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Witness: David M. Sommerer

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

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

CASE NO. GR-2009-0355

*Jefferson City, Missouri
September 2009*

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DAVID M. SOMMERER
MISSOURI GAS ENERGY,
a Division of Southern Union Company**

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David M. Sommerer

1 A. From 1984 to 1990 I assisted with audits and examinations of the books
2 and records of public utilities operating within the state of Missouri. In 1988, the
3 responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas
4 utilities was given to the Accounting Department (now referred to as the Auditing
5 Department). I assumed responsibility for planning and implementing these audits and
6 trained available Staff on the requirements and conduct of the audits. I participated in
7 most of the ACA audits from early 1988 to early 1990. On November 1, 1990,
8 I transferred to the Commission's Energy Department. Until November of 1993, my
9 duties consisted of reviews of various tariff proposals by electric and gas utilities,
10 Purchased Gas Adjustment (PGA) reviews, and tariff reviews as part of a rate case.
11 In November of 1993, I assumed my present duties of managing a newly created
12 department called the Procurement Analysis Department. This Department was created
13 to more fully address the emerging changes in the gas industry especially as they
14 impacted the utilities' recovery of gas costs. My duties have included managing the five
15 member staff, reviewing ACA audits and recommendations, participating in the gas
16 integrated resource planning project, serving on the gas project team, serving on the
17 natural gas commodity price task force, and participating in matters relating to natural gas
18 service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis
19 Section was transferred to the Procurement Analysis Department. That group analyzes
20 filings made before the Federal Energy Regulatory Commission (FERC).

21 Q. Have you previously filed testimony before the Commission?

22 A. Yes, I have. The cases in which I previously have filed testimony are
23 included as Schedule 1 of my rebuttal testimony.

1 **Executive Summary**

2 Q. What is the purpose of your Rebuttal Testimony in this case, Case No.
3 GR-2009-0355?

4 A. The purpose of my testimony in this case is to rebut the testimony of
5 Missouri Gas Energy, a Division of Southern Union Company, (MGE or Company)
6 witness Michael R. Noack with regard to recovery of uncollectible expense, Federal
7 Energy Regulatory Commission (FERC) regulatory expense, and Kansas property taxes
8 on storage. In addition, I will address Mr. Noack's proposal to update Tariff Sheets 24
9 and 24.1, PGA Contracted Volumes.

10 The Staff opposes MGE's proposal to include recovery of the so-called
11 "gas portion" of uncollectible expense in PGA. Uncollectible expense is not a gas cost
12 but a cost of collection. The Missouri Public Service Commission recently denied a
13 similar request from Laclede Gas Company in Case No. GT-2009-0026. Traditionally,
14 bad debt expense has been analyzed and set in a general rate case. The carving up of
15 some arbitrary amount of uncollectible costs for purposes of further protecting the
16 Company from risks associated with over/under recovery of non-gas costs through
17 attempted inclusion in the PGA is inappropriate.

18 MGE is also requesting PGA recovery for legal and consulting expenses
19 related to FERC matters. Despite the use of the phrase "FERC Regulatory Costs", the
20 expenses are clearly beyond those costs considered to be gas costs eligible for PGA
21 treatment.

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1 In addition, MGE is requesting PGA recovery of Kansas property taxes on
2 gas storage. As the name implies, these items are for property taxes, not for gas costs
3 and, therefore, are not authorized for PGA recovery.

4 Finally, my testimony will address Mr. Noack's proposal to update PGA
5 volumes.

6 **Uncollectible Expense in the PGA**

7 Q. Mr. Noack describes on page 12, line 17 through page 13, line 24 of his
8 direct testimony the Company's proposal to place the gas cost portion of the uncollectible
9 expense in the PGA for recovery. Does the Staff oppose this recovery mechanism for
10 uncollectible expense?

11 A. Yes. The Commission has recently heard a similar proposal from Laclede
12 Gas Company in Case No. GT-2009-0026, and rejected it. In that decision the
13 Commission explained:

14 Based on its findings of fact and conclusions of law, the
15 Commission finds that Laclede's tariff that would allow
16 Laclede to recover the portion of its bad debt expense
17 ascribed to gas costs through its PGA clause is unlawful in
18 that it would allow Laclede to recover bad debt expenses in
19 a manner that would constitute improper single-issue
20 ratemaking forbidden by the holding of the Missouri
21 Supreme Court in Utility Consumers Council of Missouri.
22 Furthermore, the Commission finds that Laclede's bad debt
23 expense is not a gas cost such as can be recovered through
24 the PGA under the exception to the single-issue ratemaking
25 prohibition recognized by the Midwest Gas Users'
26 Association decision. Therefore, the Commission must
27 reject Laclede's tariff. (Report and Order in Case No.
28 GT-2009-0026 effective April 25, 2009.)

29 Uncollectible expense is not a gas cost but a measurement of the expenses associated
30 with making natural gas sales on credit. It can be directly impacted by utility collection

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1 efforts. Gas costs typically include the direct costs of acquiring gas supply and
2 transportation to the Local Distribution Company's service area. The gas supply is
3 purchased as a raw commodity in the wholesale gas market. Gas transportation and
4 storage services are regulated by FERC and acquired from interstate pipelines.

5 Q. Are gas costs usually evidenced by an invoice?

6 A. Typically, gas costs are purchases made to acquire and transport the
7 commodity and will be evidenced by an invoice from a third party gas supplier or
8 interstate gas pipeline. In contrast, there is no invoice for uncollectible expense, another
9 indication that this cost item is not a gas cost and does not involve the acquisition of gas
10 supply. As in the Laclede case, MGE proposes to estimate the "gas cost portion" of the
11 uncollectible expense. This valuation does not represent an actual payment to a supplier
12 but is really an estimate based upon various assumptions about relationships between
13 billed PGA revenues and write-offs (less recoveries).

14 Q. Have you reviewed MGE's proposed tariff language relating to recovery
15 of uncollectible expense in the PGA?

16 A. Yes. With regard to the proposed tariff language for the new uncollectible
17 expense recovery mechanism, the language is vague and open to interpretation.
18 MGE provides a couple of new definitions:

19 Unrecovered Gas Billings: the portion of Company's
20 uncollectible accounts that is attributable to charges
21 calculated under this Purchased Gas Adjustment.

22 Ratebased Gas Uncollectibles: the Company's expenses
23 attributable to charges under this Purchased Gas Cost
24 Adjustment clause which are included in the Account 904
25 balance filed in Company's most recent rate case.

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1 Although it is not clear from the proposed tariff language, MGE's intention appears to be
2 to first develop an annual percentage relationship between gas costs and billed revenues
3 for a given time period. The percentage is then applied to an annual level of "write-offs"
4 to develop "the portion" of uncollectible accounts that is "attributable" to charges under
5 the PGA.

6 Q. Does Mr. Noack's method of attempting to determine a relationship
7 between billed PGA revenues and bad debt write-offs develop a precise actual gas cost
8 portion of uncollectible expense?

9 A. No. It is almost certain that the age of the write-offs that the "gas cost
10 percentage" is applied to will not align with the time-frame used to develop the gas cost
11 percentage. In other words, accounts that were previously written-off are often reinstated
12 when a partial payment or energy assistance funding is received. The write-offs therefore
13 could relate to totally different time periods from the timeframes that are used to develop
14 the gas cost percentage. In addition, partial payments received from the customer
15 typically are not allocated to "gas costs" or "non-gas costs." The Company's
16 uncollectible expense proposal, therefore, adds a significant level of assumption and
17 guesswork into an Actual Cost Adjustment process that is meant to track actual and
18 verifiable gas costs.

19 Q. Isn't the ACA process a way to ensure a more accurate actual recovery of
20 bad debt expense?

21 A. No. Not only has the Commission deemed this proposal to be unlawful, it
22 would make the ACA process more cumbersome, with the necessity of reviewing credit
23 and collection policies and practices, and reviewing the related accounting for bad debt

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1 expense on an annual basis. New prudence reviews regarding what is essentially a
2 non-gas costs would be required. The current ACA process is already a complex cost
3 recovery mechanism, with issues such as off-system sales versus on-system sales cost
4 allocation, longer-term hedging practices, and gas volume imbalance issues. There is no
5 current requirement for the Local Distribution Companies to file testimony to support
6 their annual ACA filings which provides an additional reason that non-gas costs should
7 be part of a general rate case, where testimony is required, and all aspects of a company's
8 proposed revenue requirement can be reviewed.

9 **FERC REGULATORY COSTS IN THE PGA**

10 Q. Please discuss Mr. Noack's proposal to recover FERC Regulatory Costs.

11 A. According to Mr. Noack's Direct Testimony on page 15, lines 5 through 7,
12 MGE is proposing other costs in its PGA clause, including Kansas property taxes
13 assessed on gas held in storage and any FERC related regulatory costs. Although FERC
14 regulatory costs are undefined in MGE proposal, MGE provided the following
15 explanation in its response to Staff Data Request No. 258:

16 The phrase "FERC regulatory costs" as used in sheet
17 nos. 14 and 16 is intended to mean incremental (i.e., not
18 related to internal payroll, benefits, etc.) costs associated
19 with undertaking FERC regulatory activities on behalf of
20 the interests of MGE customers, including legal fees,
21 consulting fees, travel and meals, etc.

22 Staff recommends rejection of this proposal. "FERC regulatory costs" are clearly not the
23 type of costs that may be considered gas costs.

1 **PROPERTY TAXES ON GAS HELD IN STORAGE IN KANSAS**

2 Q. Please discuss Mr. Noack's proposal to include Kansas property taxes in
3 the PGA.

4 A. MGE also proposes to include recovery for property taxes on gas held in
5 storage in Kansas in the PGA. Staff recommends rejection of this proposal as another
6 attempt to include non-gas cost items in the PGA. Although the property tax rate might
7 have a relationship to the amount of gas held in storage, it is a non-gas expense. Its
8 inclusion will burden the PGA process with review of additional non-gas costs, and
9 expand the scope of the PGA review process to property tax assessments, and payments.

10 MGE is also seeking in this case an accounting authority order for its
11 Kansas property taxes related to gas held in storage. Staff witness Mark L. Oligschlaeger
12 of the Auditing Department will be addressing this request in his rebuttal testimony in
13 this proceeding.

14 **PGA VOLUMES**

15 Q. Do you have comments regarding Mr. Noack's proposal to update PGA
16 volumes?

17 A. On page 26, lines 14 through 17 of his Direct Testimony Mr. Noack states
18 that "PGA Sheets Nos. 24 and 24.1 restate the PGA computation volumes to reflect the
19 current mix of pipeline transportation, storage and commodity assets under contract to
20 MGE for purposes of calculating PGA factors after May 2, 2009." Staff does not oppose
21 updating these volumes, but MGE must provide documentation for all the proposed
22 changes to these sheets including support for certain contracted volumes, the sales

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1 volume, and the invoiced volumes used to develop the amounts on PGA Sheet Nos. 24
2 and 24.1.

3 Q. Does this conclude your rebuttal testimony?

4 A. Yes, it does.

CASES WHERE TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GT-2009-0026	Tariff Proposal, ACA Process
Missouri Gas Utility	GR-2008-0060	Carrying Costs
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs
United Cities Gas Company	GO-97-410	PGA Clause

COMPANY	CASE NO.	ISSUES
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues
Empire District Electric Company	WR-86-151	Revenues
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost
Grand River Mutual Telephone	TR-85-242	Cash Working Capital
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll