

Exhibit No.:
Issue: *Property Tax Refund*
Witness: *David G. Winter*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *GR-2006-0422*
Date Testimony Prepared: *December 11, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

DAVID G. WINTER

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Jefferson City, Missouri
December 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

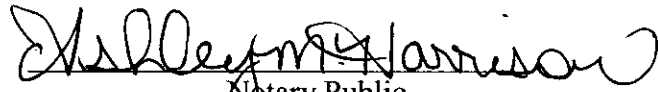
AFFIDAVIT OF DAVID G. WINTER

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 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 G. Winter

Subscribed and sworn to before me this 8th day of December 2006.


Notary Public



ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #00600070

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SURREBUTTAL TESTIMONY OF
DAVID G. WINTER
MISSOURI GAS ENERGY
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EXECUTIVE SUMMARY 1

PROPERTY TAX REFUNDS 1

1 **SURREBUTTAL TESTIMONY OF**
2 **DAVID G. WINTER**
3 **MISSOURI GAS ENERGY**
4 **CASE NO. GR-2006-0422**

5 Q. Please state your name and business address.

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

7 Q. Are you the same David G. Winter who has previously filed direct and rebuttal
8 testimony in this proceeding for the Staff?

9 A. Yes, I am.

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

11 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
12 of Missouri Gas Energy (MGE or Company) witness Michael R. Noack regarding Staff's rate
13 making treatment of property tax refunds received by MGE during the test year.

14 **EXECUTIVE SUMMARY**

15 Q. Please summarize your surrebuttal testimony in this proceeding.

16 A. In this surrebuttal testimony, I address why the Staff's methodology regarding
17 MGE's property tax refund is not retroactive ratemaking and should be adopted by the
18 Commission.

19 **PROPERTY TAX REFUNDS**

20 Q. Mr. Noack throughout his rebuttal testimony characterizes Staff's treatment of
21 MGE's property tax refund as "retroactive ratemaking". Do you agree with Mr. Noack's
22 conclusion?

1 A. No. The Staff's treatment of MGE's property tax refunds in this proceeding
2 does not constitute retroactive ratemaking. As stated at page 4, lines 7-10, of the Rebuttal
3 Testimony of Mark L. Oligschlaeger, retroactive ratemaking is the setting of rates to allow a
4 utility to recover the specific costs of past events incurred by the utility so as to make
5 shareholders "whole" or, conversely, the setting of rates to reimburse customers for the past
6 over-earnings of a utility to make the customers whole. At page 6, lines 20-21, of his
7 Rebuttal Testimony, Mr. Nowak has characterized Staff's position as "reaching back" and
8 adjusting the property tax expenses for 2002, 2003 and 2004 because the company ultimately
9 obtained a refund. In this case, the Staff is addressing how to treat the \$5,540,068 in property
10 tax refunds for the years 2002, 2003 and 2004 that MGE received *during* the test year ending
11 December 31, 2005, with an update for known and measurable changes through June 30,
12 2006. (Emphasis added) Therefore, the Staff did not "reach back" as Mr. Noack implies on
13 page 6 lines 20-21 of his rebuttal testimony.

14 Q. On page 7 lines 21-22, Mr. Noack states that "Customers have no legitimate
15 claim on the tax refunds that MGE received and it would be inappropriate to reach into the
16 past and use those refunds to artificially reduce property tax expense used for setting rates to
17 be charged in the future." Do you agree with Mr. Noack's statement?

18 A. No. As stated in my direct testimony page 20 lines 7 through 9:

19 Property taxes are included in customer rates and have been collected
20 from ratepayers. Since rates were set to recover an annualized level of
21 property taxes, the ratepayer should receive the benefits of these
22 refunds.

23 Allowing MGE to retain the property tax refunds would result in MGE's ratepayers
24 providing cost free capital to the Company. Under Staff's treatment, the Company will have

1 the use of the \$5,540,068, therefore retaining the earning power of the property tax refunds
2 during the five-year amortization period.

3 Q. Does the Staff's rate treatment of MGE's property tax refunds provide for a
4 shared benefit to the ratepayer and the Company?

5 A. Yes. Staff's recommendation that the property tax refunds be set up as a
6 deferred credit to be amortized as an offset to property tax expense (Account 408) over five
7 year period is substitute for using the entire property tax refund as a counterbalance to the
8 Staff's recommended property tax expense. Therefore, the Staff's methodology correctly
9 shares the benefits between the ratepayer and MGE.

10 Q. Is amortizing the property tax refund over a five-year period consistent with
11 Staff and Commission practice in how abnormal, but not extraordinary, events are treated?

12 A. Yes. Any given event during a test year may be abnormal unto itself, but it is
13 normal to have abnormal events, such as obtaining the property tax refund being addressed
14 here. In the absence of an Accounting Authority Order for truly extraordinary events, Staff
15 will propose normalization adjustments for such events that occur during a test year, and
16 thereby reduce their impact through the use of amortization, as in this proceeding with a five-
17 year amortization cycle. Thus, companies are not excessively penalized for dire events, e.g.
18 ice or snow storms, floods, tornadoes, etc. nor are companies excessively rewarded for
19 favorable events such as the property tax refunds which are in dispute in this proceeding.

20 Q. Does this conclude your surrebuttal testimony?

21 A. Yes, it does.