

Exhibit No.: 96
Witness: Michael R. Noack
Type of Exhibit: Direct Testimony
Issue: Allocated Cost of
Service, Rate Design
and Tariff Issues
Sponsoring Party: Midwest Gas Users'
Association,
Jackson County, et. al.
Case No.: GR-98-140

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY DIVISION

FILED
MAR 17 1998
MISSOURI
PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY
CASE NO. GR-98-140

PREPARED DIRECT TESTIMONY OF
MICHAEL R. NOACK

FILED⁴

JUL 13 2004

Missouri Public
Service Commission

March 17, 1998

Exhibit No. 622
Case No(s). GR-2004-0709
Date 7/2/04 Rptr SLM

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.)

GR-98-140

AFFIDAVIT OF MICHAEL R. NOACK

STATE OF KANSAS)
) ss
COUNTY OF JOHNSON)

Michael R. Noack, of lawful age, on his oath states:
That he has reviewed the attached written testimony in question
and answer form, all to be presented in the above case, that the
answers in the attached written testimony were given by him; that
he has knowledge of the matters set forth in such answers; that
such matters are true to the best of his knowledge, information
and belief.


Michael R. Noack

Subscribed and sworn to before me this 16th day of March, 1998.


Notary Public

[SEAL]

My Commission expires: May 29, 2001

Theresa Patterson, Notary Public
Notary Seal
Jackson County, State of Missouri
My Commission Expires: May 29, 2001

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1 deposits, customer accounts supervision expense, customer
2 service expenses and sales expenses have no relationship to
3 the size of the meter or regulator and should not be allo-
4 cated using a weighting factor because those expenses are
5 not related to meter or service size.
6

7 Q. What is the source of the costs relating to gas storage
8 inventory?

9 A. MGE's gas storage inventory costs appear to represent the
10 costs that MGE claims are associated with maintaining an
11 inventory of natural gas in natural gas storage caverns that
12 are owned by others and in which MGE buys storage space. It
13 is my understanding that, under FERC Order 636, local dis-
14 tribution companies such as MGE (or its predecessor) were
15 given the opportunity to purchase supplies of natural gas in
16 storage that had been previously owned by the interstate
17 pipeline. These supplies are maintained to provide reliable
18 service to MGE's firm system supply customers, to enable MGE
19 to better manage its supply of system gas, and, in some
20 instances, to permit MGE to take advantage of short term
21 pricing opportunities in the natural gas market.
22

23 Q. How has MGE allocated costs associated with its inventory of
24 storage gas?

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1 A. MGE has allocated this cost based on the demand or capacity
2 allocation factor with the result of allocating a portion of
3 these costs to transportation customers. However, transpor-
4 tation customers purchase their own supplies of gas and have
5 the opportunity to make their own storage arrangements if
6 they desire. System supply gas in inventory is not provided
7 for transportation customers and transportation customers
8 have no right to take natural gas from MGE's storage inven-
9 tory and, were they to make such withdrawals through unau-
10 thorized overruns of their scheduled transportation volumes,
11 they would possibly incur substantial penalties. According-
12 ly, no portion of the costs associated with this inventory
13 should be assigned to the transportation customers as they
14 have no claim to service from this storage.

15
16 Q. How have you addressed this error?

17 A. To correct MGE's study, I have derived a new allocation
18 factor which allocates capacity costs to all customers with
19 the exception of the LVS or transportation customers. I
20 have used this factor to allocate the costs associated with
21 the rate base item of storage gas inventory to those classes
22 that cause these costs, that is the residential, small
23 general service and large general service classes.

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1 A. Yes I do. First of all, any method should be consistent
2 with cost incurrence by the customers. Transportation
3 customers should at a minimum be charged no more than a
4 supply system customer in a similar class. Exhibit ____
5 (Schedule MRN-1), page 1, details the customer charge and
6 commodity charge by class. An SGS customer, for example,
7 should pay no higher a customer or non-gas commodity charge
8 than an SGS sales supply customer. An SGS customer's meter
9 and regulator do not become more valuable simply because
10 that customer elects transportation, nor do they become more
11 valuable because they are aggregated together so that the
12 customer may enjoy the savings associated with natural gas
13 transportation.

14
15 Q. Do you feel as though these customers should be forced to
16 install EGM equipment at such a lofty rate of up to \$5,000
17 per meter?

18 A. No. In the Kansas City metropolitan area, MGE is the only
19 LDC forcing their customers to install EGM equipment.
20 United Cities Gas Company, which serves on the Kansas side
21 of the line, makes transportation service available to all
22 customers taking more than 3,000 Mcf per year and doesn't
23 require EGM equipment. Neither does Kansas Gas Service, the
24 new name for the former KPL/Western Resources system in

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1 Kansas that was recently acquired from Western by OneOk.
2 There are a considerable number of large industrial and
3 commercial natural gas transporters in both these utilities'
4 service areas, and both utilities appear to be able to
5 manage their systems without the need for supposed "real
6 time" usage monitoring equipment. Ironically, MGE's cost of
7 providing service to an EGM-equipped transportation customer
8 should be less, but MGE wishes to charge more.

9
10 At the minimum, it should be recognized that the \$5,000
11 expense cap reflects the cost of old technology. In 1980 an
12 entry level IBM PC cost over \$3,000. Today desktop comput-
13 ers equipped with sizeable hard disk drives and with pro-
14 cessing speeds nearly 70 times that of the original PC can
15 be purchased for less than \$800. It doesn't seem likely
16 that these technological advances and cost reductions would
17 have passed by electronic metering equipment. However, with
18 a \$5,000 cap and the ability to pass these costs directly to
19 customers, MGE has no incentive at all to aggressively
20 explore less costly technology for its customers. MGE
21 should be directed by this Commission to investigate and
22 report as to new technology in the marketplace which allows
23 companies like Ameren Corp. (formerly Union Electric and
24 CIPSCO), on its Illinois gas distribution system, to charge