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September 6, 2002

FILED³

SEP 06 2002

Executive Secretary
Public Service Commission
Governor State Office Building
Jefferson City, MO

Missouri Public
Service Commission

RE: Case No. GT-2003-0033; Tariff No. JG-2003-0049
Missouri Gas Energy

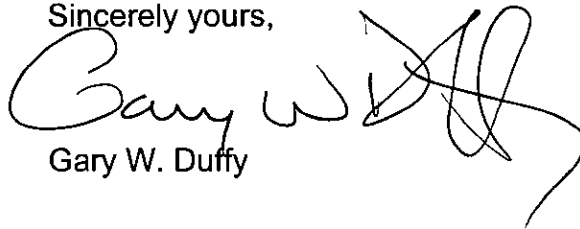
Dear Mr. Roberts:

Enclosed for filing in the above-referenced proceeding in accordance with the Order Adopting Procedural Schedule and Order Expediting Transcript issued on August 29, 2002, please find an original and eight copies of the prepared testimony of Michael R. Noack.

An electronic copy is being sent separately to counsel of record.

If you have any questions, please give me a call.

Sincerely yours,


Gary W. Duffy

Enclosures

cc w/encl:

Office of Public Counsel
Office of the General Counsel
Richard Brownlee III

Exhibit No.: _____
Issues:
Witness: Michael R. Noack
Type of Exhibit: Experimental School
Transportation Tariff
Sponsoring Party: Missouri Gas Energy
Case No.: GT-2003-0033

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GT-2003-0033

FILED³

SEP 06 2002

Missouri Public
Service Commission

TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

September 6, 2002

TESTIMONY OF MICHAEL R. NOACK

CASE NO. GT-2003-0033

September 6, 2003

1 **Q.** WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

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

4
5 **Q.** **WHO ARE YOU EMPLOYED BY?**

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

8
9 **Q.** **PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **EXPERIENCE.**

11 A. I received a Bachelor of Science in Business Administration with a major in
12 Accounting from the University of Missouri in Columbia in 1973. Upon graduation, I
13 was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a Certified Public
14 Accounting Firm in Kansas City, Missouri. I spent approximately 20 years working
15 with TKWK or firms that were formed from former TKWK employees or partners. I
16 was involved during that time in public utility consulting and financial accounting,
17 concentrating primarily on rate cases for electric and gas utilities and financial audits
18 of independent telephone companies across the United States. In 1992, I started
19 Carleton B. Fox Co. Inc. of Kansas City which was an energy consulting company

1 specializing in billing analysis and tariff selection for large commercial and industrial
2 customers. In July of 2001 I started my position with MGE. Presently I hold, in good
3 standing, a Certified Public Accountant certificate in the state of Kansas and am a
4 member of the Kansas Society of Certified Public Accountants.

5
6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

7 A. The purpose of my testimony in this proceeding is to describe the tariff sheets filed by
8 Missouri Gas Energy (MGE) that will allow the public school districts within the
9 MGE service territory to aggregate the purchasing of natural gas supplies and
10 transport said supplies to eligible schools in compliance with House Bill No. 1402
11 which was signed into law on July 11, 2002.

12
13 **Q. WHAT ARE THE SPECIFIC REQUIREMENTS OF NEW LAW?**

14 A. On July 11, 2002 the Governor signed into law House Bill No. 1402, enacting Section
15 393.310, RSMo which directed MGE and the state's other regulated natural gas
16 distribution companies to file with the Commission by August 1, 2002 a set of
17 experimental tariff sheets applicable to public school districts and which: (1) provides
18 for the aggregate purchasing of natural gas supplies and pipeline transportation
19 services on behalf of eligible school entities in accordance with aggregate purchasing
20 contracts negotiated by and through a not-for-profit school association; (2) provides
21 for the resale of such natural gas supplies, including related transportation service
22 costs, to the eligible school entities at the gas corporation's cost of purchasing of such
23 gas supplies and transportation, plus all applicable distribution costs, plus an

1 aggregation and balancing fee to be determined by the commission, not to exceed
2 four-tenths of one cent per therm delivered during the first year; and (3) not require
3 telemetry or special metering, except for individual school meters over one hundred
4 thousand therms annually. The new law also sets the requirements that the
5 Commission may suspend the tariff as required for a period ending no later than
6 November 1, 2002, and shall approve such tariffs upon finding that implementation of
7 the aggregation program set forth in such tariffs will not have any negative financial
8 impact on the gas corporation, its other customers or local taxing authorities, and that
9 the aggregation charge is sufficient to generate revenue at least equal to all
10 incremental costs caused by the experimental aggregation program. In addition the
11 law states that the commission may adopt by order such other procedures not
12 inconsistent with this section that the Commission determines are reasonable or
13 necessary to administer the experimental program.

14
15 **Q. DID MGE FILE THE REQUIRED TARIFF SHEETS IN ACCORDANCE**
16 **WITH THE LAW?**

17 A. Yes. On August 1, 2002 MGE filed with the Commission the proposed Experimental
18 School Transportation Program tariff sheets (ESTP). The sheets contained an issue
19 date of August 1, 2002 and an effective date of September 24, 2002. The effective
20 date was subsequently voluntarily changed to October 28, 2002 by letter to the
21 Executive Secretary of the Commission on August 14, 2002. As a result of
22 discussion with the Staff and the Missouri School Board Association, MGE has agreed

1 certain changes in the tariff sheets it originally filed. These changes are reflected in
2 Schedule 1 appended hereto.

3
4 **Q. THE NEW LAW ALLOWS MGE TO COLLECT AN AGGREGATION AND**
5 **BALANCING FEE NOT TO EXCEED \$0.004 PER CCF THE FIRST YEAR.**
6 **HAS MGE INCLUDED THAT FEE IN THE FILED TARIFFS?**

7 A. Yes. MGE has included a balancing fee of \$0.001 per Ccf and an aggregation fee of
8 \$0.003 per Ccf to cover the incremental costs of initiating and implementing this new
9 tariff. Both fees will be subject to adjustment on an annual basis based on whether
10 MGE is over or under recovering the costs to implement this new law.

11
12 **Q. THE NEW LAW ALSO PROVIDES THAT THERE WILL NOT BE ANY**
13 **NEGATIVE FINANCIAL IMPACT ON LOCAL TAXING AUTHORITIES.**
14 **HAS MGE ADDRESSED THAT CONCERN IN THE PROPOSED TARIFF**
15 **SHEETS?**

16 A. Yes. MGE has included tariff language designed to mitigate negative financial
17 impact on local taxing authorities by requiring eligible school entities to agree to pay
18 local taxes or similar fees in a manner similar to the way such taxes are currently
19 levied on sales customers.

20
21 **Q. THE NEW LAW ALSO REQUIRES THAT THE TARIFF BE DESIGNED TO**
22 **BE REVENUE NEUTRAL TO MGE AND ITS OTHER CUSTOMERS. WILL**
23 **THESE TARIFF SHEETS BE REVENUE NEUTRAL?**

1 A. Yes. With the inclusion of the aggregation and balancing fees, the new ESTP tariff
2 should not cause any shift of costs to the detriment of either MGE or other existing
3 sales or transportation customers. It has been proposed by the Commission Staff and
4 agreed to by MGE that no later than June 1 of each year of the experimental program,
5 MGE will provide an accounting of the revenues and expenses incurred as a result of
6 this experimental program.

7
8 **Q. DOES MGE PROPOSE TO RELEASE ANY OF ITS PIPELINE CAPACITY**
9 **TO THE SCHOOLS IN CONJUNCTION WITH THIS EXPERIMENTAL**
10 **PROGRAM?**

11 A. Yes. MGE will make available up to 4,500 MMbtu per day of pipeline capacity on
12 the Williams Gas Pipeline Central System. Any additional capacity that may be
13 needed by the school association will be made available on the Kansas Pipeline
14 Operating Company system.

15 **Q. HAS THE SCHOOL BOARD ASSOCIATION AGREED WITH THE**
16 **CAPACITY RELEASE LANGUAGE CONTAINED IN THE ESTP TARIFF**
17 **SHEETS?**

18 A. Yes they have.

19
20 **Q. ARE THERE ANY PARTS OF MGE'S PROPOSED TARIFFS WHICH ARE**
21 **IN DISPUTE EITHER WITH THE COMMISSION STAFF OR THE SCHOOL**
22 **BOARD ASSOCIATION?**

1 A. No. It is my understanding at the time of writing this testimony, that MGE has
2 addressed any concerns of either the Commission Staff or the School Board
3 Association. MGE believes its tariff filing complies with the provisions of section
4 393.310 RSMo.

5
6 **Q. DO YOU HAVE ANY OTHER COMMENTS TO MAKE AT THIS TIME?**

7 A. MGE has designed the ESTP tariff and seeks to implement this program in a spirit
8 that is in keeping with the experimental nature of the program. MGE has used its best
9 efforts to design a program that complies with the requirements of section 393.310
10 RSMo and is at the same time capable of being administered with as few structural or
11 process changes as reasonably possible. Nevertheless, despite these best efforts, it
12 must be understood that actual experience under the program may be considerably
13 different than the projections that were of necessity used in the development of the
14 ESTP tariff and that such actual experience may necessitate changes during the course
15 of the experiment.

16
17 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

18 A. Yes it does.

FORM NO. 13
P.S.C. MO. No. 1
Canceling P.S.C. MO. No. 1

Second Revised
First Revised

SHEET No. 54
SHEET No. 54

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

EXPERIMENTAL SCHOOL TRANSPORTATION PROGRAM
ESTP

This program is established pursuant to section 393.310 RSMo.

AVAILABLE

Available to any seven-director, urban or metropolitan school district as defined pursuant to section 160.011, RSMo. Beginning July 11, 2003 the program will be available to any school for elementary or secondary education whether a charter, private or parochial school or school district. Such eligible school entities purchasing gas on an aggregated basis through a not-for-profit school association may enroll in this transportation program as provided hereinafter. ~~Service under this schedule ESTP is not available to LVS customers as defined in Sheet Nos. 40 and 41 of this tariff.~~

This program shall terminate June 30, 2005.

NET MONTHLY BILL

The bill for each billing period shall be the sum of the Customer Charge, the Commodity Charge, the Aggregation Fee, the Balancing Fee (if applicable), and the EGM Charge (if applicable). Service hereunder is subject to the Tax Adjustment (TA) schedule and other provisions as hereinafter described.

Customer Charge and Commodity Charge

The Customer Charge and the Commodity Charge shall be ~~either those applicable to the SGS customer class or the LGS customer class as shown, respectively, on Sheet Nos. 28 and 31 of this tariff, based upon the class of service under which the eligible school entity took service immediately prior to enrolling in the experimental school program; provided that changes in usage volumes while enrolled in the experimental school program shall result in a change in class of service (and rates) as provided in the SGS and LGS applicable~~ rate schedules of this tariff.

DATE OF ISSUE August 1 2002
month day year

DATE EFFECTIVE September 24 2002
month day year

ISSUED BY: Robert J. Hack

VP, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

EXPERIMENTAL SCHOOL TRANSPORTATION PROGRAM

ESTP

In the event that a billing cycle has usage in more than one calendar month, the Commodity Charge will be prorated.

Aggregation Fee

An eligible school entity enrolled in the ESTP shall be assessed an Aggregation Fee of \$0.003 per Ccf for all gas delivered. This fee is subject to adjustment on an annual basis.

Balancing Fee

An eligible school entity enrolled in the ESTP shall be assessed a Balancing Fee of \$0.001 per Ccf for all gas delivered through any meter on which EGM equipment is not installed. This fee is intended to recover costs for such customers associated with any difference between actual daily deliveries and actual daily consumption. This fee shall be credited to the Purchased Gas Adjustment Clause and is subject to adjustment on an annual basis.

Reporting Requirements

The Company shall, no later than June 1st of each year of the ESTP, provide records of the revenues and expenses associated with the ESTP. These records shall be provided to the Staff of the Missouri Public Service Commission and the Office of the Public Counsel and shall be categorized in sufficient detail to permit the PSC Staff and Office of the Public Counsel to determine what under-or-over recovery of expenses may be taking place at that time and to determine what changes in rates, if any, may be appropriate at that time to prevent any harm to the groups identified in RSMo section 393.310. The Commission may, no later than November 1st of each year of the experimental program, implement any adjustments in rates it deems appropriate to comply with RSMo section 393.310. The Company reserves all rights available under the law.

EGM

An eligible school entity enrolled in the ESTP shall be required to have EGM equipment installed for individual meters reasonably expected to register more than 100,000 Ccf of usage per year. The terms and conditions governing the installation of such EGM equipment are found in Sheet Nos. 70, 71 and 71.1.

Minimum

The sum of the above fees and charges for zero consumption plus applicable adjustments and surcharges, but subject to the Company's proration rule contained in Section 7.02 of the Company's General Terms and Conditions.

DATE OF ISSUE August 1 2002
month day year

DATE EFFECTIVE September 24 2002
month day year

ISSUED BY: Robert J. Hack

VP, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

FORM NO. 13

P.S.C. MO. No.1

Canceling P.S.C. MO. No. 1

Second Revised

First Revised

SHEET No. 56

SHEET No. 56

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

EXPERIMENTAL SCHOOL TRANSPORTATION PROGRAM

ESTP

Adjustments and Surcharges

The rates and charges hereunder are subject to adjustments as provided in the following schedules:

1. Tax Adjustment (TA).

OTHER TERMS AND CONDITIONS

Service hereunder is also subject to the following terms and conditions as approved by the Commission:

1. Gross Receipts Taxes--To enroll in the ESTP, an eligible school entity must agree to pay local gross receipts taxes, or local franchise taxes, or other similar local fees or taxes, on the basis of actual gas supply costs in a manner similar to the way such taxes would be paid if service were not taken under the ESTP but as traditional sales service under rate schedules SGS, LGS or LVS. It shall be the responsibility of the school aggregator or administrator to make the tax payments directly to the appropriate taxing authority.
2. Contract--To enroll in the ESTP, an eligible school entity shall execute and provide to the Company the contract contained in Sheet Nos. 58.1 through 58.4.
3. Billing through Designated Agent--Billing of charges will occur through the not-for-profit association, or its designated agent. The company will render bills to the not-for-profit school association, or its designated agent, which shall in turn render bills to the participating individual eligible school entities.
4. Capacity Release--The Company shall release interstate pipeline capacity to the not-for-profit school association or its designated agent for a cost equal to the company's system-wide average interstate transportation cost. The Company shall determine the amount of capacity needed to be released based on the participating eligible school entities' total peak month with an assumed peak day requirement equal to 150% of the average daily consumption during such peak month. The Company may designate the upstream interstate pipeline on which such capacity will be released; provided, however, that in no event shall the Company require more than 50% of such capacity to be taken on the Kansas Pipeline Operating Company System will make available up to 4,500 MMbtu/day of pipeline capacity on the Williams Gas Pipeline Central System. Any additional capacity which is needed will be made available on the Kansas Pipeline Operating Company System.

DATE OF ISSUE August 1 2002
month day year

DATE EFFECTIVE September 24 2002
month day year

ISSUED BY: Robert J. Hack

VP, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing)
Of Missouri Gas Energy, a Division of)
Southern Union Company)

Case No. GT-2003-0033
Tariff No. JG-2003-0049

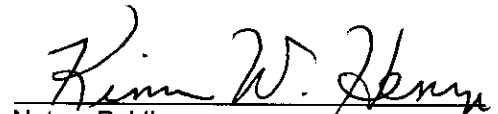
AFFIDAVIT OF MICHAEL R. NOACK

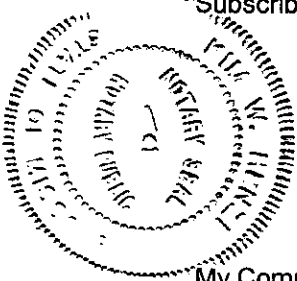
STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing 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.


MICHAEL R. NOACK

Subscribed and sworn to before me this 4th day of September 2002.


Notary Public



My Commission Expires: Feb. 3, 2003

