of Commission Rule 4.020(2) – the 60-day notice requirement.

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-2015-0343 and submitted its Application to reflect ISRS investments for the period from September 1, 2015 through

OFFICIAL CASE FILE MEMORANDUM

MO PSC Case No. GO-2016-0197, Tariff No. YG-2016-0194

March 31, 2016

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December 31, 2015, with pro-forma ISRS costs updated through February 29, 2016. MGE estimated in its Application that it was entitled to an incremental increase of ISRS revenues in this case of \$3,597,838.

On March 9, 2016, MGE updated the amount of revenue requirement being sought. MGE's incremental revenue requirement reduced to \$3,570,050.

On February 3, 2016, the Commission issued an "Order Directing Notice, Directing Filings And Setting Intervention Deadline." That Order set the following dates:

- Staff's Recommendation shall be filed no later than April 1, 2016
- Suspension of the tariff sheet until May 31, 2016

On March 2, 2016, the Commission issued an "Order Granting Request For Waiver" in response to MGE's request for waiver of 4 CSR 240-4.020(2).

There is a potential issue with the effective date of this filing. Section 393.1015.3, RSMo, provides as follows:

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.** (Emphasis added)

MGE was granted authority to implement Fourth Revised Sheet No. 10,¹ Effective May 22, 2015. MGE was granted authority to implement Fifth Revised Sheet No. 10,² effective December 1, 2015. Therefore, the pending filing cannot go into effect any sooner than May 23rd.

STAFF REVIEW AND REVENUE CALCULATIONS

MGE's filing in Case No. GO-2016-0197 represents its fourth ISRS filing since the Company's most recent general rate case, Case No. GR-2014-0007. The results of the following subsequent ISRS cases are currently included in MGE's ISRS rates: Case Nos. GR-2015-0025, GO-2015-0270, and GO-2015-0343.

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 tariffs filed with this Application have been suspended until May 31, 2016. In case

¹ GO-2015-0270.

² GO-2015-0343.

OFFICIAL CASE FILE MEMORANDUM

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March 31, 2016

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No. GO-2015-0270, which was filed in April of 2015, the effective date for MGE's revised ISRS rates was May 22, 2015. Since that date, MGE has changed its ISRS surcharge one additional time, in Case No. GO-2015-0343. 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 May 23, 2016.

In this Application, MGE filed to recover ISRS qualifying infrastructure replacement costs incurred during the period of September 1, 2015 through February 29, 2016. As part of its examination of MGE's application, Auditing Staff reviewed supporting workpapers, a representative sample of work orders, and other applicable documentation. On February 2, 2016, MGE provided Staff with a sample of work orders related to costs incurred between September 1, 2015 and December 31, 2015. A sample of work orders for January 2016 was provided by MGE on February 9, 2016, and a sample of the February 2016 work orders was provided to Staff on March 9, 2016. Staff also communicated with MGE personnel to clarify MGE's application when necessary.

Commission Rule 4 CSR 240-3.265 for Natural Gas Infrastructure System Replacement Surcharges 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 April 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.

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, and GO-2015-0343, 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. Staff performed this reconciliation and found MGE under-collected ISRS revenue by \$323,568, which is identical to the amount of under-collection calculated by MGE. As a result of the reconciliation, Staff recommends including this amount of under-collected ISRS revenue in MGE's ISRS rates.

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March 31, 2016

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Based upon its review and calculations, Staff recommends MGE receive ISRS revenues of \$3,570,050. Upon Commission approval, this amount will be included with ISRS rates currently in effect from Case Nos. GR-2015-0025, GO-2015-0270, and GO-2015-0343. 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

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.

Staff has verified that MGE has filed its 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 ISRS case which is 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-2016-0194) P.S.C MO No. 6 Sixth Revised Sheet No. 10 cancelling P.S.C. MO No. 6 Fifth Revised Sheet No. 10 filed February 1, 2016;
2. Approves the Staff's recommended ISRS surcharge revenues in this docket in the incremental pre-tax revenue amount of \$3,570,050;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$10,253,423 annually; and,
4. Authorizes an effective date no sooner than May 23, 2016.

Missouri Gas Energy (MGE)

ISRS Rate Design

Total ISRS Revenues

CASE NO. GO-2016-0197

TARIFF NO. YG-2016-0194

Total Revenue Requirement **\$ 10,253,423**

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	441101	\$ 23.00	1	441101	78.1045%	\$ 1.51	\$ 8,008,389
Small General Service	60339	\$ 34.00	1.478261	89196.78261	15.7938%	\$ 2.24	\$ 1,619,408
Large General Service	3082	\$ 115.40	5.017391	15463.6	2.7381%	\$ 7.59	\$ 280,749
Large Volume	483	\$ 904.56	39.328696	18995.76	3.3635%	\$ 59.50	\$ 344,877
	<u>505,005</u>			<u>564757.1426</u>			\$ 10,253,423

*Due to rounding to the nearest penny, the designed ISRS rates will over-collect by \$13,149. However, it should be noted that the total amount will true-up at a later date.

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-2016-0197
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW MICHAEL J. ENSRUD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to his best knowledge and belief.

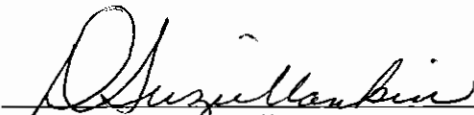
Further the Affiant sayeth not.


MICHAEL J. ENSRUD

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 31st day of March, 2016.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070
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Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

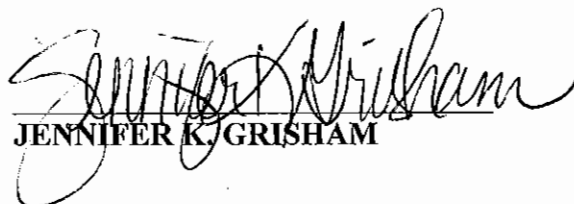
In the Matter of the Application of Laclede)
Gas Company to Change its Infrastructure) Case No. GO-2016-0197
System Replacement Surcharge in its)
Missouri Gas Energy Service Territory)

AFFIDAVIT OF JENNIFER K. GRISHAM

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

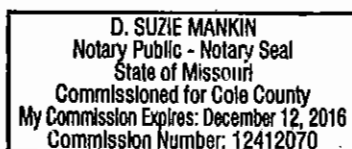
COMES NOW JENNIFER K. GRISHAM and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

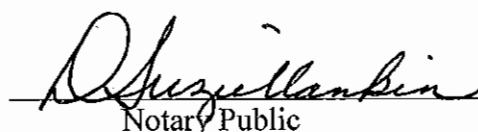
Further the Affiant sayeth not.


JENNIFER K. GRISHAM

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 31st day of March, 2016.




Notary Public