

Exhibit No.: 2
Issues: Accounting Authority Order
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No: GU-2011-0392
Type of Exhibit: Surrebuttal Testimony
Date: November, 2011

FILED

DEC 22 2011

MISSOURI PUBLIC SERVICE COMMISSION

Missouri Public
Service Commission

MISSOURI GAS ENERGY

CASE NO. GU-2011-0392

SURREBUTTAL TESTIMONY OF
MICHAEL R. NOACK

Jefferson City, Missouri

November, 2011

App. Exhibit No. 2
Date 11/30/11 Reporter JNB
File No. GU-2011-0392

Table of Contents

Table of Contents	2
INTRODUCTION	3
PURPOSE	3
GENERAL OBSERVATIONS	4
THE REQUEST FOR AN AAO IS AUTHORIZED UNDER APPLICABLE ACCOUNTING RULES.....	8
THE STANDARD FOR APPROVAL.....	10
PAST PRACTICE AND PRECEDENT.....	18
IMMEDIATELY FILING A GENERAL RATE CASE IS NOT A PRACTICAL OPTION ...	20
THERE IS AGREEMENT ON ONE ASPECT OF MGE'S REQUEST FOR ACCOUNTING AUTHORITY	21
PERIOD AND COMMENCEMENT OF AMORTIZATION	21

SURREBUTTAL TESTIMONY OF MICHAEL R. NOACK

CASE NO. GU-2011-0392

November, 2011

INTRODUCTION

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

2 **A. My name is Michael R. Noack and my business address is 3420 Broadway,**
3 **Kansas City, Missouri 64111.**

4

5 **Q. ARE YOU THE SAME MICHAEL R. NOACK WHO FILED PREPARED DIRECT**
6 **TESTIMONY IN THIS CASE ON OCTOBER 11, 2011?**

7 **A. I am.**

8

9 **PURPOSE**

10

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
12 **PROCEEDING?**

13 **A. The purpose of my surrebuttal testimony is to address and respond to a number**
14 **of the arguments that have been offered in the rebuttal testimony of Staff**
15 **witnesses Mark L. Oligschlaeger and Amanda C. McMellen and Office of the**
16 **Public Counsel ("OPC") witness Shawn Lafferty concerning MGE's request that it**
17 **be authorized to defer and record to the Uniform System of Accounts (USOA)**
18 **account 182.3, Other Regulatory Assets, the loss of the fixed cost recovery**

1 provided by the Company's distribution rates incurred by MGE and related to the
2 events surrounding the May 22, 2011, Joplin, Missouri tornado.
3

4 **GENERAL OBSERVATIONS**

5
6 **Q. DO YOU HAVE ANY GENERAL OBSERVATIONS ABOUT THE REBUTTAL**
7 **TESTIMONY OF STAFF WITNESS OLIGSCHLAEGER AND OPC WITNESS**
8 **LAFFERTY CONCERNING THE COMPANY'S REQUEST TO DEFER FIXED**
9 **COST RECOVERY PROVIDED BY THE COMPANY'S DISTRIBUTION**
10 **RATES?**

11 **A.** Yes. Many of the issues raised by Mr. Oligschlaeger and Mr. Lafferty go to
12 whether MGE should be allowed to recover any of the revenues that would have
13 covered fixed costs but for the consequences of the Joplin tornado. At page 19
14 of his rebuttal testimony, Staff witness Oligschlaeger urges the Commission to
15 "rule in this case **on the merits of** the Company's AAO request", apparently
16 meaning that he believes the Commission should make its decision in this case
17 based on the ratemaking consequences of the request. As such, many of the
18 topics addressed in the rebuttal testimony of Messrs. Oligschlaeger and Lafferty
19 are premature and not relevant to the issue currently before the Commission.
20

21 **Q. SPECIFICALLY, WHAT ISSUES DO YOU BELIEVE ARE BEYOND THE**
22 **SCOPE OF THIS CASE?**

23 **A.** There are a number of topics contained in rebuttal testimony of either or both Mr.
24 Lafferty and Mr. Oligschlaeger:

1 • Mr. Oligschlaeger (pages 6 – 12) contends that the Company
2 should be denied an accounting authority to defer lost fixed cost recovery
3 because he is of the view that the Company is earning a positive return on
4 equity (ROE).

5 • Mr. Oligschlaeger (page 14) and Mr. Lafferty (pages 20-21) both
6 contend that MGE has not alleged in its Application that its loss of
7 revenues that recover fixed costs have been of such a magnitude that it
8 materially impairs the Company's financial health.

9 • Mr. Oligschlaeger takes issue with MGE's estimate of the amount
10 of annual lost revenues and suggests that the amount has not been
11 adjusted to account for income tax expense. (Pages 15-16) Additionally,
12 Mr. Oligschlaeger contends that MGE's estimate has not been adjusted to
13 reflect a reduction in expenses associated with serving fewer customers.
14 (Page 17)

15 • Mr. Lafferty contends that MGE's shareholders are compensated
16 for the risk of such losses in the form of a premium on the Company's
17 ROE. (Pages 13-15)

18 • Mr. Lafferty asserts that it is difficult to track and accurately quantify
19 revenues associated with lost fixed cost recovery. (Pages 15-16)

20 All of these matters go to the question of whether MGE should be allowed to
21 recover any of its lost fixed cost recoveries and, consequently, are only properly
22 addressed if, and at such time as, MGE requests that the deferrals be recovered
23 in rates.

1

2 **Q. WHAT IS THE ISSUE THAT IS BEFORE THE COMMISSION IN THIS CASE?**

3 A. The only issue before the Commission in this case is the Company's request for
4 authority to make special accounting entries on its books, that is, to defer in
5 USOA Account 182.3 the amount of lost revenues attributable to fixed cost
6 recovery provided for in the Company's distribution rates and relating to the May
7 22, 2011 Joplin, Missouri, tornado. Subsidiary questions are when the
8 amortization of the deferral should commence and for what period of time. There
9 are no adverse consequences for MGE's ratepayers in the event the
10 Commission grants the relief requested because making the accounting entries
11 does not cause a change to customers' rates.

12

13 **Q. SHOULD THE COMMISSION ADDRESS ANY OF THE RATEMAKING**
14 **MATTERS THAT STAFF WITNESS OLIGSCHLAEGER AND OPC WITNESS**
15 **LAFFERTY HAVE INCLUDED IN THEIR REBUTTAL TESTIMONIES?**

16 A. No. To address those matters now would be improper because no rate relief is
17 being sought by MGE in this case. Were the Commission to address those
18 topics, it would be acting on incomplete information and prejudging those issues
19 before the questions, and facts necessary to decide those questions, are
20 properly presented in a general rate case. Such matters should only be
21 addressed when they can be considered along with all other relevant factors in
22 setting permanent rates on a going-forward basis. As the Commission stated in
23 1991:

1 By seeking a Commission decision the utility would be removing
2 the issue of whether the item is extraordinary from the next rate
3 case. All other issues would still remain, including, but not limited
4 to, the prudence of any expenditures, the amount of recovery, if
5 any, whether carrying costs should be recovered, and if there are
6 any offsets to recovery.¹
7

8 **Q. STAFF WITNESS OLIGSCHLAEGER STATES AT PAGE 7 OF HIS**
9 **REBUTTAL TESTIMONY THAT THE COMPANY'S REQUEST FOR**
10 **DEFERRAL AUTHORITY ASSOCIATED WITH LOST FIXED COST**
11 **RECOVERY IS "HIGHLY MISLEADING." HOW DO YOU RESPOND?**

12 **A.** The description of that revenue loss as lost fixed cost recovery is not at all
13 misleading. A customer's fixed charge is "intended to recover fixed costs"
14 according to the Commission's findings of fact in its Report and Order in Case
15 No. GR-2009-0355. Consequently, it can be stated with a high degree of
16 certainty that the revenue shortfall associated with the Company's inability to
17 collect a customer's fixed service charge caused by the interruption of service
18 due to the tornado represents an inability of the Company to recover its fixed
19 costs of operation as determined by the Commission.
20
21

¹ *Re Missouri Public Service* 1 Mo.P.S.C.3d 200, 203-204 (1991).

**THE REQUEST FOR AN AAO IS AUTHORIZED UNDER APPLICABLE
ACCOUNTING RULES**

**Q. DO YOU AGREE WITH MR. OLIGSCHLAEGER'S CLAIM AT PAGE 7 OF HIS
TESTIMONY THAT SO-CALLED "CONVENTIONAL REGULATORY
ACCOUNTING PRACTICES" SHOULD CAUSE THE COMMISSION TO DENY
THE COMPANY'S REQUEST TO DEFER LOST FIXED COST RECOVERY?**

A. No, not at all. Conventional regulatory accounting practices, as I understand them, are embodied in the USOA for gas utilities and were adopted by the Commission pursuant to its rule 4 CSR 240-40.040. MGE has filed its request in accordance with the terms of the USOA and, consequently, the relief requested is in full accordance with the regulatory accounting practices adopted by the Commission.

**Q. DO CONVENTIONAL REGULATORY ACCOUNTING PRACTICES CALL FOR
LOST REVENUES "TO BE FIRST MEASURED AGAINST THE COMPANY'S
EARNED ROE RESULTS" AS CLAIMED BY MR. OLIGSCHLAEGER?**

A. No. Account 182.3 contains no such requirement.

1 Q. AT PAGE 13 OF HIS TESTIMONY, MR. OLIGSCHLAEGER STATES THAT
2 BECAUSE LOST REVENUES DO NOT REPRESENT AN OUT-OF-POCKET
3 EXPENDITURE THAT IS A REASON TO DENY THE COMPANY'S
4 APPLICATION. HOW DO YOU RESPOND?

5 A. Mr. Oligschlaeger's argument is based on a distinction without practical meaning.
6 In the case of plant damage, a utility uses funds on hand to make repairs. In the
7 case of lost revenues, no moneys are ever received by the Company. In either
8 case, however, MGE experiences a real and substantial cost. The distinction Mr.
9 Oligschlaeger offers is merely arbitrary.

10

11 Q. DOES USOA ACCOUNT 182.3, OTHER REGULATORY ASSETS, PROVIDE
12 FOR THE COMMISSION TO AUTHORIZE DEFERRAL OF REVENUE LOSSES
13 ASSOCIATED WITH AN EXTRAORDINARY EVENT?

14 A. Yes. As explained in my direct testimony at page 14, that account provides that
15 regulatory-created assets include "charges which would have been included in
16 net income, or accumulated other comprehensive income." General Instruction
17 No. 31, which defines regulatory assets and liabilities, states that they include
18 items that "arise from specific revenues, expenses, gains, or losses."

19

20

21

1 Q. HAVE STAFF WITNESS OLIGSCHLAEGER OR OPC WITNESS LAFFERTY
2 ADDRESSED THE LANGUAGE CONTAINED IN USOA ACCOUNT 182.3 OR
3 GENERAL INSTRUCTION 31?

4 A. No. Curiously, neither the Staff witness nor the OPC witness directly address the
5 specific language of the USOA, which enumerates the items, including lost
6 revenues, that may be deferred as a regulatory asset. Significantly, neither
7 contends that the USOA prohibits an accounting deferral for lost revenues
8 associated with an extraordinary event.
9

10 THE STANDARD FOR APPROVAL

11
12 Q. WHAT IS THE STANDARD THE COMMISSION SHOULD APPLY IN
13 DETERMINING WHETHER TO GRANT THE ACCOUNTING DEFERRAL
14 AUTHORITY THE COMPANY HAS REQUESTED?

15 A. The fundamental question the Commission needs to answer is whether the event
16 – the May 2011 Joplin tornado – was extraordinary and nonrecurring. As the
17 Commission stated in 1991, “the primary focus is on the uniqueness of the event,
18 either through its occurrence or its size.”²
19
20
21
22

² *Re Missouri Public Service* 1 Mo.P.S.C.3d 200, 205 (1991).

1 Q. WAS THE JOPLIN TORNADO AN EXTRAORDINARY AND NONRECURRING
2 EVENT?

3 A. I do not believe there can be any legitimate dispute that the May 2011 Joplin
4 tornado was an extraordinary event that cannot reasonably be expected to recur
5 on a regular basis.
6

7 Q. DOES STAFF CLAIM THAT THE JOPLIN TORNADO WAS NOT AN
8 EXTRAORDINARY EVENT?

9 A. No. To the contrary, Mr. Oligschlaeger concedes that the Joplin tornado was an
10 extraordinary event or occurrence. He states on page 13 of his testimony that:

11 When a utility's service territory is affected by a **catastrophic**
12 **event such as the Joplin tornado that involves extensive**
13 **damage to utility infrastructure and large number of**
14 **customers being without utility service** the utility has the
15 obligation to expend the funds necessary to make the
16 necessary repairs to its system and restore service to
17 customers as fast as reasonably possible. (emphasis added)
18

19 Q. DOES OPC CONTEND THAT THE JOPLIN TORNADO WAS NOT AN
20 EXTRAORDINARY EVENT?

21 A. It does not appear to me that Mr. Lafferty has consistently addressed this key
22 question. On the one hand, he does not oppose the Company's request to defer
23 incremental O&M expenses and incremental capital-related costs. (Page 7) This

1 would seem to admit the fact that the tornado event was extraordinary because a
2 deferral would not otherwise be available. On the other hand, he disputes that
3 conclusion by claiming the revenues associated with lost fixed cost recovery are
4 less than 5% of annual net income. (Page 18)

5
6 **Q. DOES MR. LAFFERTY STATE THAT THE JOPLIN TORNADO WAS NOT AN**
7 **EXTRAORDINARY ITEM AS CONTEMPLATED IN THE USOA BECAUSE THE**
8 **FINANCIAL IMPACT ON MGE MAY BE LESS THAN 5% OF ITS ANNUAL NET**
9 **INCOME?**

10 **A.** That is what Mr. Lafferty suggests, but this suggestion incorrectly applies the
11 Commission's standards for determining what constitutes an extraordinary event.
12 The Commission has stated that the question of whether something is
13 extraordinary is answered by the nature of the event, not necessarily its financial
14 impact. The 5% annual net income language contained in the USOA is not a
15 "threshold" qualifier, as claimed by Mr. Lafferty, but, instead, is a standard that
16 permits a utility to treat an event as presumptively extraordinary such that
17 regulatory approval for booking the deferral is not required. In other words, had
18 the financial impact of the tornado on MGE been quantified as being equal to or
19 above 5% of its annual net income, the accounting standards contained in the
20 USOA would have allowed the Company to book the costs as a regulatory asset
21 without first seeking the Commission's approval. As Mr. Oligschlaeger correctly
22 notes at page 16 of his rebuttal testimony, the USOA does not preclude a utility
23 from deferring costs associated with an extraordinary event that has a financial

1 impact of less than 5% of annual net income. It is because the impact is
2 uncertain (i.e., How long will re-construction take? When, and to what extent, will
3 insurance claims be paid?, etc.) and may be less than the presumptive 5% level
4 that caused MGE to file its Application for accounting authority in this case.
5

6 **Q. AT PAGES 18 AND 19 OF HIS TESTIMONY, MR. LAFFERTY PURPORTS TO**
7 **QUANTIFY THE IMPACT OF LOST FIXED COST RECOVERY AS A**
8 **PERCENTAGE OF ANNUAL NET OPERATING INCOME. DO YOU AGREE**
9 **WITH HIS CALCULATIONS?**

10 **A.** No, his calculation of the impact of lost fixed cost recovery as a percentage of
11 annual net operating income is not the proper calculation. The General
12 Instructions for Extraordinary Items in the Uniform System of Accounts states
13 that "[i]t is the intent that net income shall reflect all items of profit and loss..." It
14 is net income which you measure the 5% against and not net operating income.
15 Mr. Lafferty also fails in his computation to include interest expense and other
16 non-operating income and expense in his calculation. If Mr. Lafferty had properly
17 used the imputed interest expense in his calculation, his computed percentage
18 loss would have been 4.73% instead of 2.25%. If he had included the insurance
19 deductible of \$100,000 in his calculations the percentage would have increased
20 to 5.14%, which is significant and qualifies for deferral into a regulatory asset.
21
22

1 Q. HOW DO YOU RESPOND TO STAFF WITNESS OLIGSCHLAEGER'S CLAIM
2 THAT AN ACCOUNTING AUTHORITY ORDER IS NOT APPROPRIATE IN
3 THIS CASE BECAUSE THE COMPANY, IN HIS VIEW, IS CURRENTLY
4 EARNING A POSITIVE ROE?

5 A. I have two observations. First, whether MGE is currently earning a positive ROE
6 is not the standard for granting an accounting authority under USOA Account No.
7 182.3. As noted above, the standard is whether the event causing the expenses
8 or costs is extraordinary, and there is no serious question that the Joplin tornado
9 was an extraordinary occurrence. Second, like virtually all of the cost of service
10 items recovered by way of MGE's distribution rates, the return on equity is a fixed
11 cost of providing service in that it does not vary with volumes flowed on MGE's
12 system. It is but another part of the revenue requirement formula, which is stated
13 as $RR = O + T + D + r(RB)$ where RR is revenue requirement, O is operating
14 expenses, T is taxes, D is depreciation, r is rate of return and RB is rate base.
15 The Company's ROE as part of rate of return is a separate cost of service item in
16 setting rates and is discussed as such in every general rate case. ROE was a
17 contested issue that was decided in the Company's last rate case, GR-2009-
18 0355, and the Commission made specific findings of fact and conclusions of law
19 with respect to that issue. Referring to the fact that the Company currently has
20 positive earnings – which are well below the level the Commission determined
21 was reasonable in the last rate case – as a justification for denying it the ability to
22 defer a separate cost of service item for later consideration actually denies MGE
23 a reasonable opportunity to earn its authorized return.

1
2 **Q. DOES MR. OLIGSCHLAEGER RECOGNIZE THAT A REASONABLE**
3 **OPPORTUNITY FOR MGE TO EARN ITS AUTHORIZED RATE OF RETURN IS**
4 **A REQUIRED FEATURE OF RATEMAKING?**

5 A. Yes. Mr. Oligschlaeger states at page 12 of his rebuttal testimony that "through
6 regulation, a utility should be given the opportunity to earn a reasonable return,
7 but not be guaranteed that it will earn a certain level of return." If the
8 Commission were to adopt the approach advocated by its Staff, MGE would not
9 be given a reasonable opportunity to earn its authorized rate of return because
10 the funds necessary to replace the fixed costs lost as a result of the Joplin
11 tornado would come directly from earnings. Each dollar of earnings that is used
12 to replace lost fixed costs reduces MGE's opportunity to earn a fair rate of return.
13 To put this amount in context, in MGE's most recently concluded general rate
14 proceeding (Case No. GR-2009-0355), the equity return component of MGE's
15 cost of service amounted to approximately \$24.7 million per year. Thus, the
16 estimated annual loss of fixed cost recovery along with the insurance deductible
17 of \$1,265,518 represents 5.1% of MGE's authorized equity earnings. Said
18 another way, if all of the other assumptions embedded in MGE's rates happen,
19 aside from the tornado impact, the annual loss of fixed cost recovery due to the
20 tornado will reduce MGE's actual achieved return on equity by 51 basis points.

1 Q. ALSO AT PAGE 12 OF HIS TESTIMONY, MR. OLIGSCHLAEGER STATES
2 THAT "A UTILITY SHOULD BE PRESUMED TO BE AT RISK FOR
3 DEVIATIONS IN A CUSTOMER'S USAGE." DO YOU AGREE?

4 A. Mr. Oligschlaeger's observation merely begs the central question in this case. I
5 agree that under normal, routine circumstances, fluctuations in customer usage
6 are to be expected. The point Mr. Oligschlaeger seems to ignore is that the
7 impact of the Joplin tornado was an extraordinary event and its impact on
8 customer usage in that city has also been significantly out of the ordinary. It is
9 the fact that the event and its consequences were extraordinary that has caused
10 MGE to make this filing.

11
12 Q. HOW DO YOU RESPOND TO MR. LAFFERTY'S CLAIM THAT THE
13 COMPANY IS ALREADY COMPENSATED FOR ITS LOST REVENUES BY
14 THE BUSINESS RISK PREMIUM FACTORED INTO ITS AUTHORIZED ROE?

15 A. My first observation is that the issue raised by Mr. Lafferty is a ratemaking issue
16 (i.e., whether MGE should be permitted to recover costs deferred to a regulatory
17 asset) and, as such, it is premature and not a question presented in this case.
18 Second, tornadoes have struck MGE's service territory before (for example
19 Pierce City in May 2003 and Gladstone in May 2008) but unlike the Joplin
20 tornado, they were not of a magnitude to justify MGE seeking deferral authority.
21 As to whether the business risk component of MGE's authorized ROE can be
22 said to compensate MGE for its lost fixed cost recovery, MGE is also filing the
23 surrebuttal testimony of Frank J. Hanley of AUS Consultants, MGE's cost of

1 capital witness in Case No. GR-2009-0355. Mr. Hanley will explain how an
2 anomalous and catastrophic event like the Joplin tornado is not the type of
3 business risk reasonably anticipated by investors.
4

5 **Q. AT PAGE 14 OF HIS TESTIMONY, MR. OLIGSCHLAEGER CONTENDS THAT**
6 **MGE HAS NOT CLAIMED OR SHOWN THAT ITS FINANCIAL HEALTH**
7 **WOULD BE IMPAIRED ABSENT THE ACCOUNTING AUTHORITY**
8 **REQUESTED. HOW DO YOU RESPOND?**

9 **A.** Impairment of the Company's financial health is not the standard for granting an
10 accounting authority under USOA Account No. 182.3. Financial impairment has
11 been the standard the Commission has used in the case of a request for
12 *emergency rate relief*, but the Company has not filed for emergency rate relief.
13 As noted above, the standard for an AAO is whether the event or occurrence is
14 extraordinary and all parties to this case agree that the Joplin tornado was an
15 extraordinary occurrence.
16

17 **Q. MR. LAFFERTY, AT PAGES 20-21 OF HIS TESTIMONY, PROVIDES HIS**
18 **ASSESSMENT OF WHETHER THE IMPACT OF LOST REVENUES WILL**
19 **IMPAIR MGE'S ABILITY TO ATTRACT CAPITAL. DO YOU HAVE A**
20 **RESPONSE?**

21 **A.** Yes. Presumably, Mr. Lafferty offers this assessment in support of the claim
22 that MGE has not shown that its financial health would be adversely affected
23 absent the requested deferral. As I just noted, that is not the standard for

1 creating a regulatory asset and, consequently, the matters raised by Mr. Lafferty
2 are not pertinent to the question at hand, that is, whether the Joplin tornado was
3 an extraordinary event or occurrence. Mr. Lafferty's reference to the pending
4 acquisition of Southern Union Company by Energy Transfer Equity seems
5 particularly off the mark. He does not explain how that situation makes the Joplin
6 tornado more or less extraordinary. Additionally, MGE witness Frank Hanley will
7 in his surrebuttal testimony address the specifics of Mr. Lafferty's allegations.
8

9 PAST PRACTICE AND PRECEDENT

10
11 Q. BOTH MR. OLIGSCHLAEGER AND MR. LAFFERTY ASSERT THAT MGE'S
12 REQUEST FOR LOST FIXED COST RECOVERY IS UNPRECEDENTED IN
13 THE STATE OF MISSOURI. HOW DO YOU RESPOND?

14 A. MGE's requested accounting authority may be unprecedented in the State of
15 Missouri, but this is reflective of the fact that the event that precipitated the
16 request -- the Joplin tornado -- is itself without parallel. It is not, therefore,
17 appropriate to conclude that the accounting authority requested represents
18 something beyond the pale. To the contrary, the applicable accounting standard
19 expressly accommodates such a request. Mr. Oligschlaeger's rebuttal testimony
20 illustrates the difference in the circumstances faced by MGE from those
21 previously experienced by other regulated utilities. At page 17 of his rebuttal
22 testimony, Mr. Oligschlaeger makes reference to AAOs associated with floods,
23 wind storms and ice storms. He notes that wind and ice storms may lead to a
24 greater geographical scope of outages, but concedes that those outages

1 generally last for only a relatively short period of time because the customers
2 resume taking service immediately after the distribution system is restored. In
3 this case, the tornado destroyed homes and businesses such that customers will
4 not be in a position to take service for extended periods even after MGE's system
5 is repaired and available for service restoration. The difference here is the
6 duration of the impact on the revenues collected by MGE.
7

8 **Q. MR. OLIGSCHLAEGER STATES AT PAGE 18 OF HIS TESTIMONY THAT**
9 **STAFF IS UNAWARE OF ANY PRECEDENT FROM ANY OTHER STATE FOR**
10 **THE DEFERRAL OF LOST REVENUES IN AN ANALOGOUS**
11 **CIRCUMSTANCE TO THAT OF MGE. IS THE COMPANY AWARE OF ANY**
12 **SUCH AUTHORIZED DEFERRALS?**

13 **A.** Yes, MGE is familiar with at least one such case. In 1992, Hurricane Iniki
14 destroyed approximately 32 percent of the transmission system and 30-35
15 percent of the distribution system of Citizens Utilities Company's, Kauai Electric
16 Division. The Hawaii Public Utilities Commission authorized the utility to defer
17 until its next rate case extraordinary expenses incurred, including "lost gross
18 margin", because it anticipated reduced levels of revenue collected for a number
19 of years while homes and businesses were rebuilt or restored.³
20

³ See, *Re Citizens Utilities Company*, 138 P.U.R.4th 589 (1992).

1 **IMMEDIATELY FILING A GENERAL RATE CASE IS NOT A PRACTICAL**
2 **OPTION**
3

4 **Q. MR. OLIGSCHLAEGER SUGGESTS AT PAGE 18 OF HIS TESTIMONY THAT**
5 **MGE "HAS THE OPTION OF FILING FOR GENERAL RATE RELIEF" IN LIEU**
6 **OF SEEKING AN ACCOUNTING AUTHORITY TO DEFER LOST FIXED COST**
7 **RECOVERY. DO YOU AGREE?**

8 **A. No. The actual costs associated with the Joplin tornado are still being incurred**
9 **and quantified. The Company has still not ascertained, for example, the amount**
10 **of offsetting insurance proceeds it will receive. It would be premature to file a**
11 **rate case at this time with all the unknowns and uncertainties. This is not to say,**
12 **however, that the Commission will not have an opportunity in the relatively near**
13 **future to address those impacts in a ratemaking context. The Company**
14 **anticipates that a general rate case filing is likely to occur by September 18,**
15 **2013, as required by law, to permit MGE to continue utilizing its infrastructure**
16 **system replacement surcharge. By that time, MGE and the Commission should**
17 **have a much better understanding of the expenses and costs in question.**

1 **THERE IS AGREEMENT ON ONE ASPECT OF MGE'S REQUEST FOR**
2 **ACCOUNTING AUTHORITY**
3

4 Q. IS THERE AGREEMENT THAT MGE SHOULD BE PERMITTED TO DEFER
5 AND RECORD TO ACCOUNT 182.3 INCREMENTAL O&M EXPENSES AND
6 COSTS, NET OF INSURANCE PROCEEDS?

7 A. Yes. Staff and OPC both state that this component of MGE's Application should
8 be granted.
9

10 **PERIOD AND COMMENCEMENT OF AMORTIZATION**

11
12 Q. THE COMPANY HAS REQUESTED THAT IT BE AUTHORIZED TO
13 AMORTIZE EXPENSES AND LOSSES OVER A PERIOD OF FIVE (5) YEARS
14 COMMENCING WITH THE EARLIER OF THE EFFECTIVE DATE OF RATES
15 APPROVED BY THE COMMISSION IN ITS NEXT GENERAL RATE CASE OR
16 JANUARY 1, 2013. HAVE STAFF OR OPC SUGGESTED DIFFERENT
17 AMORTIZATION OR COMMENCEMENT FEATURES?

18 A. Yes. Staff recommends a ten year amortization to begin as of January 1, 2012.
19 Mr. Lafferty supports Staff's suggested ten year amortization period but takes no
20 position on the date the amortization should commence.
21
22
23

1 Q. DO YOU AGREE WITH TEN YEAR AMORTIZATION RECOMMENDED BY
2 STAFF AND OPC?

3 A. No. MGE believes that a five year period provides for a reasonable basis for
4 accumulating such expenses and costs. As noted in the findings of the
5 Commission's recent Report and Order in Case No. ER-2011-0028, five years
6 generally has been the period chosen by the Commission for utilities to recover
7 accumulated deferred storm costs. As such, a five year period for an
8 amortization of accumulated and deferred expenses and costs associated with
9 tornado damage is the appropriate choice.

10
11 Q. IS STAFF'S RECOMMENDED TEN-YEAR AMORTIZATION CONSISTENT
12 WITH OTHER RECOMMENDATIONS IT HAS MADE CONCERNING STORM
13 DAMAGE?

14 A. No. Staff in Case No. ER-2008-0318 recommended a five-year amortization for
15 accumulated and deferred ice storm damage experienced by AmerenUE in 2007.

16
17 Q. DO YOU THINK THAT STAFF'S RECOMMENDATION THAT AMORTIZATION
18 OF TORNADO EXPENSES AND COSTS BEGIN AS OF JANUARY 1, 2012 IS
19 APPROPRIATE?

20 A. No. The Commission has previously stated that the purpose of an AAO is to give
21 the utility an opportunity to recover extraordinary expenses. The total amount of
22 the deferral will not be known as of January 1, 2012. Also, the Commission
23 rejected a similar Staff proposal in Case No. ER-2008-0318 because of its unjust

1 and unreasonable result. The Company's recommendation that it be authorized
2 to commence the amortization of involved expenses and losses at the earlier of
3 the effective date of rates approved in its next general rate case or by no later
4 than January 1, 2013 is consistent with the Commission's recent policy guidance.

5
6 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

7 **A. Yes.**
8
9
10
11
12

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Missouri Gas Energy for the)
Issuance of an Accounting Authority)
Order Relating to its Natural Gas)
Operations and for a Contingent)
Waiver of the Notice Requirement)
Of 4 CSR 240-4.020(2))

Case No. GU-2011-0392

AFFIDAVIT OF MICHAEL R. NOACK

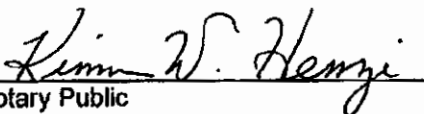
STATE OF MISSOURI)
COUNTY OF JACKSON)

ss.

Michael R. Noack, 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.


MICHAEL R. NOACK

Subscribed and sworn to before me this 15th day of November, 2011.


Notary Public

My Commission Expires: Feb. 22, 2015

