Exhibit No:	
Issues:	*Corporate Costs, Net Cost of Removal, Medical and Dental Expense, Property Tax Refund.*
Witness:	*David G. Winter*
Sponsoring Party:	*MOPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2006-0422*
Date Testimony Prepared:	*October 13, 2006*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID G. WINTER

MISSOURI GAS ENERGY
CASE NO. GR-2006-0422

Jefferson City, Missouri
October 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Missouri Service Area	)))	Case No. GR-2006-0422

AFFIDAVIT OF DAVID G. WINTER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David G. Winter, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 20 pages to be presented in the above case; that the answers in the foregoing Direct 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 G. Winter

Subscribed and sworn to before me this 12th day of October 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

DIRECT TESTIMONY OF

DAVID G. WINTER

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

DIRECT TESTIMONY OF

DAVID G. WINTER

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Q. Please state your name and business address.

A. David G. Winter, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission or MoPSC).

Q. Please describe your educational background.

A. I graduated from Southwest Missouri State University in 1973 with a Bachelor of Science degree in Accounting. After receiving an Honorable Discharge from the United States Army in 1977, I began my employment with the firm of Williams-Keepers Certified Public Accountants, as a Staff Accountant. I began my employment with the Commission in 1979. My current position is a Regulatory Auditor V with the Commission's Auditing Department.

I am a licensed Certified Public Accountant (CPA) in Missouri and a Certified Internal Auditor (CIA).

Q. What is the nature of your current duties at the Commission?

A. I am responsible for assisting in the audits and examination of the books and records of utility companies operating with the state of Missouri.

Q. Have you previously filed testimony before the Commission?

A. Yes. Please refer to Schedule 1, attached to this direct testimony, for a list of cases in which I have filed testimony before this Commission.

Q. What knowledge, skill, experience, training or education do you have in regulatory matters?

A. I have acquired general knowledge of these topics through my experience and analyses in prior rate cases and merger cases before this Commission. I have also acquired knowledge of these topics through review of Staff workpapers for prior rate cases brought before this Commission. I have reviewed prior Commission decisions with regard to these areas. I have reviewed the Company's testimony, workpapers and responses to Staff's data requests addressing these topics. In addition, my college coursework included accounting and auditing classes. I have also successfully passed the CPA examination, which included sections on accounting practice and theory, as well as, auditing. I currently hold a license to practice in Missouri as a CPA. I have also successfully passed the CIA examination. Since commencing employment with the Commission in September 1979, I have attended various in-house training seminars and National Association of Regulatory Utility Commission (NARUC) conferences. I have participated in approximately 43 formal rate case proceedings. I have also participated in and supervised the work on a number of informal rate proceedings. As a senior auditor and the Lead Auditor on a number of cases, I have participated in the supervision and instruction of new accountants and auditors within the Utility Services Division.

PURPOSE OF TESTIMONY

Q. With reference to Case No. GR-2006-0422, have you examined and studied the books and records of Missouri Gas Energy (MGE or Company), a division of Southern Union Company (Southern Union)?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. What are your areas of responsibility in regard to Case No. GR-2006-0422?

A. I will provide direct testimony on the areas of: 1) test year and the update period for known and measurable changes; 2) the Staff's recommendations regarding a true-up audit; 3) accounting for net cost of removal; 4) medical and dental expense; 5) the allocation of Southern Union employee-related and non-employee costs to MGE; and 6) the Staff recommendation regarding MGE's property tax refunds..

Q. Please list the Staff witnesses who are sponsoring the individual Staff accounting schedules in Case No. GR-2006-0422.

A. The Staff witnesses who are sponsoring specific Staff accounting schedules are:

Accounting Schedule 1	Revenue Requirement	David G.Winter
Accounting Schedule 2	Rate Base	Paula Mapeka
Accounting Schedule 3	Total Plant in Service	Paula Mapeka
Accounting Schedule 4	Adjustments to Total Plant	Paula Mapeka
Accounting Schedule 5	Depreciation Expense	Paula Mapeka
Accounting Schedule 6	Depreciation Reserve	Paula Mapeka
Accounting Schedule 7	Adjustments to Depreciation Reserve	Paula Mapeka
Accounting Schedule 8	Cash Working Capital	Paula Mapeka
Accounting Schedule 9	Income Statement	David G. Winter
Accounting Schedule 10	Adjustments to Income Statement	David G. Winter
Accounting Schedule 11	Income Tax	Paul R. Harrison

Q. Please list the adjustments to Accounting Schedule 9, Income Statement that you are sponsoring in this case.

A. I am sponsoring the following adjustments to Accounting Schedule 9, Income Statement. These adjustments are individually listed on Accounting Schedule 10, Adjustments to Income Statement:

Amortization of the Net Cost of Removal Regulatory Liability	S-58.1
Dental Expense	S-52.2
Medical Expense	S-52.3
Southern Union Allocated Employee Related Costs	S-49.4
Southern Union Allocated Non-Employee Related Costs	S-49.2
Adjustments to Southern Union Allocated Employee Related Costs	S-49.5
Adjustments to Southern Union Allocated Non-Employee Related Costs	S-49.3
Adjust Property Taxes for Reflect MGE's Property Tax Refund	S-60.1
Amortization of MGE's Property Tax Refund	S-60.2

I am also sponsoring the inclusion in rate base of the regulatory liability associated with the Corrected Partial Nonunanimous Stipulation and Agreement in Case No. GR-2004-0209 for net cost of removal. I am also sponsoring the rate base line item related to Southern Union allocated plant in service, as well as, the line item for deferred income taxes assigned to MGE from Southern Union.

EXECUTIVE SUMMARY

Q. Please provide a brief summary of your testimony.

A. My testimony covers an overview of what a test year and test year update period is and how they are used, a description of the true-up audit process and why a true-up is appropriate in this case.

I will also address the Staff's treatment of net cost of removal in this case, and how this issue was addressed in the "Corrected Partial Nonunanimous Stipulation And Agreement as to Alternative Minimum Tax, Depreciation, Accounting for Net Cost of Removal, Accounting for Pension Expenses, Revenues, Bad Debts, and May 1, 2004, Union Wage Increases Issues" (2004 Stipulation) in MGE's last rate case (Case No. GR-2004-0209). That Stipulation specified the accounting treatment for the regulatory asset or regulatory liability set up to track the difference between the net cost of removal provision included in rates established in Case No. GR-2004-0209, and the Company's actual levels of annual net cost of removal incurred after the effective date of rates were established in that proceeding.

I will address Southern Union's Joint and Common Allocation Cost Model which was used to assign joint and common costs to MGE.

Lastly, I will address Staff's recommendation concerning MGE's property tax refunds received during the test year.

ACCOUNTING SCHEDULES

Q. Please describe Accounting Schedule 1, Revenue Requirement.

A. Accounting Schedule 1 presents the Staff's gross revenue requirement calculation. This Accounting Schedule contains information from the Rate Base, Income Statement and Income Tax Accounting Schedules to determine the actual revenue requirements that the Staff recommends. This Accounting Schedule details the net original cost rate base. The Staff's recommended rate of return range, supplied by Staff witness David Murray of the Commission's Financial Analysis Department, is applied to this net original cost rate base to determine the required net operating income requirement before income taxes. This Accounting Schedule compares the net operating income requirement with the net income available determined from Accounting Schedule 9, Income Statement, to determine the overall net revenue deficiency.

Q. Please describe Accounting Schedule 9, Income Statement.

A. Accounting Schedule 9 contains the Staff's adjusted Missouri jurisdictional revenues and expenses for the test year ended December 31, 2005, and updated through June 30, 2006.

Q. Please explain Accounting Schedule 10, Adjustments to Income Statement.

A. Accounting Schedule 10 contains a listing of the specific adjustments Staff has made to the unadjusted test year income statement to derive the Staff's adjusted net income. A brief explanation for each adjustment and the name of the Staff witness sponsoring the adjustment are listed on Accounting Schedule 10. Each individual adjustment will be discussed by Staff witnesses in their respective testimonies.

TEST YEAR AND UPDATE PERIODS

Q. What test year has the Staff used in this case?

A. The Staff, as ordered by the Commission, has used a test year ending December 31, 2005, with an update for known and measurable changes through June 30, 2006. The Staff used this test year in the determination of the revenue requirement calculations that are being presented to the Commission in Case No. GR-2006-0422. Some of the major revenue requirement components which are examined that typically fluctuate during and after the test year are utility plant in service, accumulated depreciation, deferred taxes, cash working capital, capital structure and cost of capital, customer growth revenues, payroll and depreciation. Updates to the test year are only based upon changes in revenues, expenses, rate base and cost of capital components that are known and measurable, and can be audited prior to the direct testimony filing date ordered by the Commission.

Q. Would you please describe the test year and how it is used?

A. The test year is a 12-month period used as the basis for the audit of any rate filing or earnings complaint case. This period also serves as the starting point for review and analysis of the utility's operations to determine the reasonableness and appropriateness of the rate filing. The test year forms the basis from which any adjustments necessary to remove abnormalities that have occurred during the period and to reflect any increase or decrease to the accounts of the utility. Adjustments are made to the test year level of revenues, expenses and rate base to determine the proper level of investment on which the utility is allowed to earn a return. After the recommended rate of return is determined for the utility, a review of existing rates is made to determine if any additional revenues are necessary to attain that return level. If the utility's earnings are deficient, rates need to be increased. In some cases, existing rates generate earnings in excess of authorized levels, which may indicate the need for rate reductions. The test year is the time period that is used to evaluate and determine the proper relationship between revenue, expense and investment. This relationship is essential to determine the appropriate level of earnings for the utility.

Q. Why is a test year update being utilized in this case?

A. The use of a test year update allows for adjustments test year for changes in material items that are known and measurable. Such items could include plant additions and retirements, payroll increases and changes in employee levels, customer growth, etc. Test year amounts are adjusted through the end of a test year update period to enable the parties to make rate recommendations on the basis of the most recent auditable information available.

TRUE-UP RECOMMENDATION

Q. Please explain the difference between an update and a true-up.

A. An update period covers a time period immediately following the test year. This test year as updated, or the updated test year, includes material changes to the Staff's case through a date near the conclusion of the Staff's audit. In contrast, a true-up of a test year requires a "re-audit", if not of the entire case, of most ratemaking items (including all significant items) through a specific time period following the Staff's direct filing date. The true-up addresses all material items to ensure that proper relationship of rate base, expenses and revenues are maintained.

Q. Did MGE propose a true-up audit in this case?

A. Yes. MGE witness Michael R. Noack on page 4, of his direct testimony, stated that "MGE requests a 'true-up' through October 2006 in order to mitigate regulatory lag". Further, Mr. Noack in his <u>Updated Test Year Direct Testimony</u> filed August 7, 2006, at page 2, stated that:

> MGE continues to believe that a true-up audit is necessary and appropriate in this proceeding. MGE has budgeted approximately $14,170,000 of capital investment that it plans to plan in service between June 30, 2006 and October 31, 2006. This investment represents approximately $2,000,000 of additional annual revenue requirement at the requested rate of return. Second, MGE plans to hire approximately seven additional customer representatives during the proposed true-up period…These additional personnel would add approximately $450,000 to the Company's annual revenue requirement. Other new employees may be hired during the true-up period as well. Also, to the extent the Commission uses a capital structure based on the Company's actual debt and equity, because on the Company expects the equity ratio to increase during the true-up period resulting in a higher revenue requirement, MGE would want that structure to reflect the Company's most current percents…Without a true-up, by the time rates go into effect (March 30, 2007 based on the operation of law date) MGE will already be experiencing a shortfall from the authorized rate of return simply by not having the plant increase and expenses since June 2006 included in rates.

Q. Does the Staff recommend that a true-up audit be performed in this case?

A. Yes. The Staff is proposing a true-up audit in this proceeding through the period ending September 30, 2006. The Staff believes that the items outlined in Mr. Noack's Updated Test Year Direct Testimony are significant enough to justify a true-up audit in this case.

Q. Why does the Staff believe that the true-up period ending September 30, 2006, is suitable in this proceeding?

A. The Staff's recommendation for a true-up audit period ending September 30, 2006, is based on a strong preference that test years, update period and true-up periods have a calendar year quarter ending point (i.e., March, June, September or December). Major investor-owned utilities are required to make quarterly filings with the Securities and Exchange Commission (SEC) in documents entitled Form 10-Q's, and quarter-ending data is likely to be subject to some level of external auditor review prior to issuance of the Form 10-Qs.

Q. What items through September 30, 2006, would be reflected in the true-up audit under the Staff's proposal?

A. The Staff recommends the following items be included in the true-up audit process:

RATE BASE:

1. Plant in service
2. Depreciation reserve
3. Deferred taxes
4. Related cash working capital effects.
5. Materials and supplies
6. Prepayments
7. Customer deposits
8. Customer advance for construction
9. Gas inventory and prepaid pensions.

CAPITAL STRUCTURE

1. Rate of Return – embedded cost of capital components (except return on equity).
2. Capital Structure

INCOME STATEMENT:

1. Revenues for customer growth.
2. Payroll – employee levels and current wage rates.
3. Rate case expense.
4. Depreciation expense.
5. Related income tax effects.
6. Pension costs
7. Injuries and damages
8. Property taxes

ACCOUNTING FOR NET COST OF REMOVAL

Q. Please outline the provisions of the 2004 Stipulation in Case No. GR-2004-0209 as it relates to the accounting for net cost of removal.

A. As part of the Stipulation that was approved by the Commission in Case No. GR-2004-0209, the Staff and MGE agreed to the future accounting for net cost of removal by MGE. Staff and MGE agreed that the net cost of removal for ratemaking purposes be treated as a current expense and set at a level of $771,039. The 2004 Stipulation also required MGE to record any difference between the rate case provision ($771,039) and the actual levels of annual net cost of removal in a regulatory asset/regulatory liability account. The 2004 Stipulation provided that any such net regulatory asset/regulatory liability would be included in rate base of MGE in its next rate case and amortized over a five-year period.

Q. What was the actual level of annual net cost of removal incurred by MGE in the test year?

A. The actual annual test year level of net cost of removal was $507,724, therefore creating a regulatory liability of $263,315. Per the 2004 Stipulation, a regulatory liability of

$263,315 (deduction from rate base) will be included in rate base in the current case to be amortized over a five year period ($52,663 – adjustment S-58.1)

Q. Are there other ratemaking alternatives available to handle the Company's net cost of removal regulatory liability in this proceeding?

A. Yes. In lieu of the accounting treatment as contained in the 2004 Stipulation, the Staff believes an approach of booking the difference ($263,315) between the net cost of removal expense currently reflected in MGE's rates ($771,039) and MGE's actual net cost of removal expense ($507,724) to the depreciation reserve of a specified account is the best way of treating the net cost of removal regulatory liability in this proceeding. This proposal would increase the accumulated provision for depreciation by $263,315, and would therefore result in a reduction to rate base by the same amount. The $263,315 regulatory liability would not be amortized over five years under Staff's proposal, but rather would be reflected as a reduction to expense over many years as the depreciation reserve is reduced through plant in service retirements.

Q. How would this alternative approach affect MGE's depreciation reserve?

A. Adding the regulatory liability to the reserve can be viewed as the same as if the net cost of removal had been treated in the "traditional" manner and booked the reserve all along. In other words, under the "traditional" method, the net cost of removal dollars would have been collected in rates through inclusion in MGE's depreciation rates and booked to the accumulated reserve for depreciation (i.e., increase the reserve by $771,039), and the net cost of removal actually spent would have subtracted from the accumulated reserve for depreciation (i.e., decrease he reserve by $507,724). The difference between what was allowed in the depreciation rate and the amount that was actually spent would remain in the reserve, thus reducing rate base by $263,315 for this case.

Q. What specific account would the $263,315 regulatory liability be booked to under this alternative approach?

A. The Staff would recommend booking the excess $263,315 to account 376, Mains, as it has the largest reserve deficiency by the Company's estimation. This is a negligible amount relative to the $97 million accumulated reserve for this account.

Q. Why is the Staff suggesting this alternative treatment?

A. The net cost of removal adjustment was included in past cases as an annual normalized expense in MGE's cost of service. The Staff in this proceeding is now recommending that the traditional approach of reflecting net cost of removal in depreciation rates be used on an ongoing basis in setting rates for MGE. Therefore, to eliminate any effects of Staff's past "current expense" methodology for net cost of removal, Staff recommends the accounting treatment described above.

The Staff intends to explore with the Company and other signatories to the 2004 Stipulation whether the Staff's alternative approach to handling the net cost of removal regulatory liability in this case is acceptable.

MEDICAL AND DENTAL EXPENSES

Q. Please describe adjustments S-52.2 and S-52.3.

A. These adjustments normalize MGE's medical and dental expenses. The Staff used the actual claims paid balance of medical and dental expenses incurred by MGE for the twelve months ended December 31, 2005, updated through June 30, 2006.

SOUTHERN UNION JOINT AND COMMON ALLOCATION MODEL

Q. How does MGE account for corporate from Southern Union?

A. The only corporate allocated expense that MGE records on its books and records is its share of Southern Union's insurance costs. While MGE does capitalize corporate overhead costs to its plant records as a component of the original cost of utility plant throughout the year, it does not record corporate allocated operations and maintenance (O&M) expense on its books and records until it files a rate case. In its rate cases, MGE treats corporate allocated O&M expenses as an "outside service" and records them as an adjustment (adjustments S-49.2 and S-49.4) to account 923, Outside Services Employed.

Q. What types of services are provided to MGE from Southern Union's corporate offices?

A. The corporate division of the Southern Union provides MGE with services from its financing, financial reporting, corporate governance, risk management, human resources, legal and environmental departments. Southern Union is composed of eleven corporate departments consisting of 77 employees. A breakdown of Southern Union's corporate departments is shown below.

Corporate Department	No. Employees
Internal Audit	3
Chairman	3
President and CFO	2
Accounting	32
Human Resources	5
Information Technology	10
Corporate Communications	5
Legislative Affairs	2
Legal	8
Risk	3
Treasury	4
TOTAL	77

Source: Response to Staff Data Request No. 171

The joint and common costs of the aforementioned corporate services are allocated to Southern Union's divisions and affiliates, such as MGE. Southern Union assigns and allocates costs through the Joint and Common Cost Model (JCC Model).

Q. Please explain the JCC Model.

A. The primary methodology used by the JCC Model is the "Massachusetts Formula" which is an allocation method that is generally accepted by the Federal Energy Regulatory Commission (FERC). The Massachusetts Formula is a method used to allocate costs incurred by a parent on behalf of its affiliates to those affiliates. This method traditionally uses the relative amount of each affiliates' (1) investment; (2) revenue; (3) expenses; and (4) customers, compared to the total company consolidated level of investment, revenue, expenses and customers, to determine the appropriate allocation percentage for each affiliate.

Q. Did Southern Union use the "traditional" Massachusetts Formula in this proceeding?

A. No. Southern Union consists of both interstate pipelines and local gas distribution companies. Therefore, the JCC Model has been revised using a three-part formula for allocating Southern Union's joint and common costs: (1) investment; (2) revenue; and (3) cash operating expenses (operations and maintenance expense plus taxes other than income). The three-part formula is the same method recommended by the Staff in the Company's last rate proceeding (Case No. GR-2004-0209).

Q. Does the Staff recommend the use of the JCC Model for the allocation of Southern Union costs in this proceeding?

A. Yes. Since the JCC Model has been revised to reflect the three-part formula discussed above, the Staff believes that the allocation results of the JCC Model are a reasonable approach to distributing joint and common corporate costs to MGE in this case.

Q. Does the JCC Model use actual costs?

A. Yes. The Staff's revenue requirement calculation in this case reflects use of the JCC Model based on actual Southern Union costs based upon the test year ended December 31, 2005, updated through June 30, 2006. It should be noted that Southern Union does retain some costs that it determines that should not be allocated to its division or affiliates.

SOUTHERN UNION EMPLOYEE RELATED COSTS

Q. Please describe adjustment S-49.5.

A. Staff adjustment S-49.5 reflects Staff's recommended level of Southern Union's "employee-related" allocated expenses to MGE.

Q. Please define "employee-related expense".

A. South Union employee-related costs are organized by corporate department and are composed of the following costs:

1. Payroll, including base wages, incentive compensation and overtime and payroll related taxes;
2. Employee benefits, including vacation pay, sick pay, 401(K) matching and insurance costs, etc; and
3. Other employee related costs.

Q. What percent of the total Southern Union employee-related costs are allocated to MGE?

A. Southern Union employee-related allocation process assigned $1,953,719 of costs to MGE. This amount represented 9.604% of Southern Union's total employee-related costs.

Q. What amount is Staff recommending for employee-related costs?

A. The Staff recommends that $1,469,502 of this allocated cost category be included in MGE's revenue requirement.

Q. What adjustments did the Staff make regarding MGE's proposed level of employee-related costs?

A. The Staff made a number of adjustments concerning Southern Union's employee-related expenses. First, the Staff eliminated Southern Union's Supplemental Retirement Plan costs from the allocation. Per the response to Staff Data Request No. 9, this plan was terminated in 2005. Second, the Staff eliminated the salary associated with Southern Union President and Senior Vice President positions, as the incumbents in those positions resigned during the test year and have not been replaced. Also, costs associated with the move of Southern Union's corporate headquarters from Scranton, Pennsylvania to Houston, Texas were eliminated from the allocated employee-relate expenses. All of these costs were considered non-recurring and accordingly, should not be reflected in MGE's rates.

Q. Please explain why the Staff did not include the compensation of Southern Union's Manager of Government Relations in allowable corporate allocated costs.

A. The Staff believes that all payroll and non-payroll costs related to a utility's lobbying activities should be recorded below-the-line and not be considered an allowable cost for the purpose of setting rates, because these activities do not benefit the ratepayer.

Q. Were any additional expenses eliminated from MGE's employee-related expenses?

A. Yes. The Staff did not include the compensation related to the position of Director of Engineering Audit. Per the response to Staff Data Request No. 39.1, the Job Profile Questionnaire associated with the position of Director of Engineering Audit states in part that the position is responsible for:

> . . . transition teams amount company personnel, target company personnel, and other outside advisers and consultants for acquisitions. Perform due diligence on new acquisition targets. Coordinate due diligence and acquisition activity among company personnel, target company, advisors, consultants and bankers. Maintain orderly processes that will ensure successful acquisitions . . .

As with lobbying activities, any merger and acquisition payroll and non-payroll costs should be recorded below-the-line and not be considered an allowable cost for the purpose of setting rates.

Q Did the Staff make any other adjustments to employee-related costs?

A. Yes. Per Southern Union's 2006 Proxy Statement, Southern Union did not make any incentive compensation payments during 2005. Southern Union did accrue incentive compensation payments that were included in the JCC Model and allocated to MGE. The Staff adjusted the accrued incentive compensation payments so that the test year did not reflect these accrued costs. Please refer to Staff Witness Kimberly K. Bolin of the Auditing Department for additional discussion concerning the Staff's position regarding incentive compensation payments.

The Staff did annualize the salary associated with Mr. George Lindemann, Southern Union's Chairman of the Board and Chief Executive Officer. Mr. Lindemann in November 2005 assumed the additional role of President of the Company and for purposes of the Sarbanes-Oxley Act is considered to be Southern Union's principal executive officer. The Staff increased the portion of Mr. Lindemann's salary from that recommended in MGE's last rate case to include in expense to reflect the additional responsibilities associated with the role of President of Southern Union.

SOUTHERN UNION NON-EMPLOYEE RELATED COSTS

Q. Please describe adjustments S-49.3.

A. Staff adjustment S-49.3 reflects Staff's recommended level of Southern Union non-employee expense to allocate to MGE.

Q. Please define "non-employee costs".

A. Non-employee costs include such expenses as Southern Union professional fees, outside services, directors, financial reporting, printing and reproduction.

Q. What percentage of the total Southern Union employee-related costs are allocated to MGE?

A. Southern Union's non-employee-related allocation process assigned 9.50355 percent ($1,348,041) of its cost to MGE.

Q. What amount is Staff recommending for employee-related costs?

A. The Staff recommends that $1,102,509 be included in MGE's revenue requirement.

Q. What adjustments did the Staff make regarding MGE's proposed level of non-employee-related allocated costs?

A. The Staff eliminated the costs associated the employment and severance agreement costs paid during the test year upon the departure of the former President of

Southern Union. The employment and severance agreement is a non-recurring expense and should not be included in MGE's cost of service.

<u>SOUTHERN UNION ALLOCATED PLANT AND RESERVE</u>

Q. Are you also sponsoring MGE's proposed level of corporate allocated plant in service, depreciation reserve and depreciation expense?

A. Yes. The Staff adjusted MGE's proposed level of corporate allocated plant and reserve to eliminate the leasehold improvements associated with Southern Union's New York Offices. MGE did not seek recovery of its New York offices in this proceeding; therefore, the leasehold improvements associated with the New York offices also should not be recovered in the Company's cost of service.

The Scranton, Pennsylvania headquarters building was allocated to MGE based on the space utilized by Southern Union after its move of its headquarters to Houston, Texas. Per Staff Data Request No. 188, Southern Union:

> . . . is currently using one of the four floors that were designed to provide office space for employees. The functions that are based in the Scranton office include the following: utility operations, treasury, investor relations, legal, purchasing and governmental affairs.

These amounts are reflected in Staff Accounting Schedule 3, Plant in Service and Accounting Schedule 6, Depreciation Reserve.

Q. Did MGE include the accumulated deferred income taxes associated with its allocated corporate plant in its case?

A. Yes. Staff adjusted MGE's allocated accumulated deferred income taxes to reflect the elimination of the New York leasehold improvements and the allocation of the Scranton, Pennsylvania headquarters.

PROPERTY TAX REFUNDS

Q. Please describe adjustment S-60.1

A. MGE during the test year received a net total of $5,554,068 property tax refunds during the test year. These refunds are non-recurring and Adjustment No. S-60.1 adds back these non-recurring refunds to the property tax account.

Q. What rate treatment does the Staff propose for these property tax refunds?

A. Property taxes are included in customer rates and have been collected from ratepayers by MGE. Since rates were set to recover an annualized level of property taxes, the ratepayer should also receive the benefit of these refunds. The Staff is recommending that the property tax refunds be set up as a deferred credit to be amortized as an offset to property tax expense (Account 408) over a five year period. Adjustment S-60.2 reflects the Staff's proposed amortization to the property tax account.

Q. Does this conclude your direct testimony?

A. Yes, it does.

CASE PARTICIPATION
DAVID G. WINTER

Date Filed	Issue	Case Number	Exhibit	Case Name
1982	Depreciation	TR82199	Direct, Rebuttal	Southwestern Bell Telephone
9/10/1984	Accounting Issues	ER84168 & EO85177	Direct	Union Electric Company
3/22/1985	Accounting Issues	ER85128 & EO85185	Direct	Kansas City Power & Light Company
4/1/1985	Accounting Issues	ER85128 & EO85185	Rebuttal	Kansas City Power & Light Company
4/1/1985	Accounting Issues	ER85128 & EO85185	Surrebuttal	Kansas City Power & Light Company
5/20/1994	Cash Working Capital, Pensions	ER94174	Direct	The Empire District Electric Company
1994	System Wide Margin Rate	GA94127	Rebuttal	Tartan Energy Company, LLC
6/13/1994	Cash Working Capital, Pensions	ER94174	Supplemental Direct	The Empire District Electric Company
9/8/1994	Payroll, Pensions, Amortizations	WR94297	Direct	Capital City Water Company
10/13/1994	Payroll, Pensions, Amortizations	WR94297	Rebuttal	Capital City Water Company
10/27/1994	Payroll, Pensions, Amortizations	WR94297	Surrebuttal	Capital City Water Company
5/19/1995	System Wide Margin Rate	GA95216	Rebuttal	Missouri Public Service
5/19/1995	System Wide Margin Rate	GA95231	Rebuttal	Missouri Gas Company
1996	Effects of Merger	GM9661	Rebuttal	Tartan Energy/Southern Missouri Gas
1/18/1996	Revenues, Policy	TR96123	Direct	Steelville Telephone Company
1997	Accounting Issues	ER9743	Direct	The Empire District Electric Company
11/1/1996	Revenue Requirement	ER9782	Direct	The Empire District Electric Company
2/13/1997	True-up Revenue, Test Year, Municipal Franchise Taxes, Bad Debts	ER9781	Direct	The Empire District Electric Company
5/22/1997	Revenue Requirement, Adjustments to Staff's True-up Audit	ER9781	Supplemental True-up	The Empire District Electric Company
1997	Cost Recovery Mechanism	TO97217	Stipulation	Primary Toll Carrier Plan
2/17/1998	All Accounting Issues, Revenue Requirements	TO98216	Direct	Northeast Missouri Rural Telephone Company
7/20/1998	Revenue Requirements	TR98343	Direct	Mid-Missouri Telephone Company
1998	Accounting Issues, Revenue Requirements	TR98344	Stipulation	Fidelity & Bourbeuse Telephone Company
8/10/1998	All Accounting Issues, Revenue Requirements	TR98345	Direct	Lathrop Telephone Company

Date Filed	Issue	Case Number	Exhibit	Case Name
1998	All Accounting Issues, Revenue Requirements	TR98346	Direct	Citizen’s Telephone Company
1998	All Accounting Issues, Revenue Requirements	TR98347	Direct	McDonald County Telephone Company
1998	All Accounting Issues, Revenue Requirements	TR98348	Direct	Oregon Farmers Mutual
1998	All Accounting Issues, Revenue Requirements	TR98349	Direct	Rock Port Telephone Company
8/6/1998	Special Amortization, Revenue Requirements	TC98350	Direct	Miller Telephone Company
1998	All Accounting Issues, Revenue Requirements	TR98372	Direct	Le-Ru Telephone Company
8/10/1998	Revenue Requirement	TR98373	Direct	Seneca Telephone Company
8/10/1998	Revenue Requirements	TR98347	Direct	McDonald County Telephone Company
8/10/1998	Revenue Requirements	TR98345	Direct	Lathrop Telephone Company
8/10/1998	Revenue Requirement	TR98373	Direct	Goodman Telephone Company
1/25/1999	Section 272	TO99227	Rebuttal	Southwestern Bell Telephone Company
5/13/1999	IntraLATA Dialing Parity Plans Costs	TO99254	Surrebuttal	Primary Toll Carrier Plan and IntraLATA Dialing Parity
6/25/1999	Depreciation Expense, Water Treatment Plant Costs, Property and Income Taxes, Depreciation Reserve, Rate Base,	WR99326	Direct	United Water Missouri, Inc.
12/22/1999	Rates Based on Spectra's Cost of Service, Price Cap Regulation, Transactions Costs, Taxes, Accumulated Deferred Income, Acquisition Adjustment	TM2000182	Rebuttal	GTE Midwest Incorporated and Spectra Communications Group LLC
8/15/2002	Membership Fees, Earnings Review, Universal Service Fund, Tax Implications, Accumulated Deferred Income Taxes, Acquisition Premium and Increment Acquisition Costs, Merger Background, Detriment Standard, Summary	TM2002465	Rebuttal	Northeast Missouri Rural Telephone Company & Modern Telecommunications Company
2002	Taxes, USF, Earnings Investments	TM2002232	Stipulation	CenturyTel/Verizon
2004	Jurisdictional Separations, Corporate Allocation, Cost of Removal and Salvage, Current Income Tax, Deferred Income Tax	IR20040272	Stipulation	Fidelity Telephone Company
1/12/06	Pensions	IO-2006-0086	Surrebuttal	Sprint Nextel Corporation
2/2/2006	Violations of Missouri Statutes and Commission Rules	TC-2006-0184	Rebuttal	New Florence Telephone Company