

Exhibit No.:
Issue: AAO Amortization
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
File No: GU-2011-0392
Date Testimony Prepared: November 1, 2011

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DEPARTMENT

REBUTTAL TESTIMONY

OF

AMANDA C. MCMELLEN

**MISSOURI GAS ENERGY,
A Division of Southern Union Company**

FILE NO. GU-2011-0392

*Jefferson City, Missouri
November 2011*

REBUTTAL TESTIMONY

OF

AMANDA C. MCMELLEN

MISSOURI GAS ENERGY,
A Division of Southern Union Company

FILE NO. GU-2011-0392

Q. Please state your name and business address.

A. Amanda C. McMellen, Governor Office Building, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Please describe your educational and employment background.

A. I graduated from DeVry Institute of Technology in June 1998 with a Bachelor of Science degree in Accounting. I commenced employment with the Commission Staff (“Staff”) in June 1999.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission (“Commission”).

Q. Have you previously contributed to a Recommendation to the Commission concerning the Application of Missouri Gas Energy (MGE or “Company”), a division of Southern Union Company, for an Accounting Authority Order (AAO) in this proceeding?

A. Yes.

Q. Have you previously filed testimony before this Commission?

A. Yes, please refer to Schedule 1, attached to this rebuttal testimony, for a list of the audits on which I have assisted and filed testimony.

1 Q. Have you examined the books and records of MGE regarding its request for an
2 AAO?

3 A. Yes, in conjunction with other members of the Staff.

4 Q. What is the purpose of your rebuttal testimony?

5 A. I respond to the direct testimony of MGE witness Michael R. Noack regarding
6 the amortization treatment for any AAO issued by the Commission in this proceeding.

7 Q. Is any other Staff witness submitting rebuttal testimony in this case?

8 A. Yes. Staff witness Mark L. Oligschlaeger of the Auditing Unit is submitting
9 rebuttal testimony concerning MGE's request to defer what it refers to as "lost fixed cost
10 recovery" as part of the AAO.

11 **ACCOUNTING AUTHORITY ORDER AMORTIZATION**

12 Q. Does Staff recommend the Commission grant any parts of MGE's request?

13 A. Yes. Staff recommends that the Commission enter an order giving MGE
14 authority to defer actual incremental operation and maintenance (O&M) expenses associated
15 with repair and restoration activities associated with the May 22, 2011, tornado.¹ My
16 testimony concerns Staff's disagreement with how MGE has requested to amortize the dollars
17 deferred.

18 Q. Please explain how Staff's recommendation regarding the amortization
19 treatment differs from MGE's request.

¹ Staff's Recommendation to Approve MGE's Application in Part and Deny in Part, page 8.

1 A. There are two issues between Staff and MGE related to the amortization of the
2 AAO: (1) the appropriate amortization period to use, and (2) the start date of that amortization
3 period.

4 Concerning the length of the period, MGE requests the AAO be amortized over a
5 five-year period while Staff recommends a ten-year amortization period.

6 Concerning when the Company should start amortizing the costs related to the AAO to
7 its income statement, MGE requests that the amortization period begin “with the effective
8 date of the rates approved by the Commission in the first rate case following Case No.
9 GR-2009-0355 or no later than January 1, 2013,” as stated in the direct testimony of MGE
10 witness Mr. Noack on page 17, lines 13 through 15. The Staff recommends that MGE begin
11 amortizing the AAO costs as of January 1, 2012.

12 Q. Why is Staff recommending a longer amortization period than MGE has
13 requested?

14 A. It is appropriate to amortize O&M expense related AAO deferrals over five
15 years and capital-cost-related AAO deferrals over the expected life of the capital assets
16 (typically, a twenty-year amortization period). Because MGE’s AAO request in this instance
17 is both expense-related and capital-related, it is not appropriate to recover the capital costs
18 over the severely truncated life of five years. A ten-year amortization period is more
19 appropriate in this instance than the five-year period requested by MGE because some of
20 MGE’s deferral is related to long-lived capital assets.

21 Q. Why does Staff recommend beginning the amortization period sooner than
22 MGE has requested?

1 A. It is appropriate to begin to recognize O&M expenses and capital costs on the
2 books of a regulated utility close in time to when those costs and expenses are incurred.
3 While authorization to defer these costs allows MGE to spread these extraordinary costs over
4 several years, it is not an appropriate use of AAOs to allow utilities to avoid recognizing any
5 of the costs associated with the extraordinary event for an extended period of time. The
6 earlier start date for the beginning of the amortization period avoids an unnecessary delay in
7 recognizing the cost of the tornado for financial reporting purposes. Finally, amortizing the
8 AAO on a timely basis will result in MGE appropriately considering the deferral
9 amortization, along with all other elements of its cost of service, in its analysis of the
10 adequacy of its rates in the future.

11 Q. What are the reasons Staff does not agree with MGE that the amortization
12 should begin with the effective date of the approved rates in the next rate case, as it suggests
13 in this case?

14 A. There are two reasons why Staff disagrees with MGE's recommendation on
15 this matter. The first reason that it is not appropriate for utilities to time the booking of their
16 expenses to exactly match the rate recovery of the expense. MGE's "normal" expenses are
17 charged to its income statement as incurred, and that approach is in no way tied to the timing
18 of the rate recovery afforded these costs, if any. The "extraordinary" nature of the tornado
19 costs does not justify artificially synchronizing the booking of these expenses with receipt of
20 the associated rate revenues, either. A delay in beginning the deferral amortization until the
21 effective date of rates of a utility's next general rate filing, which may be several years into
22 the future, is a type of regulatory accounting "gamesmanship" designed to allow the utility the
23 opportunity to maximize its rate recovery of the item in question.

1 The other reason that the beginning of the amortization period should not be delayed
2 is to prevent almost certain over recovery of these costs. While the Company is requesting
3 not to begin the amortization on their books until they can recover the costs in rates, they have
4 no reason to be as diligent in timing the next rate case so that its rates might be
5 proportionately reduced when the amortization expires. If rates are increased at the same time
6 the amortization begins but are not decreased by the time the amortization expires, then the
7 Company will be practically guaranteed an over-recovery of these costs. Staff's position is
8 that neither the beginning or ending point of an AAO amortization needs to be synchronized
9 with rate actions by the Commission.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

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)

File No. GU-2011-0392

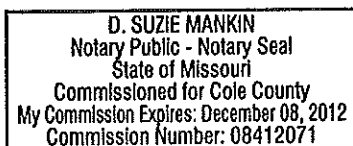
AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Amanda C. McMellen

Subscribed and sworn to before me this 1st day of November, 2011.




Notary Public

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|--|-----------------|--|
| Osage Water Company | SR-2000-556 | Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense |
| Osage Water Company | WR-2000-557 | Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense |
| Empire District Electric Company | ER-2001-299 | Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions |
| UtiliCorp United, Inc./ d/b/a Missouri Public Service | ER-2001-672 | Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses |
| BPS Telephone Company | TC-2002-1076 | Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses |

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|--|-----------------|--|
| Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P | ER-2004-0034 | Revenue Annualizations Uncollectibles |
| Fidelity Telephone Company | IR-2004-0272 | Revenue Revenue Related Expenses |
| Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P | ER-2005-0436 | Revenue Annualizations Uncollectibles |
| Empire District Electric Company | ER-2006-0315 | Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes |
| Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P | ER-2007-0004 | Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance |
| Empire District Electric Company | ER-2008-0093 | Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations |

Amanda C. McMellen

SUMMARY OF RATE CASE TESTIMONY FILED

| <u>COMPANY</u> | <u>CASE NO.</u> | <u>ISSUES</u> |
|--|-----------------|--|
| Missouri Gas Energy, a Division of Southern Union Company | GR-2009-0355 | Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortization Expense Interest expense on customer Deposits Rents and Leases |
| Missouri-American Water Company | WR-2010-0131 | Staff Report Cost of Service Corporate and District Allocations Lobbying Costs Net Negative Salvage Amortization of Regulatory Assets Belleville Lab Expenses Comprehensive Planning Study Payroll Payroll Taxes |
| Kansas City Power & Light Company | ER-2010-0355 | Staff Report Cost of Service Revenues-Customer Growth In-Field Service Fees Gross Receipts Taxes Forfeited Discounts Other Revenues Credit Card Acceptance Program Bad Debts |
| KCP&L Greater Missouri Operations Company | ER-2010-0356 | Staff Report Cost of Service Revenues-Customer Growth Other Revenues Credit Card Acceptance Program Bad Debts |
| Empire District Electric Company | ER-2011-0004 | Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Pensions & OPEBs Customer Programs Amortizations Carrying Costs Revenue Annualizations |