

Exhibit No.: \_\_\_\_\_  
Issue(s): Rate Base Impact of Missouri  
Natural Gas Systems Purchase/  
Acquisition Costs/  
Rate Case Expense  
Witness: Ted Robertson  
Type of Exhibit: Direct  
Sponsoring Party: Public Counsel  
Case Number: GR-2008-0060  
Date Testimony Prepared: January 18, 2008

**DIRECT TESTIMONY**  
**OF**  
**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**Missouri Gas Utility, Inc.**  
**Case No. GR-2008-0060**

January 18, 2008

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

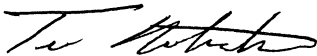
In the Matter of a General Rate Increase     )  
for Natural Gas Service Provided by         )  
Missouri Gas Utility, Inc.                     )                     Case No. GR-2008-0060

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI     )  
   )     ss  
COUNTY OF COLE     )

Ted Robertson, of lawful age and being first duly sworn, deposes and states:


1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ted Robertson, C.P.A.  
Public Utility Accountant III

Subscribed and sworn to me this 18<sup>th</sup> day of January 2008.



JERENE A. BUCKMAN  
My Commission Expires  
August 10, 2009  
Cole County  
Commission #05754036

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My commission expires August 10, 2009.

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**DIRECT TESTIMONY  
OF  
TED ROBERTSON**

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**MISSOURI GAS UTILITY, INC.  
CASE NO. GR-2008-0060**

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**I. INTRODUCTION**

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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21

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

22  
23

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

24  
25  
26

A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as a Public Utility Accountant III.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W. Trippensee, I am responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated in May, 1988, from Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November of 1988, I passed the Uniform Certified Public Accountant Examination and I obtained

1 Certified Public Accountant (CPA) certification from the state of Missouri in 1989.

2 My CPA license number is 2004012798.

3  
4 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC  
5 UTILITY ACCOUNTING?

6 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel  
7 since July 1990, I have attended the NARUC Annual Regulatory Studies  
8 Program at Michigan State University, and I have also participated in numerous  
9 training seminars relating to this specific area of accounting study.

10  
11 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC  
12 SERVICE COMMISSION (COMMISSION OR MPSC)?

13 A. Yes, I have testified on numerous issues before this Commission. Please refer  
14 to the attached Schedule TJR-1 for a listing of cases in which I have submitted  
15 testimony.

16  
17 **II. PURPOSE OF TESTIMONY**

18 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

19 A. I am sponsoring the Public Counsel's position regarding the rate base impact of  
20 the natural gas systems Missouri Gas Utility, Inc. (MGU or Company) purchased

1 from the Cities of Hamilton and Gallatin in Missouri, acquisition costs Company  
2 deferred pursuant to the natural gas system purchases and rate case expense.  
3

4 **III. RATE BASE IMPACT OF MISSOURI NATURAL GAS SYSTEMS PURCHASE**

5 Q. WHAT IS THE ISSUE?

6 A. The issue concerns the rate base impact of the Missouri-based natural gas systems  
7 purchased by MGU.  
8

9 Q. HOW MUCH DID MGU PAY FOR THE NATURAL GAS SYSTEMS?

10 A. According to the Company's response to OPC Data Request No. 1010, which  
11 provide the purchase and sale agreements for the natural gas systems, the City of  
12 Gallatin natural gas system was sold by the Bank of New York (acting as agent on  
13 behalf of the holders of the certificates of participation, i.e., the sellers) to Missouri  
14 Gas Utility, Inc. on or about November 4, 2004. The sale price for this natural gas  
15 system was \$1,400,000. While the City of Hamilton natural gas system was sold by  
16 UMB Bank, N.A. and the City of Hamilton to Missouri Gas Utility, Inc. on or about  
17 November 10, 2004. The sale price for this natural gas system was \$500,000. The  
18 total purchase price for the two natural gas systems was \$1,900,000.  
19

20 Q. WHAT IS THE VALUE OF THE PLANT THAT MISSOURI GAS UTILITIES WANTS  
21 TO EVENTUALLY INCLUDE IN RATE BASE?

1 A. The Company proposes to eventually include in plant a total of \$5,576,439.  
2 Company alleges that the \$5,576,439 is the estimated depreciated original cost for  
3 the two systems at acquisition (source: Kent Taylor Direct Testimony, Schedule  
4 KDT-4, sheet 6 of 8). Company's proposal would increase regulated plant by  
5 \$3,676,439 more than the Company actually paid to purchase the natural gas  
6 systems (i.e., \$5,576,439 minus the \$1,900,000 purchase price equals  
7 \$3,676,439).

8

9 Q. HAS THE ACTUAL COST OF THE NATURAL GAS SYSTEMS PRIOR TO THE  
10 PURCHASE EVER BEEN SUBSTANTIATED ACCORDING TO STANDARDS  
11 UTILIZED BY THE COMMISSION?

12 A. No. Company responses to various OPC data requests have provided some  
13 information regarding its construction and usage, but the plant was constructed for  
14 two municipalities which were apparently not able to provide the Company with  
15 much detail regarding its booked costs. To my knowledge, Company does not have  
16 in its possession any audit documents or continuing property records which would  
17 verify that the costs the municipalities booked met the standards of prudence and  
18 reasonableness that this Commission requires of its regulated utilities.

19

20 Q. HAS THE COMMISSION AUTHORIZED THE UTILITY TO INCLUDE IN RATE  
21 BASE ANY PLANT VALUE IN EXCESS OF THE ACTUAL PURCHASE PRICE?

1 A. No. In MGU Case No. GO-2005-0120 the Commission ordered procedures  
2 whereby the utility would segregate the booking of plant costs between amounts  
3 actually invested by MGU and amounts that MGU asserts were transferred  
4 through the purchase agreement. Any party is free to take any position  
5 whatsoever in subsequent MGU rate proceedings regarding ratemaking  
6 treatment of the amounts booked by MGU to the Plant in Service account and  
7 other accounts that may be used by MGU for this purpose. This language is  
8 substantiated on page five of the Case No. GO-2005-0120 *Stipulation and*  
9 *Agreement.*

10  
11 MGU shall keep its books and records in such a manner that its plant in  
12 service balances can be segregated between amounts actually invested  
13 by MGU and amounts that MGU asserts were transferred through the  
14 purchase agreement. This accounting requirement shall include the  
15 performance by MGU of an allocation of the purchase price paid by MGU  
16 for these properties between the individual plant in service accounts  
17 incorporated within the Uniform System of Accounts. MGU and the Staff  
18 shall meet within 30 days of the effective date of the Order approving this  
19 Stipulation And Agreement to discuss MGU's process of allocating the  
20 purchase price to the plant in service accounts.

21  
22 MGU shall maintain in its books and records the details regarding  
23 contributions, if any, previously provided by customers and the Cities, and  
24 the manner in which these contributions were treated on the transferred  
25 books and records of the Cities, if available. MGU shall maintain all of the  
26 records supporting the original investment of the cities reflected in the  
27 transferred balances from the Cities and the details supporting the  
28 capitalization treatment of these amounts, to the extent available.

29  
30 The booking of plant costs defined herein is specified for accounting  
31 purposes only. Any party to this Stipulation and Agreement is free to take



1                   any position whatsoever in subsequent MGU rate proceedings regarding  
2                   ratemaking treatment of the amounts booked by MGU to the Plant in  
3                   Service account and other accounts that may be used by MGU for this  
4                   purpose.

5  
6                   (Emphasis added by OPC.)  
7  
8

9   Q.    DID THE COMMISSION ALSO DEFINE CRITERIA WHEREBY THE VALUE OF  
10        THE ORIGINAL COST ASSERTED BY COMPANY COULD BE  
11        SUBSTANTIATED AND INCLUDED IN RATE BASE?

12   A.    Yes.  Again, on page five of the Case No. GO-2005-0120 *Stipulation and*  
13        *Agreement*, it states:

14  
15                   10.   Plant in Service.

16  
17                   There has been no determination made of whether the original cost  
18                   of the Gallatin and Hamilton gas systems, as reflected on the books  
19                   and records of Gallatin and Hamilton, was derived from prudent  
20                   and reasonable expenditures, or quantified in a manner consistent  
21                   with the Uniform System of Accounts.  Accordingly, MGU's plant in  
22                   service accounts will be initially valued on MGU's books in a  
23                   manner deemed by MGU's management and external auditor as  
24                   appropriate under these circumstances.  For any plant item  
25                   transferred to MGU for which MGU seeks inclusion in rate base in  
26                   future rate proceedings at a value in excess of the amount reflected  
27                   in the purchase price for these properties, it shall be MGU's burden  
28                   to demonstrate that these costs were prudently and reasonably  
29                   incurred, and otherwise appropriate for inclusion the establishment  
30                   of just and reasonable rates.

31  
32                   (Emphasis added by OPC.)  
33  
34

1           The Commission's Order requires that the utility, in order to include any excess  
2           above the purchase price in rate base, must, 1) demonstrate that the costs were  
3           prudently and reasonably incurred, 2) are appropriate for inclusion in the  
4           establishment of just and reasonable rates.

5  
6   Q.   HAS THE COMPANY DEMONSTRATED THAT THE MUNICIPALITIES  
7       BOOKED COST FOR THE NATURAL GAS SYSTEMS WAS DERIVED FROM  
8       PRUDENT AND REASONABLY INCURRED EXPENDITURES?

9   A.   No, it did not. As I mentioned earlier, OPC knows of no audit documentation that  
10       substantiates that the alleged costs were prudent and reasonable expenditures.  
11       OPC Data Request No. 1024 requested if Company received all continuing  
12       property records maintained according to the level of detail and documentation  
13       required by MPSC rules and regulations. Company's response to OPC Data  
14       Request No. 1024 states:

15  
16               No.  
17  
18

19       Company also stated that it was preparing a detailed response to OPC DR 1023  
20       which would detail the actual property records received from the former Gallatin  
21       and Hamilton municipal systems.  
22

1 Q. DID THE COMPANY'S RESPONSE TO OPC DATA REQUEST NO. 1023  
2 PROVIDE THE DETAILED PROPERTY RECORDS AS PROMISED?

3 A. No. The response provided only one document described as the bond  
4 disbursement transaction history for the City of Gallatin. The document itself is  
5 titled as the *Boatman's Trust Company Account Transaction History for 01/01/92*  
6 *To 02/28/98*. It appears to be a history of nothing more than cash receipts and  
7 disbursements with the trust company; of course, it is not the detailed continuing  
8 property records requested. Furthermore, nothing at all was provided in the  
9 response to substantiate the City of Hamilton's costs.

10  
11 Q. HAS THE COMPANY PROVEN THAT THE ORIGINAL COST OF THE  
12 GALLATIN AND HAMILTON GAS SYSTEMS ARE APPROPRIATE FOR  
13 INCLUSION IN THE ESTABLISHMENT OF JUST AND REASONABLE RATES?

14 A. No. Neither of the municipalities were subject to the requirements of the Federal  
15 Energy Regulatory Commission (FERC) Uniform System Of Accounts (USOA).  
16 In fact just the opposite is true. Company's response to OPC Data Request No.  
17 1032 provided information that states both of the entities are governmental units  
18 that are required to adhere to standards for governmental accounting and  
19 financial reporting principals set by the Governmental Accounting Standards  
20 Board not the FERC.

21

1 Q. IS IT CORRECT THAT THE MUNICIPALITIES WERE NOT THE ACTUAL  
2 OWNERS OF THE NATURAL GAS SYSTEMS?

3 A. The financial structure for both of the natural gas systems consisted of a capital  
4 lease with a purchase option. Because the leases were capital leases the  
5 municipalities recorded the plant in their financial records as a capital asset;  
6 however, only the City of Hamilton held title to any of the property and that was  
7 only for as long as it satisfied the requirement of its lease. The City of Gallatin  
8 plant was titled to the lessor. Had the Cities satisfied their lease obligations fully,  
9 the purchase option of the lease would have occurred and full title would have  
10 passed or remained with the individual municipality.

11  
12 Q. WHO WERE THE LESSORS OF THE NATURAL GAS PROPERTIES?

13 A Company's response to OPC Data Request No. 1025 provided information that  
14 states the lease for the City of Hamilton natural gas system was with UMB Bank  
15 N.A., a national banking association while the lease for the City of Gallatin  
16 natural gas system was with Municipal Financial Group, Inc., a Missouri  
17 corporation which owned the certificates of participation which evidenced the  
18 interests in the rental payments to be made by the lessee. The original owner of  
19 the certificates of participation is listed as Sutro & Co. Incorporated, Denver,  
20 Colorado.

21

1 Q. WHAT IS THE VALUE OF ORIGINAL COST PLANT THAT MGU SHOULD BE  
2 REQUIRED TO BOOK FOR ITS PURCHASE OF THE TWO NATURAL GAS  
3 SYSTEMS?

4 A. It is Public Counsel's belief that the actual purchase price MGU paid for the  
5 natural gas systems is the only cost that should be booked as the plant's original  
6 cost. Our position is supported by the FERC USOA Gas Plant Instructions 1(C),  
7 which states:

8  
9 The detailed gas plant accounts (301 to 399, inclusive) shall be  
10 stated on the basis of cost to the utility of plant constructed by it  
11 and the original cost, estimated if not known, of plant acquired as  
12 an operating unit or system. The difference between the original  
13 cost as above, and the cost to the utility of gas plant after giving  
14 effect to any accumulated provision for depreciation, depletion, or  
15 amortization shall be recorded in account 114, Gas Plant  
16 Acquisition Adjustments. The original cost of gas plant shall be  
17 determined by analysis of the utility's records or those of the  
18 predecessor or vendor companies with respect to gas plant  
19 previously acquired as operating units or systems and the  
20 differences between the original cost so determined, less  
21 accumulated provisions for depreciation, depletion and  
22 amortization, and the cost to the utility, with necessary adjustments  
23 for retirements from the date of acquisition, shall be entered in  
24 account 114, Gas Plant Acquisition Adjustments. Any difference  
25 between the cost of gas plant and its book cost, when not properly  
26 includable in other accounts, shall be recorded in account 116,  
27 Other Gas Plant Adjustments.

28  
29 (Emphasis added by OPC.)  
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32 Furthermore, FERC Gas Plant Instructions 2 states:

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Gas plant to be recorded at cost. A. All amounts included in the accounts for gas plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, shall be stated at the cost incurred by the person who first devoted the property to utility service.

(Emphasis added by OPC.)

And, the FERC definition for the word "utility" is:

40. Utility, as used herein and when not otherwise indicated in the context, means any natural gas company to which this system of accounts is applicable.

(Emphasis add by OPC.)

Q. WERE ANY OF THE LESSORS, OR THE MUNICIPALITIES, A "UTILITY" AS DEFINED BY THE FERC USOA?

A. No. The lessors were either banks or corporations that held investments in the Missouri natural gas systems. They were not utilities. Also, neither of the Cities were rate regulated enterprises. Both were municipalities which operated gas systems without oversight by an independent rate setting regulatory body such as the MPSC.

1 Q. WERE ANY OF THE LESSORS, OR THE MUNICIPALITIES, REQUIRED TO  
2 FOLLOW FERC USOA REQUIREMENTS?

3 A. No. None of the lessors nor the municipalities are regulated natural gas utilities;  
4 thus, they were not subject to the jurisdiction of the FERC.

5  
6 Q. HOW IS PROPERTY PURCHASED FROM A NON-REGULATED ENTERPRISE  
7 TREATED FOR REGULATED RATEMAKING PURPOSES?

8 A. Purchases of property from non-utility enterprises is recorded at the actual  
9 purchase price paid. In such instances, neither a premium nor negative  
10 acquisition adjustment is booked. This position is corroborated by the  
11 ratemaking reference book, Hahne and Aliff, *Accounting for Public Utilities*, 4-13:

12  
13 The basis for disallowing rate base treatment of acquisition  
14 adjustments is the assumption that the rate base should include  
15 only the net original cost to the utility first devoting the property to  
16 public use. In cases where used property is purchased from  
17 nonutility sellers, there is no acquisition adjustment, since the  
18 property has not previously been utilized in providing utility  
19 services. In these cases, net original cost is the purchase price  
20 paid by the acquiring utility. A question that has occasionally been  
21 raised concerns the purchase of used property from another utility  
22 (rate regulated enterprise) not involved in the same utility operation  
23 and therefore subject to a different scheme of regulation. While  
24 this issue has not been raised often, it appears that in most cases  
25 the general rule is interpreted broadly to encompass the first  
26 regulated enterprise of any type devoting plant to public service.

27  
28 (Emphasis added by OPC.)  
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What the cited language states is that a non-regulated lessor or municipality is not a utility. In fact, the first utility to devote these natural gas systems to public service was MGU. Therefore, the plant associated with the natural gas systems should be valued at no more than MGU's actual investment.

Q. WOULD IT BE APPROPRIATE TO ALLOW MGU TO BOOK THE PURCHASED PLANT AT A COST GREATER THAN ITS ACTUAL INVESTMENT?

A. No. Both the FERC and authoritative ratemaking guidance define that plant should be booked at the original cost of the first utility (regulated enterprise) devoting the plant to public service. In this instance, MGU is the first regulated enterprise because none of the lessors or lessees (the municipalities) which invested in and maintained the water system up to the date of the transfer were regulated entities.

Q. WILL MGU BE HARMED BY A COMMISSION DECISION THAT REQUIRES THE BOOKED PLANT COST SHALL NOT EXCEED THE ACTUAL PURCHASE PRICE?

A. No. The municipalities had other options which they could have taken rather than the outright sale of the systems; however, to MGU's benefit, they chose to sell the systems at a price discounted below the values defined in their



1            respective leases. The Gallatin and Hamilton natural gas systems were relatively  
2            new systems which the municipalities wanted to unload, not because of any  
3            major physical problems, but, rather simply, because they were undersubscribed  
4            and a money loser for the municipalities. The sale and transfer was of benefit to  
5            both the municipalities and MGU. MGU benefited by receiving ownership of the  
6            natural gas systems at a price which it must have considered to be an  
7            economically viable cost while the municipalities were relieved of the leases and  
8            yet continued to receive the services of the natural gas systems with professional  
9            management provided by an entity with better operational knowledge and  
10           resources. Furthermore, it is absolutely clear that the plant costs the  
11           municipalities incurred, whatever they were, was not the purchase price that  
12           MGU paid for the natural gas systems. MGU will in no way be harmed because  
13           it still gets the opportunity to earn a return on its actual investment in the natural  
14           gas systems.

15  
16 Q.       PLEASE SUMMARIZE THE PUBLIC COUNSEL'S RECOMMENDATION FOR  
17           THIS ISSUE.

18 A.       Public Counsel believes that a non-regulated entity when purchased by a private  
19           individual or entity, that is a regulated public utility, should be valued at the lesser  
20           of market or original investment cost. This policy is no more than an application  
21           of generally applicable ratemaking principles long followed by this Commission

1 for assets purchased from non-utilities. The principle requires that after the  
2 transfer, a utility's rate base must be valued at the lower of either depreciated  
3 original cost or purchase price. Since, in this case, the original cost and the  
4 purchase price are the same, MGU should only be allowed to earn on its actual  
5 investment.

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9 **IV. ACQUISITION COSTS**

10 Q. HAS MGU BOOKED ACQUISITION COSTS ASSOCIATED WITH ITS  
11 PURCHASE OF THE MISSOURI OPERATIONS?

12 A. Yes. The Company has deferred acquisition costs, legal costs and various other  
13 operating type costs in USOA Account #186 as "Startup Costs."

14  
15 Q. HAS THE COMMISSION AUTHORIZED THE COMPANY TO RECOVER  
16 ACQUISITION COSTS FROM MISSOURI RATEPAYERS?

17 A. No. However, on page five of the Stipulation and Agreement attached as *Appendix*  
18 *1* to Commission's *Order Approving Stipulation And Agreement* in MGU Case No.  
19 GO-2005-0120 it states:

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21 9. Acquisition Costs

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- a. MGU will capitalize on its books the transaction costs associated with the Gallatin and Hamilton transaction, and upon closing of the transaction will begin amortizing the transaction costs over a 20-year period. This treatment shall be for accounting purposes only. Any party to this stipulation is free to take any position whatsoever in MGU's first general rate case regarding recovery of transaction costs. MGU recognizes that it may not obtain recovery of transaction costs and that the issue will be determined in its first general rate case.
- b. CNG Holdings will maintain its books and records so that all merger and acquisition costs (including the transaction costs associated with the instant application, as well as any future CNG Holdings merger and acquisition transactions) are segregated and recorded separately.
- c. During MGU's next general rate proceeding, CNG Holdings will disclose to the Staff, Public Counsel, and other interested parties, subject to a Commission protective order, all costs associated with mergers and acquisitions recorded in CNG Holding's books and records in the appropriate test year.

Q. PLEASE DESCRIBE THE STARTUP COSTS RECORDED IN MGU'S BOOKS OF RECORD.

A. Pursuant to the Stipulation and Agreement authorized in MGU Case No. GO-2005-0120, Company deferred to USOA Account #186 various costs and began amortizing them to expense on or about the time the Missouri franchise was authorized. The total cost deferred is \$136,918.39, and as of September 30, 2007, the total amount deferred that has actually been amortized to expense is

1           \$17,866.92. The expense amortization was booked to USOA Account #928 (Note:  
2           a small portion of the amount originally expensed was later re-capitalized to plant in  
3           service and is being depreciated). Thus, the total remaining unamortized deferred  
4           costs is \$119,051.08.

5  
6   Q.   DOES PUBLIC COUNSEL KNOW WHAT IMPACTS THE AMORTIZATION  
7       EXPENSE THAT WAS LATER RE-CAPITALIZED HAS HAD ON PLANT IN  
8       SERVICE, DEPRECIATION EXPENSE, ACCUMULATED DEPRECIATION AND  
9       DEFERRED INCOME TAX?

10   A.   Yes. Company's response to OPC DR No. 1052 Revised shows that the impacts  
11       are immaterial.

12  
13   Q.   WHAT IS PUBLIC COUNSEL'S RATEMAKING RECOMMENDATION FOR THE  
14       STARTUP COSTS COMPANY BOOKED?

15   A.   It is my recommendation that all the startup costs be disallowed.

16  
17   Q.   WHY HAS PUBLIC COUNSEL TAKEN THE POSITION THAT THE ACQUISITION  
18       COSTS SHOULD BE DISALLOWED?

19   A.   Public Counsel's audit provided information that the costs are basically of three  
20       types, 1) transaction costs related to the acquisition of the Missouri operations by  
21       MGU, 2) legal costs which never should have been deferred, and 3) a relatively

1 immaterial amount of miscellaneous operating/organization costs which never  
2 should have been deferred.

3  
4 Q. WHAT ARE TRANSACTION COSTS AND WHY SHOULD THEY BE  
5 DISALLOWED?

6 A. Transaction costs are essentially costs incurred by a buyer in order to  
7 consummate a merger and/or purchase, e.g., employee-related costs, legal fees,  
8 consulting fees, accounting fees, etc. Such costs are normally disallowed in the  
9 ratemaking process because they are incurred primarily to benefit shareholders  
10 of the acquiring entity. Had the management of CNG Holdings not been seeking  
11 to increase the value of shareholder's respective ownership interests, the  
12 purchase would not have occurred and its related transaction costs would not be  
13 an issue.

14  
15 Q. HAS THIS COMMISSION EVER ALLOWED A MISSOURI UTILITY TO  
16 RECOVER TRANSACTION COSTS IN RATES?

17 A. The Commission, to my knowledge, has never authorized the recovery of merger  
18 or acquisition transaction costs in rates; however, it has stated, in prior cases,  
19 that if a commensurate level of costs savings result from the merger and/or  
20 purchase, and they can be verified, it may allow a utility ratemaking recovery.

1 Q. HAS THE COMPANY IDENTIFIED A COMMENSURATE LEVEL OF COST  
2 SAVINGS WITHIN THE MISSOURI OPERATIONS?

3 A. No. Company's response to MPSC Staff Data Request No. 26.1 which  
4 requested all cost savings Company was able to achieve or realize as a result of  
5 the MGU acquisition states:

6  
7 In review of the Gallatin and Hamilton annual audits, MGU is  
8 unable to ascertain the actual operating costs of the two natural gas  
9 systems prior to the acquisition. While the audits do include  
10 income statements for the natural gas system, these do not have  
11 any allocated costs from the regular city operations, which did  
12 occur: both systems used city facilities and equipment, and the  
13 natural gas billings were bundled with the billings for the other  
14 municipal services. Therefore, MGU is unable to quantify  
15 differences in costs between the municipal operations prior to the  
16 acquisition and the company operations after the acquisition.

17  
18 (Emphasis added by OPC.)  
19  
20

21 Q. PLEASE DESCRIBE THE LEGAL COSTS COMPANY DEFERRED?

22 A. Company deferred, as startup costs, \$16,590.28 in fees for normal legal services  
23 provided to it subsequent to the Commission's authorization for it to acquire and  
24 operate the Missouri gas properties. The legal fees which were incurred during the  
25 period May 2005 through February 2006 were not for activities surrounding the  
26 purchase of the Missouri gas properties or the Company's purchase application with  
27 the Commission, but for essentially unrelated later activities and cases. These

1 costs should never have been deferred, they should have been expensed in the  
2 year incurred.

3

4 Q. WERE THE LEGAL COSTS INCURRED IN A PERIOD OUTSIDE OF THE  
5 CURRENT CASE TEST YEAR AND UPDATE PERIOD?

6 A. Yes.

7

8 Q. PLEASE DESCRIBE THE OTHER OPERATING COSTS COMPANY DEFERRED?

9 A. Approximately 6.85% of the costs Company deferred as startup costs ( i.e.,  
10 \$9,376.08) consist of various operating and/or organization expense activities  
11 normally incurred by all regulated costs on an ongoing annual basis. These costs  
12 too should have been expensed in the year incurred.

13

14 Q. WERE THESE OTHER OPERATING COSTS ALSO INCURRED IN A PERIOD  
15 OUTSIDE OF THE CURRENT CASE TEST YEAR AND UPDATE PERIOD?

16 A. Yes.

17

18 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE.

19 A. It is the Public Counsel's recommendation that all startup cost booked by the  
20 Company be disallowed from the ratemaking determinations of the current and all  
21 future rate cases. OPC's rationale for proposing this disallowance is that the startup

1 costs consist of, 1) transaction costs related to the purchase of the Missouri gas  
2 operations by MGU. MGU incurred the costs primarily to benefit its shareholders  
3 and it has not provided any evidence supporting an increased level of cost  
4 efficiencies in the Missouri regulated gas operations that would justify its recovery  
5 from ratepayers, and 2) normal ongoing legal and other operating costs which  
6 should have been expensed in the actual year incurred.  
7

8 **V. RATE CASE EXPENSE**

9 Q. HAS PUBLIC COUNSEL REVIEWED THE COMPANY'S RATE CASE EXPENSE?

10 A. Yes. Recognizing that this is the Company's first general rate increase case in  
11 Missouri, as of September 2007, it has booked consulting, legal and other  
12 miscellaneous costs of approximately \$65,004.13. The \$65,004.13 includes two  
13 adjustments made by Public Counsel, 1) to include a \$633.75 legal charge that was  
14 improperly excluded, and 2) to remove a \$331.50 duplicate legal charge. Amortized  
15 over three years, as requested by the Company, the annualized amortization  
16 expense is approximately \$21,668.  
17

18 Q. DOES PUBLIC COUNSEL EXPECT THAT THE ANNUAL RATE CASE EXPENSE  
19 IDENTIFIED IN THE PREVIOUS QUESTION & ANSWER WILL BE FURTHER  
20 ADJUSTED?



1 A. Yes. Even though the known and measurable period for this rate case ends on  
2 September 30, 2007, the Commission has consistently authorized Missouri  
3 regulated utilities to recover reasonable and prudent rate case expenses incurred  
4 through the duration of a rate case. Public Counsel will continue to audit the  
5 Company's additional rate case costs, as they are incurred, and will modify its  
6 recommendation to include those that are determined to be reasonable and  
7 prudent.

8

9 Q. DOES PUBLIC COUNSEL RECOMMEND RATE BASE TREATMENT FOR ANY  
10 UNAMORTIZED RATE CASE EXPENSE?

11 A. No. Rate base represents a capital investment; whereas, the costs in this issue are  
12 expense-related and are subject to much discretion regarding their incurrence or not  
13 by the utility's managers.

14

15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes, it does.

17

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<b><u>Company Name</u></b>	<b><u>Case No.</u></b>
Missouri Gas Energy	GM-2003-0238
Aquila Inc.	EF-2003-0465
Aquila Inc.	ER-2004-0034
Empire District Electric Company	ER-2004-0570
Aquila Inc.	EO-2005-0156
Aquila, Inc.	ER-2005-0436
Hickory Hills Water & Sewer Company	WR-2006-0250
Empire District Electric Company	ER-2006-0315
Central Jefferson County Utilities	WC-2007-0038
Missouri Gas Energy	GR-2006-0422
Central Jefferson County Utilities	SO-2007-0071
Aquila, Inc.	ER-2007-0004
Laclede Gas Company	GR-2007-0208
Kansas City Power & Light Company	ER-2007-0291
Missouri Gas Utility, Inc.	GR-2008-0060