

Exhibit No.:

Issue: Revised Statement of Staff
Positions

Witness: Steve M. Traxler

Sponsoring Party: MoPSC Staff

Type of Exhibit: Supplemental Testimony in
Support of Revenue
Requirement

Case No.: GR-2001-292

Date Testimony Prepared: June 22, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

FILED

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Missouri Public
Service Commission

**SUPPLEMENTAL TESTIMONY IN SUPPORT OF
REVENUE REQUIREMENT**

OF

STEVE M. TRAXLER

**MISSOURI GAS ENERGY,
A DIVISION OF SOUTHERN UNION COMPANY**

CASE NO. GR-2001-292

*Jefferson City, Missouri
June 2001*

1 **SUPPLEMENTAL TESTIMONY**
2 **IN SUPPORT OF REVENUE REQUIREMENT**
3 **OF**
4 **STEVE M. TRAXLER**
5 **MISSOURI GAS ENERGY,**
6 **A DIVISION OF SOUTHERN UNION COMPANY**
7 **CASE NO. GR-2001-292**
8

9 Q. Please state your name and business address.

10 A. Steve M. Traxler, Noland Plaza Office Building, 3675 Noland Road,
11 Independence, Missouri 64055.

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

13 A. I am a Regulatory Auditor for the Missouri Public Service Commission
14 (Commission).

15 Q. Please describe your educational background.

16 A. I graduated from Missouri Valley College at Marshall, Missouri in 1974
17 with a Bachelor of Science degree in Business Administration with a major in
18 Accounting.

19 Q. Please describe your employment history.

20 A. I was employed as an accountant with Rival Manufacturing Company in
21 Kansas City from June 1974 to May 1977. I was employed as a Regulatory Auditor with
22 the Missouri Public Service Commission from June 1977 to January 1983. I was
23 employed by United Telephone Company as a Regulatory Accountant from February

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1 1983 to May 1986. In June 1986, I began my employment with Dittmer, Brosch &
2 Associates (DBA) in Lee's Summit, Missouri as a Regulatory Consultant. I left DBA in
3 April 1988. I was self-employed from May 1988 to December 1989. I came back to the
4 Commission in December 1989. My current position is Auditor V with the
5 Commission's Accounting Department.

6 Q. What is the nature of your duties while in the employ of this Commission?

7 A. I am responsible for assisting in the audits and examinations of the books
8 and records of utility companies operating within the state of Missouri.

9 Q. Have you previously testified before the Commission?

10 A. Yes, I have. A list of cases in which I have filed testimony is shown on
11 Schedule SMT-1 of this testimony.

12 Q. Have you filed testimony in rate proceedings involving a regulated utility
13 company in any jurisdictions besides Missouri?

14 A. Yes, I have also filed testimony in Kansas, Minnesota, Arizona, Indiana,
15 Iowa and Mississippi.

16 Q. What was your responsibility in Case No. GR-2001-292?

17 A. I was one of the Senior Accountants assigned to the case and the Project
18 Coordinator for the case.

19 Q. What is the purpose of your testimony?

20 A. My testimony will briefly address:

- 21 1. The changes in the Staff's recommended revenue requirement for
22 MGE which have occurred since the Staff's direct testimony filing and
23 the current date; and,

2. provide the basis for the Staff's belief that a \$9.9 million revenue increase for MGE represents a reasonable increase necessary for MGE to recover its cost of service.

Q. Please provide a brief explanation of the changes in the Staff's revenue requirement recommendations which occurred between the Staff's direct testimony filing and the conclusion of the prehearing conference.

A. The Staff's direct testimony filing reflected no recommended increase in MGE's revenue requirement at the Staff's midpoint return on rate base of 8.82%.

As a result of prehearing conference and correction of some errors, the Staff's recommended revenue requirement increase for MGE changed to approximately \$4.2 million.

I prepared a reconciliation which identified 75 issues which accounted for the approximate \$39.8 million difference between the Staff and MGE direct filings. The Staff, OPC and MGE were successful in resolving all but seven of the 75 issues during the prehearing conference. In each instance where the Staff changed its position, the Staff did so as a result of the Staff moving to what the Staff believed then and believes now is an appropriate position.

Additionally, the Staff's updated revenue requirement recommendation reflected correction of a \$714,000 posting error in the Exhibit Manipulation System (EMS) run and by approximately \$500,000 to reflect the revenue loss from one of MGE's largest industrial customers, General Steel (GST). The Staff was not aware of the GST closing until after it had filed its direct case.

Q. Please identify the remaining revenue requirement issues between the Staff, OPC and MGE at the close of the prehearing conference.

A. The remaining revenue requirement issues which existed between the Staff, OPC and MGE at the close of the prehearing conference are reflected below:

	<u>Millions</u>
MGE Revenue Requirement	\$ 38.9
Return on Equity	(\$ 7.9)
Actual Capital Structure vs Hypothetical	(\$10.7)
Gas Inventory Valuation	(\$ 3.3)
Exclusion of SLRP Deferrals from Rate Base	(\$ 3.2)
Normalization of Off-System Sales	(\$ 1.1)
Disallowance of Corporate Overhead Costs	(\$ 1.0)
Depreciation Method and Life Differences	(\$ 7.5)
Staff Revenue Requirement	<u>\$ 4.2</u>

Q. Did discussions between the parties continue after the official close of the prehearing conference regarding the remaining issues outlined in your last answer?

A. Yes. As a result of additional discussions on the remaining issues, the Staff's position on these issues changed in a manner that the Staff's recommended revenue requirement for MGE changed from \$4.2 million to \$9.9 million as reflected below:

	<u>Millions</u>
Staff's Recommendation at Close of Prehearing	\$4.2
Change in Depreciation Rate for Account 376, Mains	\$2.4
Adoption of Staff's High ROE Recommendation	\$1.1
Increase in Gas Inventory Valuation	\$1.2
Actual Capital Structure as of April 30, 2001	\$.3
Property Tax on Gas Inventory	\$.4
Expansion of Low Income Weatherization Program	<u>\$.1</u>
Staff's Final Recommended Revenue Requirement	<u>\$9.4</u>

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1 Q. Would a revenue requirement of \$9.9 million be reasonable?

2 A. Yes. I would agree that a \$9.9 million revenue requirement is reasonable
3 given consideration of the risk and cost of additional litigation of revenue requirement
4 issues.

5 Q. Provide a brief explanation for the change in the depreciation rate for
6 Account 376, Mains and Mains-Cast Iron.

7 A. Staff witness Paul W. Adam of the Engineering and Management Services
8 Department, changed the life assumption from 71 years to 44 years for Account 376,
9 Mains and Mains-Cast Iron. This change increased the Staff's recommended revenue
10 requirement for MGE by approximately \$2.4 million. The 44-year life assumption for
11 gas mains is consistent with the Commission's Order in the AmerenUE Case No.
12 GR-2000-512. Mr. Adam's proposed depreciation rates for MGE are attached as
13 Schedule SMT-2 to this testimony.

14 Q. Please explain the rationale for adopting the Staff's high Return on Equity
15 (ROE) recommendation of 10.50%.

16 A. The 10.50% ROE recommendation is within the range recommended as a
17 reasonable return by Staff witness David F. Murray of the Financial Analysis
18 Department.

19 Q. Please explain the increase in the Staff's recommended revenue increase
20 for MGE resulting from the change in the valuation of MGE's investment in Gas
21 Inventory.

22 A. Staff witness Michael J. Wallis of the Procurement Analysis Department,
23 used a prior year average rate of approximately \$3.20 per MCF to value MGE's gas

1 inventory investment in his direct testimony. MGE used a price of \$5.34 per MCF to
2 value its Gas Inventory investment. The Staff changed its price per MCF to \$4.12 per
3 MCF to address current market conditions and the concern that the price of gas will
4 remain significantly higher than it has been in recent years for the foreseeable future.

5 Q. Please explain the increase in the Staff's recommended revenue increase
6 for MGE as a result of capital structure changes as of April 30, 2001.

7 A. Staff witness David F. Murray recommended the use of Southern Union's
8 (SU's) actual capital structure in developing his rate of return recommendation for MGE.
9 MGE informed the Staff that SU's actual capital structure had changed since
10 December 31, 2000. Since a true up audit had been agreed to for changes through
11 June 30, 2001, the Staff reflected the estimated impact in its updated EMS run for capital
12 structure changes through April 30, 2001.

13 Q. Please explain the increase in the Staff's recommended revenue increase
14 for MGE as a result of reflecting the increase in property tax expense related to MGE's
15 investment in gas inventory.

16 A. MGE advised the Staff regarding a change in its Kansas property tax
17 assessment. The State of Kansas has notified MGE that its gas inventory investment
18 would be included in the assessment beginning with the year 2001. Consistent with the
19 planned true up of known changes through June 30, 2001, the Staff updated its EMS run
20 to reflect the additional property tax resulting from this change.

21 Q. Please explain the increase in the Staff's recommended revenue increase
22 for MGE related to the expansion of the Low Income Weatherization Program.

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1 A. The parties have agreed to expand the existing Low Income
2 Weatherization Program from \$250,000 to \$340,000 annually.

3 Q. Does the Staff consider a revenue increase of \$9.9 million for MGE to be
4 a reasonable result for Case No. GR-2001-292?

5 A. Yes it does.

6 Q. Why are you sponsoring testimony in support of the changes in the Staff's
7 position instead of the individual witnesses with changes in their positions?

8 A. One of my responsibilities in this case was to reconcile the differences
9 among the parties. I have spoken with each Staff witness regarding their change in
10 position. My testimony provides a brief explanation of each position change and revenue
11 requirement impact of the change. Each specific Staff witness will be made available for
12 cross-examination for any additional information deemed necessary.

13 Q. Does this conclude your Supplemental Testimony in Support of Revenue
14 Requirement?

15 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

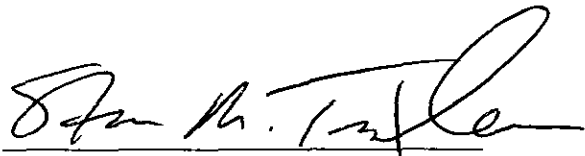
In The Matter of Missouri Gas Energy's Tariff)
Filing For General Rate Increase)

Case No. GR-2001-292

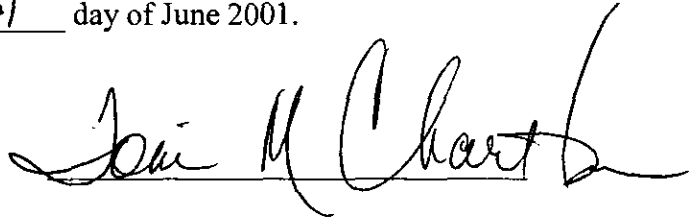
AFFIDAVIT OF STEVE M. TRAXLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

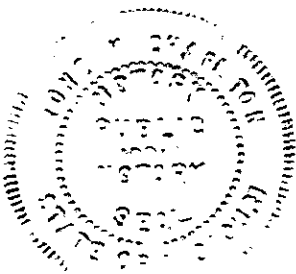
Steve M. Traxler, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Supplemental Testimony in Support of Revenue Requirement in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Supplemental Testimony in Support of Revenue Requirement 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.


Steve M. Traxler

Subscribed and sworn to before me this 21st day of June 2001.



TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004



Steve M. Traxler

SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
1978	Case No. ER-78-29	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1979	Case No. ER-79-60	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1979		Elimination of Fuel Adjustment Clause Audits (all electric utilities)		
1980	Case No. ER-80-118	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1980	Case No. ER-80-53	St. Joseph Light & Power Company (electric)	Direct	Stipulated
1980	Case No. OR-80-54	St. Joseph Light & Power Company (transit)	Direct	Stipulated
1980	Case No. HR-80-55	St. Joseph & Power Company (industrial steam)	Direct	Stipulated
1980	Case No. TR-80-235	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Contested
1981	Case No. TR-81-208	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1981	Case No. TR-81-302	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Stipulated
1982	Case No. ER-82-66	Kansas City Power & Light Company	Rebuttal	Contested
1982	Case No. TR-82-199	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal	Contested
1982	Case No. ER-82-39	Missouri Public Service	Direct Rebuttal Surrebuttal	Contested
1990	Case No. GR-90-50	Kansas Power & Light - Gas Service Division (natural gas)	Direct	Stipulated

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
1990	Case No. ER-90-101	UtiliCorp United Inc., Missouri Public Service Division (electric)	Direct Surrebuttal	Contested
1991	Case No. EM-91-213	Kansas Power & Light - Gas Service Division (natural gas)	Rebuttal	Contested
1993	Case Nos. ER-93-37	UtiliCorp United Inc. Missouri Public Service Division (electric)	Direct Rebuttal Surrebuttal	Stipulated
1993	Case No. ER-93-41	St. Joseph Light & Power Co.	Direct Rebuttal	Contested
1993	Case Nos. TC-93-224 and TO-93-192	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1993	Case No. TR-93-181	United Telephone Company of Missouri	Direct Surrebuttal	Contested
1993	Case No. GM-94-40	Western Resources, Inc. and Southern Union Company	Rebuttal	Stipulated
1994	Case Nos. ER-94-163 and HR-94-177	St. Joseph Light & Power Co.	Direct	Stipulated
1995	Case No. GR-95-160	United Cities Gas Co.	Direct	Contested
1995	Case No. ER-95-279	Empire Electric Co.	Direct	Stipulated
1996	Case No. GR-96-193	Laclede Gas Co.	Direct	Stipulated
1996	Case No. WR-96-263	St. Louis County Water	Direct Surrebuttal	Contested
1996	Case No. GR-96-285	Missouri Gas Energy	Direct Surrebuttal	Contested
1997	Case No. ER-97-394	UtiliCorp United Inc. Missouri Public Service (electric)	Direct Rebuttal Surrebuttal	Contested
1998	Case No. GR-98-374	Laclede Gas Company	Direct	Settled
1999	Case No. ER-99-247 Case No. EC-98-573	St. Joseph Light & Power Co.	Direct Rebuttal Surrebuttal	Settled
2000	Case No. EM-2000-292	UtiliCorp United Inc. and St. Joseph Light & Power Merger	Rebuttal	Contested
2000	Case No. EM-2000-369	UtiliCorp United Inc. and Empire Electric Merger	Rebuttal	Contested

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
2000	Case No. EM-2000-369	UtiliCorp United Inc. and Empire Electric District Co.	Rebuttal	Contested
2001	Case No. TT-2001-328	Oregon Mutual Telephone Co.	Direct	Settled

PROPOSED DEPRECIATION RATES FOR MISSOURI GAS ENERGY

	<u>Rate</u>	<u>Life</u>
Distribution Plant		
Account 374.2—Land Rights	2.09%	47.8
Account 375.1—Structures	1.65%	60.5
Account 376—Mains & Mains-Cast Iron	2.27%	44.0
Account 378—Meas. & Reg. Station-General	2.86%	35.0
Account 379—Meas. & Reg. Station-City Gate	2.13%	47.0
Account 380—Services	2.27%	44.0
Account 381—Meters	2.86%	35.0
Account 382—Meter Installations	2.86%	35.0
Account 383—House Regulators	2.44%	41.0
Account 385—Electronic Gas Metering	3.33%	30.0
Account 387—Other Equipment	4.60%	21.7
(Note: Currently there is no equipment in this account. Any equipment put into this account would need to be evaluated in the next rate case.)		
General Plant-Direct		
Account 390.1—Structures	2.00%	50.0
Account 391—Furniture & Fixtures	8.06%	12.4
Account 392—Transportation Equipment	8.70%	11.5
Account 393—Stores Equipment	2.70%	37.0
Account 394—Tools	2.38%	42.0
Account 395—Laboratory Equipment	6.00%	16.7
Account 396—Power Operated Equipment	8.33%	12.0
Account 397.1—Communication Equipment-AMR	5.00%	20.0
Account 397.0—Communication Equipment-Other	6.25%	16.0
Account 398—Miscellaneous Equipment	3.85%	26.0
General Plant-Corporate		
Account 390—Structures	2.00%	50.0
Account 391.0—Furniture & Equipment	3.22%	31.0
Account 391.1—Computer Equipment	10.00%	10.0
Account 392—Transportation Equipment	10.00%	10.0
Account 397—Communication Equipment	6.25%	16.0
Account 398—Miscellaneous Equipment	3.85%	26.0