

Exhibit No.:
Issue: *PGA adjustments related
to property tax*
Witness: *David M. Sommerer*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *GR-2014-0007*
Date Testimony Prepared: *April 3, 2014*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW

UTILITY SERVICES – PROCUREMENT ANALYSIS

SURREBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

**MISSOURI GAS ENERGY (MGE)
A Division of Laclede Gas Company**

CASE NO. GR-2014-0007

*Jefferson City, Missouri
April, 2014*

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DAVID M. SOMMERER
MISSOURI GAS ENERGY
A Division of Laclede Gas Company
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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **DAVID M. SOMMERER**

4 **MISSOURI GAS ENERGY**
5 **A Division of Laclede Gas Company**

6 **CASE NO. GR-2014-0007**

7 Q. Please state your name and business address.

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

9 Q. Are you the same David M. Sommerer who sponsored testimony as part of the
10 Staff's February 2014 Class Cost-of-Service - Rate Design Report?

11 A. Yes.

12 **EXECUTIVE SUMMARY**

13 Q. What is the purpose of your surrebuttal testimony?

14 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of
15 Missouri Gas Energy (MGE or "Company") witnesses Glenn Buck. Specifically, I will be
16 addressing Mr. Buck's proposal to use the Purchased Gas Adjustment (PGA) clause to flow back
17 certain property tax recoveries in the PGA. The PGA clause should be limited to gas costs and
18 revenues, not other items that do not constitute gas costs.

19 **MISSOURI GAS ENERGY'S PROPOSAL TO ALLOW RETURN OF PROPERTY**
20 **TAX EXPENSE COLLECTIONS IN THE PGA**

21 Q. What is your understanding of Mr. Buck's rebuttal testimony regarding PGA
22 treatment for certain property tax recoveries?

23 A. On page 9, lines 15-16, of his rebuttal testimony, Mr. Buck introduces the option
24 of using the PGA clause to return property tax payments that may have been previously collected

1 in rates but subsequently deemed to be unlawful by a court decision. Mr. Buck's suggested
2 provision is outlined in Rebuttal Schedule GWB-1. That schedule says in part,

3 ...provided that if the Company prevails in its current appeal challenging
4 the lawfulness of such tax assessments, the Company may seek
5 Commission approval to flow through any difference to customers
6 through its PGA mechanism....(excerpt from Glenn Buck Rebuttal
7 Schedule GWB-1)

8 This language appears to be intended to provide a PGA "flow through" option, subject to
9 Commission approval, if MGE prevails in an appeal of the property tax assessment.

10 **PGA RECOVERY/RETURN OF PROPERTY TAXES**

11 Q. Why do you disagree with Mr. Buck's PGA flow through proposal of property tax
12 differences, amortizations, or refunds?

13 A. The PGA was designed to address the recovery of prudently incurred actual
14 gas costs. A reconciliation of actual gas costs to gas costs billed to the customer has been
15 present in the PGA process for over two decades. Part of the foundation of the PGA is the
16 ability to distinguish gas costs from other cost-of-service expenses. Costs of gas supply,
17 inter (or intra)-state pipeline transportation and upstream storage costs have long been included
18 in the items recoverable in the PGA clause. I would not classify property taxes in general, or
19 even property taxes on gas storage inventory, as a cost of gas subject to PGA recovery.

20 Q. Isn't MGE only suggesting that the PGA be used to give certain dollars back in
21 the case of a favorable court decision?

22 A. That's my understanding of their proposal, though the language that is
23 suggested is not very specific. Mr. Buck uses the terms "difference" "amortization" and
24 "refund" to generally refer to amounts that might be recoverable from a taxing authority at some
25 point in the future.

Surrebuttal Testimony of
David M. Sommerer

1 Q. If the provision was clarified to only allow the PGA clause to be a tool to return
2 money to the customers, would you still object to its use?

3 A. Yes. I believe the enlistment of the PGA clause to return “non-gas” costs, such as
4 property tax refunds, may have the unintended consequence of expanding the mechanism to
5 address items other than gas costs. Property taxes are not recorded in accounts designed to be
6 used to record gas costs and do not fall under the definitions used to record gas costs in the
7 Uniform System of Accounts. Property taxes are assessed by the power of the taxing authority
8 and do not involve the contracting, procurement, and payment for the natural gas commodity or
9 related transportation service to deliver the gas to MGE’s distribution system.

10 Q. Does this conclude your surrebuttal testimony?

11 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s)
Filing of Revised Tariffs to Increase its Annual) Case No. GR-2014-0007
Revenues for Natural Gas)

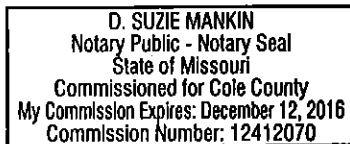
AFFIDAVIT OF DAVID M. SOMMERER

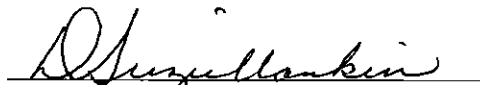
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 3 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.


David M. Sommerer

Subscribed and sworn to before me this 3rd day of April, 2014.




Notary Public