

Exhibit No.: \_\_\_\_\_  
Issues: Policy  
Witness: Robert J. Hack  
Sponsoring Party: Missouri Gas Energy  
Case No.: GR-2009-0355  
Date Testimony Prepared: October 14, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

**FILED<sup>2</sup>**

NOV 09 2009

**Missouri Public  
Service Commission**

SURREBUTTAL TESTIMONY OF

ROBERT J. HACK

Jefferson City, Missouri

October 2009

MGE Exhibit No. 12  
Case No(s). GR-2009-0355  
Date 10-26-09 Rptr KF

**SURREBUTTAL TESTIMONY OF**

**ROBERT J. HACK**

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

**OCTOBER 2009**

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**SURREBUTTAL TESTIMONY OF**

**ROBERT J. HACK**

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

**OCTOBER 2009**

**INTRODUCTION**

1

2

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

4 A. My name is Robert J. Hack, and my business address is 3420 Broadway, Kansas City,  
5 Missouri 64111.

6

7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

8 A. Yes. I filed direct testimony in April of 2009 and rebuttal testimony in September of  
9 2009.

10

**PURPOSE**

11

12

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. I will respond to certain portions of the rebuttal testimony of Staff witness Mark  
15 Oligschlaeger regarding regulatory policy.

16

17

1           **RESPONSE TO REBUTTAL TESTIMONY OF M. OLIGSCHLAEGER**

2

3   **Q.   HAS MR. OLIGSCHLAEGER DISPUTED THE FUNDAMENTAL PREMISE**  
4           **UNDERLYING YOUR DIRECT TESTIMONY, NAMELY, THAT MGE'S**  
5           **EARNINGS LEVELS CONSISTENTLY FALL SHORT OF THE**  
6           **COMMISSION-AUTHORIZED EARNINGS LEVEL EVEN THOUGH MGE**  
7           **PROVIDES HIGH QUALITY CUSTOMER SERVICE AT PRICES AND**  
8           **COSTS THAT COMPARE FAVORABLY TO PEER COMPANIES?**

9   **A.**   No. While Mr. Oligschlaeger offers a number of caveats and concerns at a detailed  
10           level, he does not deny my general assertion that MGE has routinely failed to achieve  
11           the Commission-authorized earnings level even though MGE provides high quality  
12           customer service at prices and costs that compare favorably to peer companies.

13

14   **Q.   DOES MR. OLIGSCHLAEGER ACKNOWLEDGE THAT THE ECONOMIC**  
15           **REGULATORY PROCESS AS PRACTICED AT THE MISSOURI PUBLIC**  
16           **SERVICE COMMISSION MAY CONTRIBUTE TO MGE'S CONSISTENT**  
17           **EARNINGS SHORTFALLS?**

18   **A.**   It appears that Mr. Oligschlaeger believes this to be true, because he testifies (at p. 21,  
19           line 21 through p. 22, line 4 of his rebuttal testimony) that

20                   [I]n Missouri, the traditional ratemaking process gives a utility an opportunity  
21                   to recover its costs and earn a reasonable return on its investment. To the  
22                   extent a utility's costs increase above the level upon which rates were set, all  
23                   other things being equal, the utility's earnings will then decline. If the decline  
24                   in earnings were significant enough, the utility would be expected to file for  
25                   rate relief to have the opportunity to restore its earnings to a reasonable level.  
26                   The Staff continues to believe that general rate proceedings are the best  
27                   mechanism to determine whether a utility's rate levels are excessive, adequate

1 or insufficient; and that single-issue ratemaking measures are inappropriate in  
2 most circumstances.  
3

4 **Q. IN YOUR DIRECT TESTIMONY ADDRESSING REGULATORY POLICY,**  
5 **DID YOU PROPOSE TO DO AWAY WITH GENERAL RATE**  
6 **PROCEEDINGS FOR MGE?**

7 A. No. I expressed a desire to extend the period between MGE general rate proceedings  
8 to twice a decade, or once every 60 months. The reasons for this are simple: reduce  
9 regulatory costs borne by customers with little risk that MGE's rates will become  
10 excessive.  
11

12 **Q. HOW WOULD EXTENDING THE PERIOD BETWEEN MGE GENERAL**  
13 **RATE PROCEEDINGS REDUCE REGULATORY COSTS BORNE BY**  
14 **CUSTOMERS?**

15 A. Since its inception on February 1, 1994, MGE has filed a general rate case about once  
16 every 32 months. MGE's cost for each of these proceedings have averaged about  
17 \$684,000. So effectively doubling the time period between rate cases (from 32  
18 months to 60 months) would cut almost in half the MGE rate case costs included in  
19 customer rates.  
20

21 While this cost reduction would be beneficial to customers, it is not the only cost  
22 reduction that would accrue to the benefit of customers if the time period between  
23 MGE rate cases could be extended. The Commission and its Staff, who also dedicate  
24 significant resources to the processing of MGE rate proceedings, would be able to

1 work on matters other than MGE rate cases, likely reducing the assessment from the  
2 Commission that is included in MGE's rates. The Office of the Public Counsel also  
3 devotes its resources to MGE rate cases, which resources could be re-allocated to  
4 other uses if the time period between MGE rate cases is extended. Other parties to  
5 MGE cases – including the Midwest Gas Users Association and MDNR – also devote  
6 resources to MGE rate cases the costs of which I presume are borne by customers  
7 either directly in the form of payments to service providers or indirectly in the form  
8 of tax revenues.

9  
10 **Q. WHY DO YOU BELIEVE THAT EXTENDING THE TIME PERIOD**  
11 **BETWEEN MGE RATE CASES FROM 32 MONTHS TO 60 MONTHS**  
12 **PRESENTS LITTLE RISK THAT MGE'S RATES WOULD BECOME**  
13 **EXCESSIVE?**

14 A. First, I am unaware of any Commission ruling finding that a natural gas local  
15 distribution company's distribution rates were excessive and needed to be reduced.  
16 Even the existence of allegations of over-earning by a natural gas local distribution  
17 company is exceedingly rare, having occurred only once in Missouri, to the best of  
18 my knowledge.

19  
20 Second, MGE's experience since 1994 shows that even with regular rate case filings,  
21 MGE's actual earnings consistently fall short of the Commission-authorized level.

22

1 Given the nature of MGE's business, cost, revenue and investment patterns, a  
2 reasonable view of the future would be generally consistent with the past, with  
3 revenue requirement increasing over time. Technology is not presenting material new  
4 revenue sources or cost reduction opportunities for MGE that would be likely to  
5 significantly outpace the generally increasing trend of revenue requirement increases  
6 for MGE.

7  
8 **Q. HOW WOULD IT BE POSSIBLE TO EXTEND THE TIME PERIOD**  
9 **BETWEEN MGE RATE CASES FROM 32 MONTHS TO 60 MONTHS?**

10 A. The ratemaking process as applied to MGE would need to change significantly to  
11 mitigate the earnings-eroding effect of regulatory lag. Even with the meaningful  
12 improvements MGE has experienced in the recent past (ISRS since 2004 and straight  
13 fixed-variable rate design since 2007), MGE's actual earnings have continued to fall  
14 short of Commission-authorized levels and we have still been required to file general  
15 rate cases with a high degree of frequency to ensure that our rates keep some  
16 semblance of pace with our cost of service.

17  
18 In this proceeding, we have offered some ideas for change to mitigate the earnings-  
19 eroding effect of regulatory lag on MGE (expanding straight fixed-variable into the  
20 small commercial customer class; making use of a tracker for uncollectible gas costs;  
21 making use of a tracker for FERC regulatory costs, etc.), but other approaches  
22 certainly exist and could be considered.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes.



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.

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Case No. GR-2009-0355

AFFIDAVIT OF ROBERT J. HACK

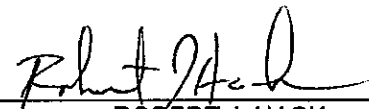
STATE OF MISSOURI )

)

ss.

COUNTY OF JACKSON )

Robert J. Hack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, 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.



ROBERT J. HACK

Subscribed and sworn to before me this 14<sup>th</sup> day of October 2009.



Notary Public

My Commission Expires: 11-14-11



ANGELA ANN WEBER  
My Commission Expires  
November 14, 2011  
Cass County  
Commission #07383884