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Service Commission

Exhibit No.:

Issues: Corporate Allocations,  
Revenues-Customer Growth

Witness: Amanda C. McMellen

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: GR-2009-0355

Date Testimony Prepared: October 14, 2009

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**AMANDA C. McMELLEN**

**MISSOURI GAS ENERGY**  
**a Division of Southern Union Company**

**CASE NO. GR-2009-0355**

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~~Staff~~ Exhibit No. ~~56~~  
Case No(s) GR-2009-03  
Date 10-26-09 Rptr XF

Jefferson City, Missouri  
October 2009

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**MISSOURI GAS ENERGY,**  
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A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO

Q. Are you the same Amanda C. McMellen that was responsible for certain sections of the Staff Cost of Service Report, as well as filing of rebuttal testimony, in this case?

A. Yes, I am.

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to address certain aspects of the rebuttal testimony of Missouri Gas Energy's (MGE or Company) witness Michael R. Noack regarding corporate allocations and MGE witness Larry W. Loos concerning revenues-customer growth.

Q. Has the Staff made any changes to its positions regarding corporate allocations since the filing of rebuttal testimony?

A. Yes. First, with one exception discussed below, the Staff is now using an allocation factor of 14.786% which excludes Citrus Corporation (Citrus) to allocate costs to MGE from the Southern Union Company (SU) departments discussed in the rebuttal

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1 testimony of Mr. Noack (page 25, line 13 through page 27, line 2). However, the Staff is not  
2 using this factor for the purpose of allocating costs from SU's chairman's department to  
3 MGE.

4 Q. Why did the Staff make this change?

5 A. After discussions with the Company, and a review of Mr. Noack's rebuttal  
6 testimony, the Staff believes that Citrus employs its own corporate personnel to provide many  
7 of the same services provided by SU corporate employees to other SU divisions. Therefore,  
8 SU (MGE's parent company) does not have to provide as much corporate support to Citrus as  
9 it does to its other divisions.

10 Q. Why is the Staff not using this allocation factor for the chairman's department?

11 A. Citrus is owned 50/50 by SU and El Paso Corporation. The Staff's  
12 understanding is that the Chairman of SU still has joint responsibility for, and does participate  
13 in, management and oversight of Citrus. Therefore, the Staff believes that a fair share of costs  
14 should be allocated to Citrus from the chairman's department.

15 Q. What effect would it have on MGE if a fair share of these costs were not  
16 allocated to Citrus for rate purposes?

17 A. If these costs were not allocated to Citrus, then MGE's customers would be  
18 responsible for an inequitable share of corporate costs.

19 Q. Are there any other changes the Staff has made regarding corporate  
20 allocations?

21 A. Yes. The Staff has made additional changes to its positions regarding  
22 non-employee related costs and IT positions.

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1 Q. What is the basis for the changes made by the Staff regarding non-employee  
2 related costs?

3 A. The Staff's Cost of Service Report noted on page 65 that for a few areas of  
4 corporate allocations, the Staff desired to review additional documentation. As stated in  
5 Mr. Noack's rebuttal testimony on page 27, lines 6 through 10, this information has since  
6 been provided to the Staff.

7 Q. Has the Staff had a chance to review the information MGE provided?

8 A. Yes. The Staff has reviewed this information

9 Q. What was the result?

10 A. The Staff has now included the majority of the corporate costs categorized as  
11 "allocated" and "general."

12 Q. Is the Staff still recommending disallowance of some of these costs?

13 A. Yes. The Staff is recommending disallowance of costs identified in the  
14 "allocated" category that are associated with employee benefits. The Staff has consistently  
15 disallowed these costs for all SU employees because they relate to incentive compensation  
16 expenses that the Staff believes primarily benefit shareholders, instead of MGE ratepayers.  
17 This position is described fully in the Staff's Cost of Service Report on page 68, line 3  
18 through 10.

19 Q. What other disallowances has the Staff recommended for corporate  
20 allocations?

21 A. The Staff has also recommended disallowance of certain corporate legal costs.  
22 Legal costs associated with other specifically identified SU entities and retainers paid to firms  
23 representing SU within the test year have been excluded from the allocation process. The

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1 Staff believes these costs provide no benefit to MGE ratepayers. In regard to a retainer paid  
2 to Kasowitz, Benson, Torres & Friedman (Kasowitz), LLP, the information received by the  
3 Staff in this case indicates that the retainer is not being paid to Kasowitz subsequent to the test  
4 year and should be eliminated.

5 Q. What impact do all the changes in the Staff's position on corporate allocations  
6 have on the Staff's recommended overall revenue requirement?

7 A. The changes described above for corporate allocations increase the Staff's  
8 overall revenue requirement by approximately \$1.54 million.

9 **REVENUES-CUSTOMER GROWTH**

10 Q. Has the Staff made any changes to its position regarding revenues-customer  
11 growth since the filing of rebuttal testimony?

12 A. Yes. After further discussions with the Company, the Staff has made several  
13 changes regarding customer growth. First, the Staff has made all corrections identified in  
14 Mr. Loos' rebuttal testimony on page 8, line 19 through page 9, line 13. The impact of these  
15 changes results in a reduction of revenues by \$365,854.

16 Q. What other changes has the Staff made for revenues-customer growth?

17 A. The Staff believes that a three-year average ratio (of the April customer  
18 numbers compared to the succeeding year's total customers) discussed by Mr. Loos at page 9,  
19 lines 16 through 17 and page 10, lines 8 through 15, of his rebuttal testimony is an acceptable  
20 approach for adjusting test year revenues for the residential class only. There was a  
21 major change in residential class rate design as a result of the last general rate case,  
22 No. GR-2006-0422. The Staff believes that it is more accurate to use a customer growth

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1 average that reflects the most current rate design for that class. This change reduces revenues  
2 by \$391,120.

3 Q. Was there a major change to the rate design for the Small General Service  
4 (SGS) or Large General Service (LGS) classes in the last rate case?

5 A. No. The same basic rate design is still in place for both the SGS and LGS  
6 classes. Therefore, the Staff believes that use of a five-year average to adjust for customer  
7 growth is still appropriate for these classes.

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**


In the Matter of Missouri Gas Energy and Its     )  
Tariff Filing to Implement a General Rate     )  
Increase for Natural Gas Service                 )  
   )  
   )

Case No. GR-2009-0355

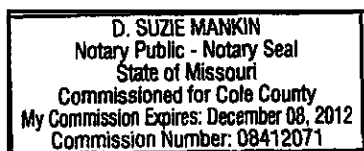
AFFIDAVIT OF AMANDA C. MCMELLEN


STATE OF MISSOURI     )  
                                   )  
COUNTY OF COLE     )     ss.

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
Amanda C. McMellen

Subscribed and sworn to before me this 13<sup>th</sup> day of October, 2009.



  
Notary Public