

Exhibit No.: \_\_\_\_\_  
Issues: Accounting Authority Order  
Witness: Michael R. Noack  
Sponsoring Party: Missouri Gas Energy  
Case No.: GU-2011-0392  
Type of Exhibit: Direct Testimony  
Date: October 11, 2011

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GU-2011-0392

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

October 2011

## Table of Contents

INTRODUCTION .....	1
PURPOSE.....	2
JOPLIN TORNADO.....	2
AFFECTED SERVICE TERRITORY .....	3
MGE'S ACTION AND IMPACTS.....	4
NATURE OF AN AAO.....	12
CONDITIONS .....	14
CONCLUSION.....	15
ACCOUNTING AUTHORITY ORDER LANGUAGE.....	16

**DIRECT TESTIMONY OF MICHAEL R. NOACK**

**CASE NO. GU-2011-0392**

**OCTOBER 2011**

**INTRODUCTION**

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

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

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.**

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

1 tariff selection for large commercial and industrial customers. In July of 2000, I  
2 started my employment with MGE. Presently, I hold, in good standing, a  
3 Certified Public Accountant certificate in the state of Kansas and am a member of  
4 the Kansas Society of Certified Public Accountants.  
5

6 **PURPOSE**  
7

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
9 **PROCEEDING?**

10 A. The purpose of my testimony is to support MGE's request that the Commission  
11 issue an Accounting Authority Order ("AAO") that will authorize the Company to  
12 defer and record to the Uniform System of Accounts ("USOA") Account 182.3,  
13 Other Regulatory Assets, the incremental costs (net of any insurance proceeds)  
14 and loss of the fixed cost recovery provided by the Company's distribution rates  
15 incurred by MGE and related to the events surrounding the May 22, 2011 Joplin,  
16 Missouri, tornado.  
17

18 **JOPLIN TORNADO**  
19

20 **Q. WOULD YOU PLEASE DESCRIBE THE EVENT THAT FORMS THE**  
21 **BASIS FOR MGE'S AAO REQUEST?**

22 A. On Sunday, May 22, 2011, at approximately 5:40 p.m., what has been described  
23 as the worst tornado in the United States in the last 60 years and one of the  
24 deadliest in American history, struck Joplin, Missouri. The tornado followed a  
25 six-mile long path through the middle of Joplin destroying much of the city's

1 central and south side. Thousands of homes and businesses as well as schools,  
2 churches, offices and a hospital were destroyed by winds reported to have peaked  
3 at between 225 and 250 mph. The tornado was designated by the National  
4 Weather Service as an EF-5, the strongest category on the Enhanced Fujita Scale.  
5 The most recent death toll stands at 162 people with more than 900 people  
6 estimated to have been injured. The Joplin Chamber of Commerce reported that  
7 at least 300 businesses were lost and 4,000 employees were affected by the  
8 tornado. A map showing the path of the tornado is marked as Schedule MRN-1,  
9 and attached hereto. Residential and business customers in Joplin as well as other  
10 communities (primarily Duquesne) served by MGE lost gas service due to the  
11 tornado and related severe weather.

12  
13 **AFFECTED SERVICE TERRITORY**

14  
15 **Q. PLEASE DESCRIBE MGE'S SERVICE TERRITORY AFFECTED BY**  
16 **THE TORNADO THAT STRUCK JOPLIN ON MAY 22, 2011.**

17 **A.** The area affected by the tornado was entirely within MGE's service territory. It  
18 impacted Joplin, which for MGE billing purposes is designated as Town Code  
19 501, and the town of Duquesne, which is designated as Town Code 515. In April  
20 2011, the billing month immediately preceding the tornado, MGE served 16,165  
21 customers in Joplin and 533 customers in Duquesne.

**MGE'S ACTION AND IMPACTS**

**Q. HOW DID MGE RESPOND TO THIS EVENT?**

A. In addition to MGE's Southern Division work force of 35 outside plant personnel, approximately 125 additional employees from other parts of MGE's service territory and 20 contract employees traveled to Joplin to assist in responding to gas leaks due to damaged facilities in the tornado-affected area and make sure that the system was safe.

**Q. WHAT WAS THE IMPACT ON THE SERVICE PROVIDED BY MGE IN JOPLIN?**

A. MGE was required to shut down over ten miles of gas mains and the company lost approximately 3,200 gas meters due to the fact that no structure remained at many service addresses. Hundreds of other customers were also without gas service because of the extensive damage done to their property.

**Q. WHAT IS THE CURRENT ESTIMATED COST OF THIS EVENT TO MGE?**

A. MGE estimates the cost of rebuilding and repairing the damage to its gas system resulting from the tornado and severe weather to be approximately \$8 million. This includes expenditures necessary to replace the infrastructure within the destroyed area. The total amount of these costs will necessarily depend on what is rebuilt and when the rebuilding occurs. Other costs not included in this estimate are incremental depreciation expense and carrying costs associated with the capital expenditures related to the replacement facilities.. As discussed more

1 fully below, MGE expects that a significant amount of these costs will be  
2 recovered through insurance, but the timing and amount of that recovery is  
3 uncertain. However, any potential insurance recovery will not include the  
4 significant loss of fixed cost recovery from MGE's distribution rates.  
5 Accordingly, as authorized by relevant accounting rules, it is critical for MGE to  
6 have the ability to defer these financial impacts and, if necessary, present them for  
7 rate treatment during its next rate proceeding.

8  
9 **Q. WHAT IS THE CURRENT ESTIMATE OF MGE'S DIRECT CAPITAL**  
10 **COSTS AND OPERATING EXPENSES ASSOCIATED WITH THIS**  
11 **TORNADO?**

12 A. The most recent cost estimate prepared as of September 30, 2011 is \$7,984,831  
13 and is attached as Schedule MRN-2.

14  
15 **Q. PLEASE DESCRIBE WHAT CAPITAL COSTS AND OPERATING**  
16 **EXPENSES ARE INCLUDED IN YOUR CALCULATION AND HOW**  
17 **YOU DETERMINED THE AMOUNT OF THOSE COSTS AND**  
18 **EXPENSES.**

19 A. As of September 30, 2011 MGE had removed 3,196 meters with an estimated  
20 replacement cost of \$170 per meter for a total of \$542,841. The replacement cost  
21 of the 2,190 individual services that have been cut and capped is \$690 per service  
22 for a total of \$1,511,604. The cost to rerun the 1,053 services that were retired  
23 with the main is \$1,812 per service for a total of \$1,908,036. Finally the  
24 replacement cost for the over 10 miles of main which will need to be replaced is

1 \$50 per foot for a total of \$2,704,250 making the total amount of capital related  
2 costs \$6,666,731 as of September 30, 2011.

3  
4 On the expense side, MGE has used special tracking codes to account for the  
5 labor and other costs incurred to respond to the emergency, make sure the system  
6 was safe and expedite the repairs to the system. Those costs through September  
7 30, 2011 have amounted to \$1,318,101.

8  
9 **Q. DO THOSE COSTS INCLUDE THE IMPACT THE EVENT HAS HAD ON**  
10 **MGE'S REVENUES RESULTING FROM THE LOSS OF THE FIXED**  
11 **COST RECOVERY FROM THOSE CUSTOMERS NO LONGER**  
12 **CONNECTED TO MGE'S SYSTEM?**

13 A. No.

14  
15 **Q. DOES MGE HAVE INSURANCE THAT MAY PROVIDE SOME**  
16 **COVERAGE FOR THIS EVENT?**

17 A. Yes.

18  
19 **Q. HOW WILL MGE TREAT ANY INSURANCE RECOVERIES?**

20 A. MGE has insurance that may provide coverage for repair, rebuilding, and  
21 construction costs related to the tornado. MGE is currently providing information  
22 to its insurance carrier, but does not yet have an indication of the amount of  
23 insurance recovery or when it will receive payment. As part of an AAO, MGE  
24 would ask for the authority to defer and record costs related to the tornado net of



1 any insurance proceeds. MGE's insurance does not cover lost revenue or losses  
2 related to fixed cost recovery from its distribution rates. Accordingly, the ability  
3 to defer lost revenues and fixed cost recovery amounts is a key component of this  
4 request for an AAO.

5

6 **Q. WHAT IMPACT HAS THE EVENT HAD ON MGE'S REVENUES?**

7 A. MGE's margin revenues (i.e., its distribution rates as opposed to its PGA rates)  
8 have been, and will continue to be, significantly reduced due to the number of  
9 customers impacted by the tornado. The Company initially estimated that  
10 approximately 6,000 to 8,000 residential, commercial, and industrial customers in  
11 Joplin had damaged or destroyed structures and approximately 70% - 80% of  
12 those customers would not be ready for service in the foreseeable future. That  
13 initial estimate was high and currently MGE estimates that approximately 3,500  
14 customers have had service cut off and will not be ready for service in the near  
15 future. These include St. John's Hospital, one of MGE's top ten customers, as  
16 well as other commercial customers. The loss of the fixed cost recovery resulting  
17 from these lost customers will adversely affect the Company's financial  
18 condition.

19

20 **Q. HAS THE LOSS OF THESE CUSTOMERS RESULTED IN LOWER**  
21 **COSTS FOR MGE?**

22 A. No. The same number of employees work out of the Joplin service center and the  
23 other operating expenses continue to be incurred by MGE.

24

1    **Q.    HAS THIS LOSS OF MARGIN REVENUES IMPAIRED THE ABILITY**  
2           **OF MGE TO RECOVER ITS FIXED COST OF GAS DISTRIBUTION**  
3           **SERVICE?**

4    A.    Absolutely. The straight fixed variable ("SFV") rate design in use for MGE's  
5           residential and small general service classes accurately reflects the nature of the  
6           costs incurred by MGE to serve those customers. This rate design is comprised of  
7           two parts. One part is the fixed monthly charge and the second part is the  
8           purchased gas adjustment charge. The only factor that differs from customer to  
9           customer is the amount of gas that is consumed and that variable cost is collected  
10          in the volumetric part of the customer's rate, the purchased gas adjustment  
11          ("PGA") charge. If MGE is no longer serving customers, MGE can no longer bill  
12          them and thus can no longer recover its fixed costs through its fixed monthly  
13          charge.

14  
15   **Q.    CAN YOU PLEASE EXPLAIN WHY MGE HAS INCLUDED THE LOST**  
16           **RECOVERY OF FIXED COSTS IN ITS REQUEST FOR THIS AAO?**

17   A.    In a rate case, once the total amount of non-gas costs (fixed costs) is established,  
18           those costs are divided equally by the number of customers being served. That is  
19           how the fixed portion of the SFV rate is developed. There is some risk to the  
20           Company that those customers that have been used to develop the SFV rate will  
21           disconnect at some point and the fixed costs will no longer be recovered from that  
22           customer. On the other hand, there is also a chance that new customers will  
23           connect and that same level of fixed costs will be recovered from those new  
24           customers. In the rate case process the annual level of customers is examined

1 with both historic growth and normal monthly increases and decreases in  
2 customer levels taken into consideration to arrive at a reasonable estimate of what  
3 the ongoing level of customers will be going forward. This current ratemaking  
4 process presents the Company with a reasonable opportunity to recover its  
5 established fixed costs under normal circumstances. When the tornado struck  
6 Joplin on May 22, 2011, however, it wiped out 20% of MGE's Joplin customers.  
7 These lost customers cannot reasonably be expected to be replaced by new  
8 customers. Consequently the tornado eliminated any reasonable opportunity for  
9 MGE to recover its fixed costs.

10  
11  
12 **Q. WHAT PART OF MGE'S RATE REPRESENTS ITS FIXED COSTS?**

13 A. MGE's margin revenues recover the fixed cost of providing distribution service.  
14 In the Report and Order in Case No. GR-2009-0355, included in the findings of  
15 fact was the statement that "SFV rates are intended to recover fixed costs through  
16 fixed charges and variable costs (i.e., the cost of the gas commodity) through  
17 variable charges."<sup>1</sup>

18  
19 **Q. HAVE YOU CALCULATED MGE'S LOSS OF FIXED COST RECOVERY**  
20 **ASSOCIATED WITH THIS TORNADO?**

21 A. Yes. Attached as Schedule MRN-3 is a spreadsheet consisting of two pages.  
22 Page 1 of the schedule calculates the loss of fixed cost recovery on a monthly

---

<sup>1</sup> See Report and Order, In the Matter of Missouri Gas Energy and its Tariff Filing to Implement a General Rate Increase for Natural Gas Service, GR-2009-0355, p. 42. The Commission is asked to take official or administrative notice of that Report and Order.

1 basis of \$94,285 for residential ("RS") and small general service ("SGS")  
2 customers or \$1,131,420 annually. Page 2 of the schedule calculates the loss of  
3 fixed cost recovery from transportation customers to be \$36,000 annually.

4  
5 The amount of lost fixed cost recovery was determined by estimating the number  
6 of fewer customers served in the RS and SGS classes and multiplying that number  
7 by the fixed monthly charge, including the ISRS rate element. The number of  
8 fewer customers was estimated by comparing the number of active bills in 2011  
9 to the number of active bills for the same months of 2010 for MGE's billing  
10 Town Codes of 501 -- Joplin and 515 -- Duquesne. As shown on page 1 of  
11 Schedule MRN-3 April 2011 was only 169 customers less than 2010 while May  
12 (the month of the tornado) had 1,047 fewer customers than in 2010. June through  
13 September customer numbers were lower in 2011 by over 3,000 customers  
14 peaking at 3,227 fewer customers in September 2011.

15  
16 For large volume transportation customers, actual 2010 revenues were used since  
17 that was the last full year of data for those accounts.

18  
19 **Q. DID YOU DO ANY OTHER ANALYSIS TO SUPPORT THE REDUCTION**  
20 **IN CUSTOMERS DUE TO THE TORNADO?**

21 A. Yes. Schedule MRN-4 is another comparison of regular bills or active meters for  
22 2011 compared to 2010.

1 The first section of the table compares regular billed customers for the entire  
2 Southern Region of MGE's service territory for the months of May through  
3 September. As shown on the table, there were 1,153 fewer billed customers in  
4 May 2011 when compared to May 2010 with that number growing to 3,495 fewer  
5 customers in September 2011 (72,497 customers) compared to 2010 (75,992  
6 customers).

7  
8 The second table compares active meters in Joplin and the surrounding  
9 communities. The number of active meters in August 2011 was 30,059 compared  
10 to 33,365 in August 2010, or 3,306 fewer.

11  
12 The final comparison was just Joplin and Duquesne where the tornado did the  
13 damage. The active meters in September 2011 were 12,705 or 3,527 fewer than  
14 2010 when there were 16,232 active meters.

15  
16 **Q. ARE THE FINANCIAL IMPACTS OF THE MAY 22, 2011 TORNADO**  
17 **SIGNIFICANT TO MGE?**

18 **A.** Yes. As described above, the loss of fixed cost recovery on a monthly basis for  
19 the RS and SGS customer classes is \$94,285 or \$1,131,420 annually and \$36,000  
20 annually for the large volume transportation customers.

1 NATURE OF AN AAO

2  
3 Q. WHAT IS YOUR UNDERSTANDING AS TO THE CIRCUMSTANCES  
4 UNDER WHICH THE COMMISSION MAY GRANT AN AAO?

5 A. An accounting authority order may generally be utilized in situations where an  
6 event occurs of an unusual nature and infrequent occurrence. It is an event that is  
7 abnormal and significantly different from the ordinary and typical activities of the  
8 company, which causes the company to incur costs or lose revenues that would  
9 not reasonably be expected to recur in the foreseeable future.

10  
11 The Commission defined the standards for issuing an AAO in the Report and  
12 Order in Case No. GU-2005-0095 when it wrote the following:

13 **The Standard for Granting an AAO**

14 As a gas company subject to the Commission's jurisdiction, MGE is  
15 required by regulation to keep all its accounts in conformity with the  
16 Uniform System of Accounts (USOA) prescribed by the Federal Energy  
17 Regulatory Commission. In general, the USOA requires that a company's  
18 net income reflect all items of profit or loss occurring during the period.  
19 The USOA, however, recognizes that special accounting treatment, what  
20 this Commission refers to as an AAO, may be appropriate when  
21 accounting for extraordinary items of profit or loss. The question then  
22 becomes, what is an extraordinary item?

23  
24 The USOA indicates that an extraordinary item for which special  
25 accounting treatment would be appropriate is "of unusual nature and  
26 infrequent occurrence." Furthermore, "they will be events and  
27 transactions of significant effect which are abnormal and significantly  
28 different from the ordinary and typical activities of the company, and  
29 which would not reasonably be expected to recur in the foreseeable  
30 future." In addition, the USOA requires that to be considered  
31 extraordinary, the item "should be more than approximately 5 percent of  
32 income, computed before extraordinary items."

33  
34 The Commission has also established a test to determine when an AAO  
35 should be granted. In a 1991 decision, often referred to as the Sibley case,  
36 the Commission stated that it would consider the appropriateness of  
37 granting an AAO on a case by case basis. In doing so, it would approve an  
38 AAO for events that it found to be "extraordinary, unusual and unique,

1 and not recurring.” The Commission’s decision in the Sibley case was  
2 subsequently affirmed by the Missouri Court of Appeals.  
3

4 The classic example of an event that would be extraordinary, unusual and  
5 unique, and not recurring would be a fire, or flood, or ice storm that causes  
6 a large amount of damage to the utility’s property. In those circumstances,  
7 it is generally agreed that the company should be permitted to defer the  
8 costs related to that extraordinary event through an AAO. However, the  
9 Commission has never limited the granting of an AAO to expenses  
10 resulting from such natural catastrophes.  
11

12 On the contrary, the Commission has found that an AAO would be  
13 appropriate in a wide variety of circumstances.  
14  
15

16 **Q. HAS THE COMMISSION GRANTED AN AAO IN SIMILAR**  
17 **CIRCUMSTANCES?**

18 **A.** Yes. The Commission has a history of approving deferral of incremental  
19 expenses associated with extraordinary casualty losses such as fires, floods, ice  
20 and windstorm damage. The magnitude of the damage caused by the May 22,  
21 2011, tornado and related severe weather is an extraordinary and unusual event  
22 and is comparable, if not greater in magnitude and effect, to other catastrophic  
23 events for which deferrals have been previously authorized. In researching  
24 previous cases, I have not come across a Commission decision that mentioned a  
25 company’s request to defer lost revenues. Most of those situations involved  
26 temporary service outages and revenue losses which is unlike the damage  
27 presented by the Joplin tornado.  
28

29 **Q. DOES AUTHORITY TO DEFER CERTAIN AMOUNTS DETERMINE**  
30 **THAT THOSE AMOUNTS ARE RECOVERABLE THROUGH RATES?**

31 **A.** No. It is important to note that granting an AAO for costs associated with the  
32 tornado does not automatically authorize rate recovery for those costs. An AAO

1 only allows a company such as MGE to defer items for *later consideration* in a  
2 subsequent general rate case. An AAO is not an assurance of recovery, only the  
3 temporary accounting recognition of a significant, unexpected, and material event.  
4 It is up to the Commission to determine whether those deferred costs should be  
5 included in rates.

6  
7 **Q. IS IT YOUR UNDERSTANDING THAT AN AAO ADDRESS ITEMS**  
8 **OTHER THAN EXPENSES?**

9 A. Yes. The USOA's description of "Account 182.3, Other Regulatory Assets,"  
10 states that "this account shall include the amounts of regulatory-created assets..."  
11 that also are to be established by "those charges which would have been included  
12 in net income, or accumulated other comprehensive income....".<sup>2</sup> The  
13 definition of "regulatory assets and liabilities," in the USOA are those items that  
14 "arise from specific revenues, expenses, gains, or losses...".<sup>3</sup> The USOA clearly  
15 permits "revenues, gains, or losses" as well as "expenses" to be included as a  
16 regulatory asset, just as MGE requests here.

17  
18 **CONDITIONS**

19  
20 **Q. ARE THERE ANY CONDITIONS THAT MGE SUGGESTS BE**  
21 **INCLUDED IN THE RESULTING COMMISSION ORDER?**

22 A. Yes. MGE suggests that the Commission include the following conditions:  
23

---

<sup>2</sup> USOA, 182.3 "Other Regulatory Assets."

<sup>3</sup> USOA, General Instruction No. 31, definition of Regulatory Assets and Liabilities (emphasis added).



1        -        Nothing in the Commission's order shall be considered a finding by the  
2        Commission of the reasonableness of the amounts deferred, and the Commission  
3        reserves the right to consider the ratemaking treatment to be afforded all amounts.

4  
5        -        Any and all offsets including, but not limited to, insurance claim proceeds  
6        or government payments or credits applicable to incremental costs and loss of  
7        fixed cost recovery provided by the Company's distribution rates shall be used to  
8        offset the total amounts deferred.

9        -        MGE shall not seek to recover any tornado-related capital costs for which  
10       it is deferring depreciation and carrying charges pursuant to this AAO through its  
11       Infrastructure System Replacement Surcharge rate mechanism.

12       -        MGE shall maintain detailed supporting records, work papers, invoices,  
13       and other supporting documents to support the amount of costs deferred under this  
14       AAO, including any related deferred taxes recorded as a result of the cost  
15       deferral. Such records shall be made available for review by the Commission  
16       Staff, the Office of the Public Counsel and other intervenors, pursuant to 4 CSR  
17       240-2.085 and Section 386.480.

18

## CONCLUSION

19  
20  
21    **Q.       WHY SHOULD THE FINANCIAL IMPACTS OF THIS EVENT TO MGE**  
22    **BE DEFERRED THROUGH AN AAO?**

23    A.       The incremental expenses and lost fixed cost recovery resulting from the tornado  
24       and related severe weather are extraordinary and unusual in terms of MGE's

1 overall gas service operations and would have a significant and material impact  
2 on the Company's financial results. The accounting procedures requested are  
3 essential to enable MGE to maintain its financial condition and to continue to  
4 attract capital for its operations at reasonable rates. Absent the authority  
5 requested in this case, MGE will be deprived of a reasonable opportunity to  
6 recover these incremental costs and lost fixed cost recovery.

7

8 **Q. WHAT ARE MGE'S OPTIONS IF THE AAO IS DENIED?**

9 A. If the AAO is denied, MGE's only option is to file a rate case which reflects the  
10 current level of customers remaining in the Joplin area.

11

12 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION?**

13 A. I recommend the Commission grant MGE an AAO allowing MGE to defer and  
14 record to USOA Account 182.3, Other Regulatory Assets, the incremental costs  
15 (net of any insurance proceeds) and loss of the fixed cost recovery provided by  
16 the Company's distribution rates incurred by MGE and related to the events  
17 surrounding the May 22, 2011 Joplin tornado and severe weather.

18

19 **ACCOUNTING AUTHORITY ORDER LANGUAGE**

20

21 **Q. WHAT LANGUAGE DOES MGE ASK THE COMMISSION TO ADOPT**  
22 **IN REGARD TO AN ACCOUNTING AUTHORITY ORDER?**

23 A. MGE asks that the Commission issue an order that includes the following  
24 language:

1 "That Missouri Gas Energy, a division of Southern Union Company,  
2 ("MGE") is granted an Accounting Authority Order whereby the company  
3 is authorized to defer and record to the USOA Account 182.3, Other  
4 Regulatory Assets, the incremental costs (net of any insurance proceeds),  
5 loss of the fixed cost recovery provided by the Company's distribution  
6 rates, and depreciation and carrying charges equal to its ongoing AFUDC  
7 rates associated with the events surrounding the May 22 tornado."  
8 "

9 **Q. ARE THERE ANY OTHER PROVISIONS THAT SHOULD BE**  
10 **ASSOCIATED WITH THIS AAO?**

11 A. Yes. In addition, MGE requests that it be authorized to begin amortization of the  
12 involved expenses and losses, which are deferred and recorded in Account 182.3,  
13 over a five-year period, commencing with the effective date of rates approved by  
14 the Commission in the first rate case following Case No. GR-2009-0355 or no  
15 later than January 1, 2013.

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

18 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI


In the Matter of the Application of )  
Missouri Gas Energy for the )  
Issuance of an Accounting Authority )  
Order Relating to its Natural Gas )  
Operations and for a Contingent )  
Waiver of the Notice Requirement )  
Of 4 CSR 240-4.020(2) )

Case No. GU-2011-0392

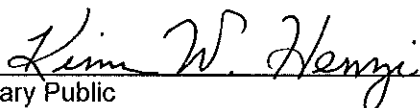
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI )  
 )  
COUNTY OF JACKSON ) ss.

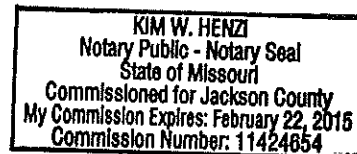
Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

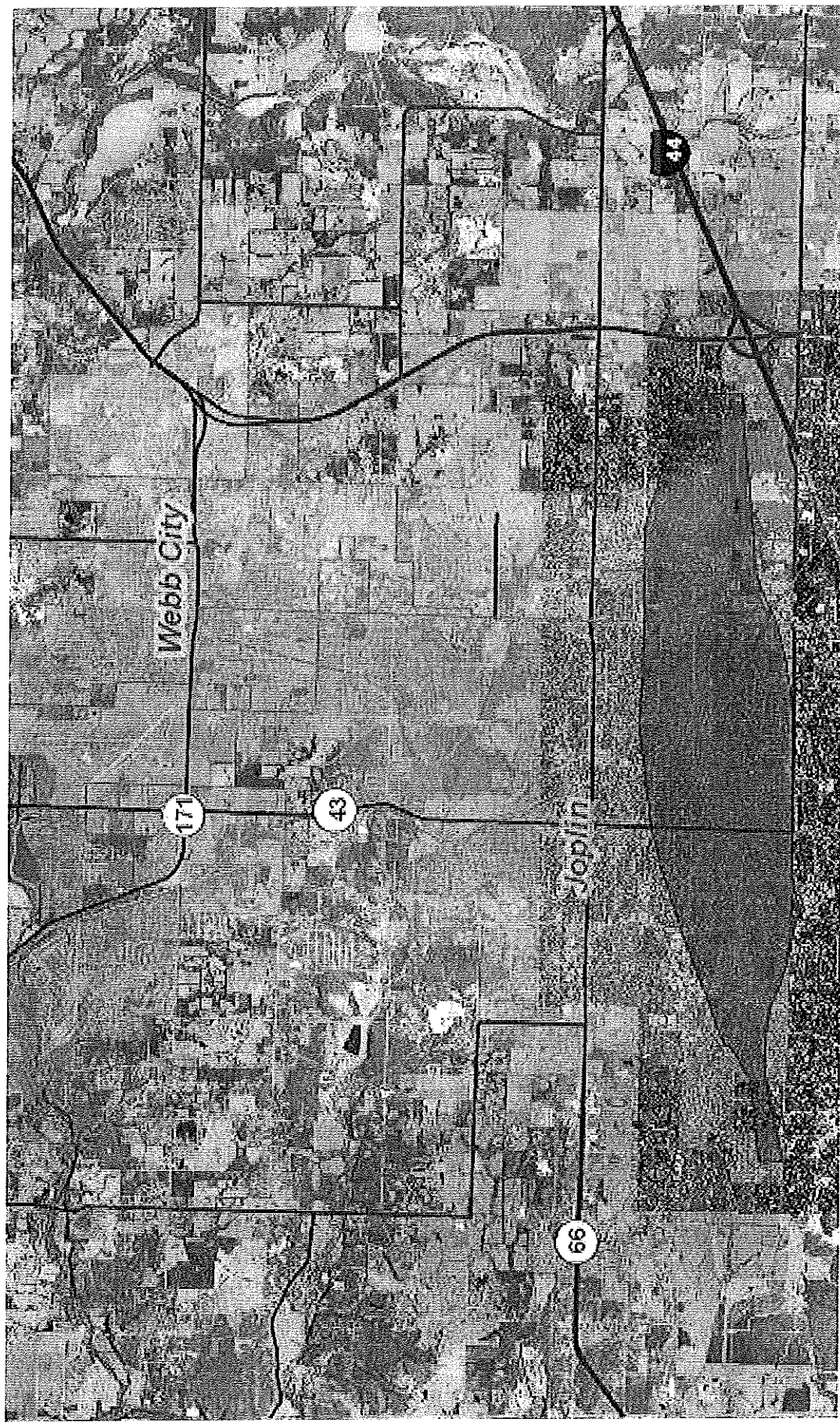
  
MICHAEL R. NOACK

Subscribed and sworn to before me this 11<sup>th</sup> day of OCTOBER 2011.

  
Notary Public

My Commission Expires: Feb. 22, 2015





**Source: Jasper County Missouri  
mapping site**

**Schedule MRN-1**

**Missouri Gas Energy  
Joplin Damages  
Updated September 30, 2011**

*Assessment of impact of Joplin EF5 tornado that hit Joplin service area May 22, 2011*

	<u>Units</u>	<u>Value per new item</u>	<u>Labor Cost to replace</u>	<u>ESTIMATED</u>	
				<u>Total Cost</u>	<u>Extended Cost</u>
Updated as of Friday, September 30th, 2011					
Number of Accounts affected - Estimated	(2) 3,500				
Replacement value of meters (assumed that this will equal meters removed at this point)	3,196	\$140	(1) \$30	\$170	\$542,841
Cost to reconnect individual <b>services</b> that had been cut & capped	2,190			\$690	\$1,511,604
Feet of new main replaced (assumed that all main will be replaced)	54,085			(3) \$50	\$2,704,250
Cost to re-run services abandoned with the mains (should not change any further)	1,053			(5) \$1,812	\$1,908,036
Incremental cost - Initial <b>"Expediting &amp; Temporary Repairs"</b> Assessment Cost (Starting Sunday May 22nd ) (4)					\$1,318,101
<b>Total</b>					<b>\$7,984,831</b>

(1) \$72.14 for a new meter (American 250) plus \$46.82 for a new ERT (100g Residential) plus \$20.89 for a new regulator (1" 1813C)

(2) Based upon the trend to date and the 3,196 meters removed to date.

(3) As of report dated Sept 30, 2011 I revised main replacement cost from \$60 per foot based upon June main replacement costs of \$67.68 per foot (2011 budgeted cost per foot is \$60) to \$50 per foot based upon the AVERAGE cost per foot of \$46.94 for the fifteen work orders written to date for a total of 17,241 feet.

(4) These costs also include the cost of abandoning main (cutting and capping) with service attached (and therefore abandoned in place).

(5) Cost of replacing a service line based upon June service replacement costs (contractor) of \$1,812.01 for the Southern Region

Town Code 501 - Joplin						Town Code 515 - Duquesne						Total Joplin & Duquesne					
2011	Res	SGS	LGS	Total	2011	Res	SGS	LGS	Total	2011	Res	SGS	LGS	Total			
April	13,576	2,445	144	16,165	April	464	68	1	533	April	14,040	2,513	145	16,698			
May	12,641	2,300	125	15,066	May	460	69	1	530	May	13,101	2,369	126	15,596			
June	10,906	1,966	117	12,989	June	272	35	1	308	June	11,178	2,001	118	13,297			
July	10,724	1,916	116	12,756	July	272	34	1	307	July	10,996	1,950	117	13,063			
August	10,650	1,917	112	12,679	August	270	35	2	307	August	10,920	1,952	114	12,986			
September	10,673	1,919	108	12,700	September	276	32	1	309	September	10,949	1,951	109	13,009			
Town Code 501 - Joplin						Town Code 515 - Duquesne						Total Joplin & Duquesne					
2010	Res	SGS	LGS	Total	2010	Res	SGS	LGS	Total	2010	Res	SGS	LGS	Total			
April	13,723	2,565	32	16,320	April	483	64	-	547	April	14,206	2,629	32	16,867			
May	13,502	2,484	124	16,110	May	473	59	1	533	May	13,975	2,543	125	16,643			
June	13,308	2,455	117	15,880	June	461	58	1	520	June	13,769	2,513	118	16,400			
July	13,226	2,325	115	15,666	July	458	56	1	515	July	13,684	2,381	116	16,181			
August	13,170	2,395	116	15,681	August	458	45	-	503	August	13,628	2,440	116	16,184			
September	13,222	2,378	115	15,715	September	459	57	1	517	September	13,681	2,435	116	16,232			
Town Code 501 - Joplin						Town Code 515 - Duquesne						Total Joplin & Duquesne					
Difference	Res	SGS	LGS	Total	Difference	Res	SGS	LGS	Total	Difference	Res	SGS	LGS	Total			
April	(147)	(120)	112	(155)	April	(19)	4	1	(14)	April	(166)	(116)	113	(169)			
May	(861)	(184)	1	(1,044)	May	(13)	10	-	(3)	May	(874)	(174)	1	(1,047)			
June	(2,402)	(489)	-	(2,891)	June	(189)	(23)	-	(212)	June	(2,591)	(512)	-	(3,103)			
July	(2,502)	(409)	1	(2,910)	July	(186)	(22)	-	(208)	July	(2,688)	(431)	1	(3,118)			
August	(2,520)	(478)	(4)	(3,002)	August	(188)	(10)	2	(196)	August	(2,708)	(488)	(2)	(3,198)			
September	(2,549)	(459)	(7)	(3,015)	September	(183)	(25)	-	(208)	September	(2,732)	(484)	(7)	(3,223)			
Fixed Monthly Charge												\$ 27.37 \$ 39.98					
Total Estimated Loss of Fixed Cost Recovery												<u>\$ (74,774.84) \$ (19,350.32) \$ (94,125.16)</u>					

Missouri Gas Energy  
Lost Fixed Cost Recovery and Volumetric Revenue  
Large Volume Transportation Customers

Transportation Customer 1

12/01/10	30	78,340	4,644.69
11/01/10	31	67,550	2,835.52
10/01/10	30	56,480	2,584.46
09/01/10	31	52,840	2,501.90
08/01/10	31	53,760	2,522.77
07/01/10	30	53,600	2,519.14
06/01/10	31	63,230	2,737.55
05/01/10	30	70,060	2,892.45
04/01/10	31	89,070	5,102.33
03/01/10	28	91,990	5,011.16
02/01/10	31	106,190	5,591.66
01/01/10	31	100,790	5,370.91
		883,900	44,314.54

Summer Usage	417,520	\$	11,924.25
Winter Usage	466,380	\$	21,644.61
		\$	<u>33,568.86</u>

Transportation Customer 2

12/01/10	30	2,490	1,088.10
11/01/10	31	1,160	992.66
10/01/10	30	1,150	992.32
09/01/10	31	960	985.79
08/01/10	31	740	978.22
07/01/10	30	820	980.97
06/01/10	31	1,240	995.41
05/01/10	30	1,700	1,011.22
04/01/10	31	5,110	1,230.47
03/01/10	28	9,350	1,401.35
02/01/10	31	11,870	1,532.62
01/01/10	31	11,340	1,505.01
		47,930	13,694.14

Summer Usage	7,770	\$	267.05
Winter Usage	40,160	\$	2,182.29
		\$	<u>2,449.35</u>

\$ 36,018.21



Missouri Gas Energy  
Analysis of Active Meters and Bills  
2011 Versus 2010

Entire Southern Region

<u>Regular Billed Customers</u>	<u>2011</u>	<u>2010</u>	<u>Difference</u>
May	75,181	76,334	(1,153)
June	72,216	75,325	(3,109)
July	72,033	74,839	(2,806)
August	72,563	75,928	(3,365)
September	72,497	75,992	(3,495)

Joplin and Environs

<u>Active Meter Inventory</u>	<u>2011</u>	<u>2010</u>	<u>Difference</u>
May	33,833	34,139	(306)
June	30,730	33,667	(2,937)
July	30,336	33,448	(3,112)
August	30,059	33,365	(3,306)
September			

Joplin and Duquesne

<u>Active Meter Inventory</u>	<u>2011</u>	<u>2010</u>	<u>Difference</u>
May	15,596	16,643	(1,047)
June	13,297	16,400	(3,103)
July	13,063	16,181	(3,118)
August	12,986	16,184	(3,198)
September	13,009	16,232	(3,223)