

97

Exhibit No.:
Witness: Michael R. Noack
Type of Exhibit: Rebuttal 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
APR 23 1998
MISSOURI
PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY
CASE NO. GR-98-140

PREPARED REBUTTAL TESTIMONY OF
MICHAEL R. NOACK

FILED⁴
JUL 13 2004

Missouri Public
Service Commission

April 23, 1998

Exhibit No. 673
Case No(s) GR-2004-0709
Date 7/2/04 Rptr SKM

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

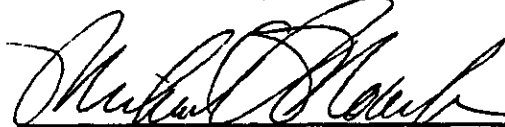
AFFIDAVIT OF MICHAEL R. NOACK

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 23rd day of April, 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

Rebuttal Testimony of
Michael R. Noack

1 Q. How does Mr. Kind accomplish allocating costs away from
2 classes to the LVS class?

3 A. Mr. Kind accomplishes this feat by choosing classification
4 and allocation methods which predominately favor the smaller
5 customers over the large user in all cases.
6

7 Q. Can you provide examples of accounts which have been incor-
8 rectly classified or allocated or both in such a manner as
9 to favor the lower load factor customers over the higher
10 load factor customers?

11 A. Yes. There are several items related to rate base accounts
12 and several which relate to expense accounts.
13

14 Q. Please address the rate base items.

15 A. The items which I believe should be corrected and the rea-
16 sons for correcting them are as follows:

- 17 • Measuring & Regulating Station Equipment-Industrial -
18 A/C 385 - Mr. Kind allocates this plant account to all
19 but residential customers.
20
- 21 • Measuring & Regulating Station Equipment-General & City
22 Gate - A/C's 378 & 379 - Mr. Kind allocates this equip-
23 ment based on total volumes delivered during the test
24 year thereby improperly allocating excessive costs to
25 the LVS class and underallocating costs to the residen-
26 tial class. Publications such as Gas Rate Fundamentals
27 sponsored by the American Gas Association and the Gas
28 Distribution Rate Design Manual prepared by the NARUC
29 Staff Subcommittee on Gas recommend treating such costs
30 as capacity costs and allocating same based on peak
31 demands because this equipment has to be sized to
32 handle the peak day deliveries.

Rebuttal Testimony of
Michael R. Noack

- 1 • Gas Inventory - Mr. Kind allocates this rate base item
2 based on total rate base excluding only gas inventory.
3 This is incorrect. The LVS class now consists of en-
4 tirely transportation customers who are responsible for
5 their own gas supply. Costs related to this asset have
6 not been caused by transportation customers and should
7 not be allocated to them.
8
- 9 • SLRP - Mr. Kind allocates this account based on a
10 combined allocator consisting of services and mains.
11 Costs related to the Service Line Replacement Program
12 should be allocated based on his service line alloca-
13 tor. The effect of his improper allocator is to shift
14 an additional \$2,000,000 of rate base to the LVS class
15 and away from the residential class.
16
- 17 • AMR/Communications Equipment - A/C 397 - This account
18 has been allocated by Mr. Kind based on total cost of
19 service. Again this is wrong. The LVS customers have
20 already purchased, at the direction of this Commission,
21 their own electronic metering equipment which is used
22 among other things to generate a monthly bill. These
23 customers also pay a monthly fee for a telephone hookup
24 to enable remote access to the collected usage and
25 billing data. The AMR equipment proposed in this case
26 is not needed to provide service to the LVS class of
27 customer nor is any additional communication equipment.
28 The LVS class should not have any of these costs allo-
29 cated to them.
30
- 31 • Rate Base Offsets - Customer Advances/Customer Deposits
32 - Customer Deposits, which are predominately residen-
33 tial, were directly assigned by Mr. Kind. Customer
34 Advances, which are predominately contributed by large
35 customers could also be directly assigned (since MGE
36 provides the residential customer with a meter, regula-
37 tor and service line), but on this cost item Mr. Kind
38 uses a services allocator which misallocates the major-
39 ity of this rate base offset to the residential class.
40

41 Q. What expense items have you identified as having been incor-
42 rectly addressed?

43 A. Again there are several.

Rebuttal Testimony of
Michael R. Noack

1 both Staff and Public Counsel in that they fail to disallow
2 all such expenses. Unless it can be shown what the source
3 of these uncollectible bills are, and it can be shown that
4 no part of these costs relate to purchased gas expenses for
5 system supply customers, the entire expense should be disal-
6 lowed.

7
8 **Q. Please comment on Staff and Public Counsel proposals**
9 **regarding Gas Inventory Costs.**

10 **A.** Natural gas inventory costs have been addressed by Staff
11 witnesses Allee and Busch. These witnesses have proposed to
12 allow portions of these costs into rates.

13
14 Transportation customers provide their own supplies of
15 natural gas, provide their own inventory and storage ar-
16 rangements as desired, and schedule their own storage cy-
17 cling if they purchase storage. They cause no part of these
18 costs and there is no basis on which any portion of these
19 costs should be charged generally to ratepayers as proposed
20 by Staff and Public Counsel. These witnesses' testimony
21 implicitly assumes that these costs are incurred to provide
22 service to transportation customers, since they do not
23 exclude these customers from their analysis nor quantify the
24 portion that they contend is necessary to support service to

Rebuttal Testimony of
Michael R. Noack

1 sales customers. Until such quantifications are recognized,
2 we disagree with the extent of the adjustments proposed by
3 Staff and Public Counsel to these items as excessive by
4 100%.

5
6 **Q. What billing determinate and related issues have been raised**
7 **by Staff or Public Counsel?**

8 A. These issues concern the number of meters that have been
9 used by both parties to calculate the revenues associated
10 with the number of LVS meters for which rates are collected.

11
12 **Q. Please explain further.**

13 A. Under MGE tariffs, customers are to be charged for meters
14 that are set for the convenience of the customer while MGE
15 absorbs (and thus other customers absorb) the costs of
16 meters that are set for the convenience of the company.
17 While both Staff and Public Counsel appear to have addressed
18 this issue in part, both have failed to recognize that there
19 are a large number of meters that appear not to be charged
20 for by MGE and thus are not reflected in revenue. As an
21 example, Public Counsel witness Hong Hu indicates that she
22 has "taken out" meters installed for MGE's convenience and
23 also identifies some 5,700 turbine or rotary meters (which
24 she associated with large customer usage) and a discrepancy