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Exhibit No.: 16  
Issue: Policy  
Witness: James Oglesby  
Exhibit Type: Surrebuttal Testimony  
Sponsoring Party: Missouri Gas Energy  
Case No.: GR-2004-0209  
Date Filed: June 14, 2004

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

SURREBUTTAL TESTIMONY

OF

JAMES OGLESBY

ON BEHALF OF MISSOURI GAS ENERGY

Jefferson City, Missouri

June 2004

**SURREBUTTAL TESTIMONY OF JAMES OGLESBY  
ON BEHALF OF  
MISSOURI GAS ENERGY**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2   A.   My name is James Oglesby.

3

4   **Q.   DID YOU SUBMIT DIRECT AND REBUTTAL TESTIMONY IN THIS**  
5       **PROCEEDING?**

6   A.   Yes.

7

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

9   A.   From my vantage point as the President and Chief Operating Officer of Missouri Gas Energy  
10       ("MGE" or "Company"), a division of Southern Union Company ("Southern Union"), I will  
11       address certain aspects of the policy testimony of Staff witness Oligschlaeger.

12

13

14   **Q.   IN YOUR DIRECT TESTIMONY, YOU STATED YOUR BELIEF THAT THE**  
15       **COMMISSION NEEDS TO TAKE A FRESH LOOK AT THE WAY IT SETS RATES**  
16       **FOR NATURAL GAS LOCAL DISTRIBUTION COMPANIES IN GENERAL, AND**  
17       **MGE IN PARTICULAR. HAS THE STAFF REBUTTAL TESTIMONY CAUSED**  
18       **YOU TO CHANGE YOUR BELIEF IN THIS REGARD?**

19   A.   No. In fact, Mr. Oligschlaeger seems to agree with the two fundamental bases of that belief,  
20       namely: 1) that MGE has been consistently unable to achieve its authorized rate of return and

1 2) that the Missouri utility regulatory process is a primary driver of MGE's consistent  
2 inability to achieve its authorized rate of return. For example, on page 12 of his rebuttal  
3 testimony, Mr. Oligschlaeger states:

4 Q. Having made these points concerning MGE's earnings analysis, do you  
5 disagree that MGE has had a tendency to underearn in its short history to  
6 date?

7  
8 A. **No. Given the fact that MGE has added much plant in service to its rate**  
9 **base in recent years, and the nature of the ratemaking process in Missouri,**  
10 **that phenomenon is exactly what would be expected to happen.**

11  
12 (emphasis supplied)

13  
14 Mr. Oligschlaeger goes on to state at page 14 of his rebuttal testimony:

15 Q. Does under-earnings by utilities due to the addition of plant in rate base point  
16 out the need for changes in the regulatory process in Missouri?

17  
18 A. **No. This type of under-earning does not represent a flaw or defect in**  
19 **Missouri's regulatory process; it is exactly how the regulatory process is**  
20 **intended to work. \* \* \***

21  
22 (emphasis supplied)

23  
24  
25 **Q. MR. OLIGSCHLAEGER SEEMS TO BELIEVE THAT MGE SHOULD SIMPLY**  
26 **FILE RATE CASES MORE FREQUENTLY. DO YOU BELIEVE THIS IS A GOOD**  
27 **SOLUTION FROM A POLICY PERSPECTIVE?**

28 A. No. We understand that as a regulated enterprise, the filing and processing of rate cases is a  
29 part of doing business. However, we also understand that our customers do not like rate  
30 increases. The filing and processing of a rate case requires a significant amount of  
31 management time and attention that could otherwise be devoted to our primary purpose,

1 which is providing gas service to our customers. In view of these considerations, therefore,  
2 MGE has used its best efforts to make its existing rates work by trying to find and implement  
3 efficiencies first before looking to the regulatory process for earnings relief.  
4

5 Perhaps more important, however, is that history—as can be seen in the surrebuttal testimony  
6 of MGE witness Noack—shows MGE’s actual earnings fall short of authorized earnings  
7 even in those years during, or immediately after, which a rate increase has been authorized.  
8 Therefore, I do not believe that filing rate cases more frequently would solve the earnings  
9 problem MGE has identified and which the Staff does not apparently dispute.  
10

11 **Q. IN YOUR DIRECT TESTIMONY, YOU REFERRED TO A NUMBER OF ITEMS AS**  
12 **“TRADITIONAL DISALLOWANCES.” DO YOU BELIEVE ANY PROGRESS HAS**  
13 **BEEN MADE IN THESE AREAS?**

14 **A.** Yes. I am pleased that an agreeable resolution of costs associated with advertising, dues and  
15 donations and the Customer and Governmental Relations department (formerly known as  
16 Community Relations and Public Affairs) has been worked out. Other items that can  
17 reasonably be categorized as “traditional disallowances”, such as costs associated with  
18 financially-based incentive compensation and certain legislative activities, remain at issue  
19 and will provide the Commission with an opportunity to re-visit the policy implications of  
20 these matters as explained by the parties’ respective witnesses.  
21

1 Other significant items referred to in my direct testimony—specifically rate design, per-  
2 customer usage and bad debts—also remain at issue and will provide the Commission with  
3 an opportunity to re-visit the policy implications of these matters as explained by the parties'  
4 respective witnesses.

5  
6 **Q. STAFF WITNESSES BERNSEN AND OLIGSCHLAEGER EXPLAIN THE STAFF'S**  
7 **OPPOSITION TO THE UPWARD RATE OF RETURN ADJUSTMENT MGE HAS**  
8 **PROPOSED ON ACCOUNT OF MANAGEMENT EFFICIENCY. HOW DO YOU**  
9 **RESPOND?**

10 **A.** The purpose of my direct testimony in this regard was not to re-hash issues long since past;  
11 obviously the Company had all available avenues to challenge whatever resolution was  
12 reached and we are not seeking to challenge those resolutions now. Rather, I was trying to  
13 use these past matters to show that negative reinforcement is a very real part of the regulatory  
14 process in Missouri and, as such, positive reinforcement like an upward rate of return  
15 adjustment should be as well.

16  
17 From a common-sense perspective, it seems only fair that the possibility of negative  
18 reinforcement should be accompanied by the possibility of positive reinforcement. Just like  
19 an employee may be subject to both the possibility of discipline as well as the possibility of  
20 above-expected compensation (whether in the form of a bonus, an extra day off, etc.), a  
21 regulated utility like MGE should have an opportunity for above-expected compensation

1       when circumstances warrant. Based on information pertaining to cost levels and service  
2       levels, I believe MGE has shown that it is deserving of above-expected compensation.  
3

4   **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5   **A.    Yes, at this time.**  
6  
7  
8  
9

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.

)  
) Case No. GR-2004-0209  
)  
)

AFFIDAVIT OF JAMES OGLESBY

STATE OF MISSOURI )

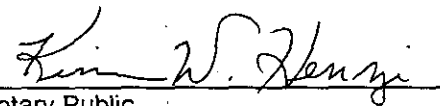
COUNTY OF JACKSON )

) ss.  
)

James Oglesby, 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.

  
JAMES OGLESBY

Subscribed and sworn to before me this 8<sup>th</sup> day of JUNE 2004.

  
Notary Public

My Commission Expires: Feb. 3, 2007

Kim W. Henzi  
Notary Public - Notary Seal  
State of Missouri  
Jackson County  
My Commission Expires Feb. 3, 2007