| | |
|---|---|
| *Exhibit No.:* | |
| *Issue:* | *Accounting Authority Order* |
| *Witness:* | *Charles R. Hyneman* |
| *Sponsoring Party:* | *MoPSC Staff* |
| *Type of Exhibit:* | *Surrebuttal Testimony* |
| *Case No.:* | *GU-2005-0095* |
| *Date Testimony Prepared:* | *February 15, 2005* |

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

# SURREBUTTAL TESTIMONY

# OF

# CHARLES R. HYNEMAN

**MISSOURI GAS ENERGY**

**CASE NO. GU-2005-0095**

*Jefferson City, Missouri*
*February 2005*

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of the Application of Missouri )
Gas Energy, a division of Southern Union Company,) Case No. GU-2005-0095
for an Accounting Authority Order Concerning the )
Kansas Property Tax for Gas in Storage. )

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI )
) ss.
COUNTY OF COLE )

Charles R. Hyneman, being of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 17 pages to be presented in the above case; that the answers in the following 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.

Charl R. Hyneman

Charles R. Hyneman

Subscribed and sworn to before me this 14th day of February 2005.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D Suzie Mankin

Notary

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**SURREBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

**MISSOURI GAS ENERGY**

**CASE NO. GU-2005-0095**

Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels State Office Building, Room G8, 615 East 13th Street, Kansas City, Missouri 64106.

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

A. I am employed by the Missouri Public Service Commission (Commission) as a Regulatory Auditor.

Q. Are you the same Charles R. Hyneman who filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to respond to certain comments in the rebuttal testimonies of Missouri Gas Energy (MGE) witness Michael R. Noack and the Office of the Public Counsel (OPC) witness Kimberly K. Bolin.

My concerns with Mr. Noack's rebuttal testimony relate to the start date of the amortization of MGE's deferred property taxes (deferrals) if the Commission grants MGE an Accounting Authority Order (AAO) in this case. My concerns with Ms. Bolin's testimony relate to the determination of whether or not the first-time levying of property taxes by the

State of Kansas on MGE meets the Commission's criteria to be classified as an extraordinary event.

In addition to addressing the rebuttal testimonies of MGE witness Noack and OPC witness Bolin, this testimony will also provide the Commission's Staff's (Staff) recommendation that the Commission allow MGE to defer up to a maximum of two years of property tax deferrals. The specific expenses to be deferred would be for the actual property taxes paid for the years 2004 and 2005.

Q. Please explain why the Staff is recommending that MGE be allowed to defer up to two years of property tax deferrals.

A. The extraordinary event, the first time imposition of property taxes by the state of Kansas, took place in 2004. In 2004 this event could be classified as extraordinary as it was unusual and nonrecurring and it lead to significant costs imposed on MGE. These costs were not typical of MGE's ongoing and customary business expenses.

However, after a period of time, a new cost loses its extraordinary nature and becomes a normal recurring cost. The Staff feels that two years is a sufficient period of time for these costs to be classified as extraordinary. It is also a sufficient period of time for MGE's management to adjust to the new expense and either absorb the new expense with existing revenues or to file for a rate increase. MGE can file for a rate increase if existing revenues are not sufficient to recover these ongoing expenses (assuming that the Kansas law giving rise to these taxes is upheld) and earn a reasonable rate of return on invested capital.

**<u>REBUTTAL OF MGE WITNESS NOACK</u>**

Q. Please describe the difference between the Staff's position and MGE's position as it relates to the start date of the amortization period.

A. The Staff recommends that the Commission order MGE to begin to amortize the deferred property tax expenses (deferrals) in the month following a final judicial resolution of the legality of the Kansas tax. This event, according to MGE, could reasonably be expected to occur some time in the summer of 2006.

Ideally, for several reasons that will be described later in this testimony, the Staff believes that immediate amortization (starting the amortization the month following the deferral or upon the issuance of an AAO) of a contingent asset deferred under an AAO is preferable to any delay in the start of the amortization. The Staff's position is based not only on the Commission's current policy on AAOs, but is also consistent with regulatory accounting principles that are designed to achieve fairness and equity to both MGE's shareholders and customers.

However, because MGE is contesting the legality of these costs and it is not known for certain that MGE will actually incur these costs, the Staff believes it is more appropriate to delay the start date of the amortization until the final legal determination is made.

MGE's position, however, is an admitted attempt to directly recover in rates, at a minimum, every dollar of property tax deferred under this AAO. This position would not only result in inappropriate regulatory treatment of these deferrals, but because it is a position that is concerned only with the ratemaking treatment of these costs, it is borderline as to whether this position should even be considered by the Commission in an AAO proceeding.

This position as described at page 2 of Noack's rebuttal testimony, is that the property tax deferrals remain untouched on MGE's balance sheet and not amortized to expense until they are fully and directly included in rates in MGE's next rate case. MGE also proposes that if it does not file a rate case by May 2008, it will cease deferring the property tax expenses and begin the amortization at that time. In essence, MGE proposes that it be allowed to "stockpile" the deferrals on its balance sheet for four years and five months before commencing the amortization to expense to make sure that it will recover at least 100 percent of its deferrals by direct rate recovery.

Q. As a point of clarification of the Staff's proposal, under accepted regulatory accounting theory, would MGE be considered to be recovering the property tax deferral once it begins to amortize the deferral to expense, even outside of a rate case?

A. Yes. There are two forms of rate recovery, indirect rate recovery and direct rate recovery. When rates are set in a rate case, it is assumed that the new level of revenues will be sufficient to cover a utility's total cost of service. This assumption may hold true even if certain costs increase above the level currently reflected in rates, as such increases can be offset either by increased revenues from customer growth or favorable weather conditions, or decreases in other expenses from events such as technological changes or employee efficiency.

When MGE begins to amortize this AAO deferral to expense outside of a rate case, it will be assumed that it is recovering this expense in the revenues generated from its customers. This ratemaking concept is referred to as indirect rate recovery. If for some reason MGE's rates do not allow it to recover its entire cost if service, including the AAO amortization, and its return on equity is below what it considers reasonable, it can choose to file a rate case to directly recover the property tax deferrals in rates. This would be an example of direct rate recovery.

Q. Please provide an example where an extraordinary cost deferred under an AAO granted by this Commission was considered to be fully recovered by the utility through indirect rate recovery.

A. An example of indirect rate recovery is the AAO granted to Kansas City Power & Light Company (KCPL) for extraordinary ice-storm damage in Case No. EU-2002-1048. In that Case, KCPL sought the authority to defer its extraordinary cost and begin to amortize this deferral over five years on the day it received the Commission AAO. KCPL has never filed a rate case seeking direct rate recovery of these deferred expenses. KCPL is assumed to be recovering these deferred expenses through existing rates.

Q. Other than what is described in Mr. Noack's rebuttal testimony, did MGE provide to the Staff a description of the basis for its position on the start of the amortization period?

A. Yes. The following is MGE's response to Staff Data Request No. (DR No.) 3 in this case:

> Question 1. Please describe the amortization period and the amortization start date that MGE is seeking in this case.
>
> Response 1. MGE is seeking an order which would start the amortization period at the time rates from the next rate case go into effect.
>
> Questions 2. If MGE is seeking to delay the amortization of this deferral until the next rate case, please provide all rationale and justification for this treatment. Include in this rationale how MGE proposes to treat the revenues associated with this amortization (if included in a rate case) if the amortization period ends outside of a rate case.
>
> Response 2. MGE feels that this is an extraordinary expense that if realized, should be charged to rate payers. The only way to accurately accomplish this is to defer until the next rate case and then include the amortization in rates. Using a 60 month amortization period would

> adequately insulate ratepayers from overpaying for the amortization expense based on MGE`s past history of rate case frequency.

Q. Please comment on MGE's response to this data request.

A. This response either fails to recognize the existence of the concept of indirect rate recovery or asserts that indirect rate recovery is not acceptable to MGE. MGE's proposal requires a delay in the amortization of the deferral to ensure that the first month amortization is included in rates; however, it relies on its past history of filing rate cases as ratepayer protection that the deferral will not be over-recovered in rates.

Under MGE's proposal it maintains total control over the ratemaking phenomenon knows as regulatory lag as it applies to this one expense. It is seeking control over the start of the amortization period so that it coincides with its next rate case and it is seeking control over the end of the amortization period, so that it can ensure that it recovers, at a minimum, 100 percent of the deferrals through direct rate recovery. As will be discussed later, regulatory lag is a ratemaking phenomenon that is only fair if it is not manipulated in favor of one party over another.

Q. What has been MGE's history of filing rate cases?

A. For its last three cases, MGE has filed for a rate increase every three years.

Q. Excluding for one moment the propriety of tying the start of the amortization period to a rate case, has the Staff performed an analysis of MGE's assertion in response to Staff DR No. 3 that ratepayers will be "protected" under MGE's proposal?

A. Yes it has.

Q. What is the result of the Staff's analysis?

A. There will be no ratepayer protection, only the potential for ratepayer detriment.

Q. Please explain.

A. Assuming that MGE files for a rate case every three years, and assuming MGE is allowed to defer 2004 Kansas property tax expense in the amount of $1,700,000 amortized over 60 months, if direct rate recovery is allowed at the start of the amortization period, MGE could recover a total of $2,039,991, for an over-recovery of $339,991.

Q. How could this happen?

A. MGE would file its next rate case, Rate Case 1 in November 2006 and the amortization of the deferrals will be included in rates that become effective in September 2007. MGE will file Rate Case 2 in November of 2009 and continue to include the amortization in rates. MGE will file Rate Case 3 in November 2012 and since the deferrals would have been fully amortized, the rates from Rate Case 3 that will go into effect in September 2013 will not include the deferral. The deferrals will be included in rates from September 2007 through August 2013, for a total of 72 months or six years. This example is shown as Schedule 1, attached to this surrebuttal testimony. As shown in this Schedule, under its proposal, it is very possible for MGE to directly recover in rates an amount significantly in excess of the original deferral.

Q. Under the Staff's recommendation on the start of the amortization period, is it also possible for MGE to recover directly in rates more than the original deferral?

A. Yes. The amount directly recovered in rates would depend on MGE's timing of future rate cases, which should be a function of MGE's future earnings. Under the Staff's proposal, recovery of an amount in excess of the original deferral is not necessarily a bad thing. It would not be a bad thing if it occurred solely as a function of the timing of rate cases and not through a manipulation of regulatory lag in an AAO proceeding.

Q. Explain the foundation and basis of the Staff's opposition to MGE's proposal on the start date of the deferral amortization period.

A. The basis of the Staff's opposition to MGE's proposal can be found primarily in the Commission's two seminal Orders on AAOs. These two Orders outline and discuss the standards the Commission has used and continues to use in its determination of whether or not to grant an AAO. These Orders are: 1) the Report and Order in Case Nos. EO-91-358 and EO-91-360 (consolidated), Missouri Public Service (MPS) (Sibley Order); and 2) the Report and Order on Remand in Case No. WO-2002-273, Missouri American Water Company (Missouri American Order).

The Sibley Order set out the standards of deferrals for AAOs that the Commission has followed for several years. The Missouri-American Order reaffirmed the standards of deferral of the Sibley Order.

Q. Please compare the Staff's and MGE's proposal on the start date of the amortization period in terms of compliance with accounting and ratemaking principles and fairness to both MGE's customers and stockholders.

A. The Staff's position is superior in terms compliance with accounting and ratemaking principles and fairness to both MGE's customers and stockholders for the following reasons:

1. MGE's proposal ignores the matching principle and intergenerational equity. The Staff's position, to the extent possible, is consistent with both principles.

2. MGE's proposal would result in an unbalanced and unfair manipulation of regulatory lag. The Staff does not attempt to manipulate regulatory lag.

3. MGE's proposal to stockpile costs for several years creates the potential for a significant write-off and charge to earnings that would be detrimental to MGE's shareholders. The Staff's position greatly reduces the chance of a significant asset write-off.

4. MGE's proposal to defer costs far into the future does not consider events that are likely to have caused significant expense decreases in the current period. These expense decreases have the potential to offset most if not all of MGE's annual deferral amortization expense.

5. After a couple of years, the Kansas property tax will become a normal recurring expense and lose its extraordinary nature. MGE's proposal would allow for a continuation of the deferral of this specific expense for up to 4.5 years, long after it becomes a normal and recurring operating expense.

Q. Please explain the accounting principle known as the "matching principle" and a ratemaking application of this principle known as "intergenerational equity."

A. In the Missouri American Order, the Commission described intergenerational equity and its application to the matching principle as follows:

> The AAO is one of the Commission's chief regulatory tools for implementing another aspect of the Matching Principle. As discussed above, one aspect of the Matching Principle is to match revenues and expenses with the period in which they were incurred. However, under another aspect of the Matching Principle, "ratepayers are charged with the costs of producing the service they receive." The purpose is to match costs with benefits so that the ratepayers that enjoy the benefits of utility property also bear the costs thereof.
>
> An example is the replacement of water mains by a water company. The mains will last for 80-100 years, while the costs of the replacement – in the absence of an AAO – will be booked in the period during which they are incurred. In other words, present customers would bear all of the costs of the replacements, while the benefits would be enjoyed by future generations of customers over the full life of the mains. In that case, an AAO could be used to permit the costs of the main replacements to be spread over the estimated life of the new mains, so that every customer that uses them would pay some portion of their cost. This application of the Matching Principle is referred to as "inter-generational equity."

Q. How is the Staff's proposal more consistent with the matching principle and intergenerational equity?

A. MGE's payment of 2004 and 2005 property taxes to the State of Kansas allows it to acquire the natural gas to provide distribution service to its Missouri customers today-not five years into the future. This property tax expense that is incurred in the provision of utility service should be charged against revenues provided by the ratepayers who are currently receiving utility service. The Staff's recommended start date for the deferral amortization allows for the recognition of an expense as close as possible to the period the expense was incurred in the provision of utility service.

Q. How is MGE's proposal inconsistent with the matching principle and intergenerational equity?

A. MGE clearly admits that its proposal is concerned only with rate recovery. MGE does not express any consideration of the matching principle and intergenerational equity. MGE's proposal would delay charging to expense any portion of a cost that was incurred in the provision of 2004 and 2005 utility service until as late as the year 2008. This will cause MGE's customers in 2008 and beyond to pay for costs that would have ordinarily been borne by customers in 2004. The Staff's position would match the expense incurred in 2004 and 2005 with revenues collected from customers as soon as possible. As explained earlier, ideally under the matching principle and intergenerational equity, this matching (amortization) would take place immediately.

The Staff recognizes that the matching principle cannot be strictly applied in an AAO case. Also, the regulatory accounting procedures allowed under an AAO will not result in 100 percent intergenerational equity. The goal is to come as close as possible consistent with other legitimate concerns. The Staff believes its position best accomplishes this goal.

Q. How did the Commission handle the issue of intergenerational equity in the Missouri American Order?

A. The Commission's concern about intergenerational equity was the basis of the Commission's decision to accept the Staff's proposed amortization period in that case. In the Missouri American Order, both Missouri American and the Staff proposed immediate amortization of the deferrals. The Commission agreed with Missouri-American that, if amortization is to begin immediately, then the Commission must specify an amortization period. The Commission adopted the Staff's suggestion of a ten-year amortization period, because the costs would be amortized over a period more nearly contemporaneous with the time the ratepayers receive the benefit of the expenditures being amortized.

Q. Please explain how MGE's proposal would result in an unfair manipulation of regulatory lag.

A. Regulatory lag can be defined as the amount of time between 1) the date an event occurs and 2) the date the expenses (or revenues) caused by the event is directly included in rates. One of the benefits of regulatory lag is that, unless it is manipulated, it is not partial to shareholders or ratepayers. In this case, MGE is attempting to manipulate regulatory lag by delaying the amortization of the deferrals until its next rate case as opposed to starting the amortization in the period that the costs were incurred to provide utility service. MGE is manipulating regulatory lag in an attempt to secure direct rate recovery of at least 100 percent of its AAO deferral by avoiding any recognition of indirect rate recovery.

Q. Does MGE inherently have more control over regulatory lag than MGE's customers?

A. Yes. MGE can exercise significant control over the benefits of regulatory lag through the timing of its rate cases. Assuming an immediate amortization of the AAO deferral, if the annual charge to expense of this AAO deferral is truly a burden to MGE, giving consideration to the potential offsetting factors of decreases in expenses and increases in revenues, then it could time the filing of rate cases to ensure that it recovers all, or significantly all of the deferral through direct rate recovery.

Q. In previous cases where the Commission did not order an immediate amortization of the costs deferred under an AAO, did it employ another mechanism to balance the effects of regulatory lag?

A. Yes. The cases in which the Commission did not order an immediate amortization were mostly cases that involved capital expenditures, such as MGE's service line replacement program (SLRP), and MPS' cost to rebuild its Sibley Generation Station. In the Sibley Order which was decided on December 20, 1991, the Commission allowed for the deferral of costs to begin on January 1, 1992, but in order for MPS to have an opportunity to seek recovery of these costs, it had to file a rate case no later than December 31, 1992. The Commission stated that:

> If there is no rate case pending at that time the Commission will assume MPS is earning a reasonable return on its investment and will not allow recovery in any rate case filed after December 31, 1992.

Q. Please explain the Staff's third reason for opposing MGE's amortization proposal, that MGE's stockpiling of costs for 4.5 years creates the potential for a significant write-off and charge to earnings.

A. MGE's proposal to stockpile the yearly property tax deferrals from 2004 through May 2008 could result in a total deferral of approximately \$7.7 million dollars (annual charge of \$1.7 million times 4.5 years). If the Commission allowed MGE to continue to defer these expenses up to its next rate case and in the next rate case the Commission decided for whatever reason not to allow rate recovery of the deferrals, MGE would have to write-off the entire $7.7 million, which is a significant charge to earnings for a company the size of MGE.

The size of this write-off alone will add undue pressure on the Commission to take some action to avoid, or at the least soften the blow of such a significant write-off. This pressure would be undue because the proper way of handling this issue would be to begin the amortization at the earliest possible date. This action would avoid the stockpiling of deferrals that create the potential for a significant write-off.

Q. Has the Commission discussed this exact issue you are addressing in one of its policy orders?

A. Yes. The Commission addressed this issue in the Sibley Order:

> The Commission finds that a time limitation on deferrals is reasonable since deferrals cannot be allowed to continue indefinitely. The Commission finds that a rate case must be filed within a reasonable time after the deferral period for recovery of the deferral to be considered. For purposes of this case, the Commission finds that twelve months is a reasonable period.
>
> This limitation accomplishes two goals. First, it prevents the continued accumulation of deferred costs so that total disallowance would not affect the financial integrity of the company or the Commission's ability to make the disallowance, and secondly, it ensures the Commission a review of those costs within a reasonable time.
>
> If the costs are truly extraordinary, recovery in rates should not be delayed indefinitely. A utility should not be allowed to save deferrals to offset against excess earnings in some future period.

Q. Please explain the Staff's fourth reason for opposing MGE's amortization proposal, that MGE's proposal fails to consider offsetting revenue increases or expense decreases that are likely to occur.

A. As a result of Southern Union's recent pipeline acquisition, it is very likely that MGE is currently experiencing a significantly lower level of corporate allocated overhead expenses than was included in rates in its most recent rate case, Case No. GR-2004-0209.

In Case No. GR-2001-292, MGE sought rate recovery of approximately $6.9 million in corporate allocated overhead costs from its parent company, Southern Union Company (Southern Union) (Stipulation and Agreement in Case No. GM-2003-0238). Between Case No. GR-2001-292 and MGE's subsequent rate case, Case No. GR-2004-0209, Southern Union purchased Panhandle Eastern Pipeline Company (Panhandle). The incorporation of Panhandle into Southern Union's cost structure resulted in a major shift in corporate overhead costs away from MGE and Southern Union's other utility divisions to Panhandle.

In Case No. GR-2004-0209, MGE sought rate recovery of approximately $2.5 million of corporate allocated overhead costs (Noack Corrected True-up testimony, Schedule 8) compared to $6.9 million just three years earlier. While some of this cost reduction was offset by increases in MGE's direct costs due to MGE providing services that were previously performed by Southern Union's corporate office, it was clear that the acquisition of Panhandle resulted in a significant reduction in corporate overhead costs allocable to MGE.

Q. Why was there such a significant decrease in costs charged from Southern Union to MGE as a result of the Panhandle acquisition?

A. Southern Union's corporate officer salaries are allocated to its divisions based on relative levels of investment, revenue and expenses of the operating divisions. Because Panhandle was three times the size of MGE in terms of investment, revenue and expenses, it picked up a big share of costs that were previously charged to MGE.

Q. Why you expect a further significant reduction in the level of overhead costs allocated from Southern Union to MGE?

A. Subsequent to MGE's last rate case, Case No. GR-2004-0209, Southern Union and a partner acquired another large pipeline company, CrossCountry Energy, LLC (CrossCountry). This acquisition was completed on November 17, 2004, for $2.45 billion. It is likely that incorporating CrossCountry into Southern Union's corporate cost allocation system will result in another significant reduction in corporate overhead costs to MGE.

Q. What impact does Southern Union's acquisition of CrossCountry have on MGE's regulatory lag with respect to corporate overhead costs?

A. Because of regulatory lag this potentially significant cost decrease will accrue 100 percent to MGE's shareholders until MGE's actual level of corporate overhead costs are included in rates in MGE's next rate case. This is a normal application of regulatory lag, which just happens to benefit MGE's shareholders. There is no manipulation involved and as such, it is fair to both shareholders and ratepayers.

Q. Is it possible that this one potentially significant cost decrease to MGE could offset all or a significant part of an amortization to expense of its annual Kansas property tax?

A. Yes. It is not only possible it is very likely.

Q. Please explain the Staff's final reason for opposing MGE's proposed amortization method, that after a couple of years, the Kansas property tax will become a normal recurring expense and lose its extraordinary nature.

A. This reason is pretty self-explanatory. After a couple of years, a cost that recurs annually, by definition, cannot be an extraordinary cost. Assuming this tax is not overturned in the courts in the first place, the cost of the property taxes will no longer be unusual and nonrecurring. Therefore, stockpiling this cost, year after year, as proposed by MGE would not constitute deferral of an extraordinary expense, but rather would be an inappropriate deferral of a normal recurring cost that should no longer be eligible for deferral under an AAO.

Q. Has the Commission in the past ordered and/or supported an immediate amortization of a deferred extraordinary cost?

A. Yes. The Commission has ordered the amortization of costs deferred under an AAO to begin prior to the next utility rate case in several AAOs. Some of these include Case Nos. WO-2002-273 (Missouri-American Water Company), EU 2002-1048 (KCPL), EO-94-149 (Empire), EO-95-193 (SJLP) and EU-2002-1053 (Aquila).

**<u>REBUTTAL OF OPC WITNESS BOLIN</u>**

Q. At page 3 of her rebuttal testimony, OPC witness Bolin states that MGE's application is premature in that MGE has not yet paid the property taxes. Does the Staff agree that MGE's application is premature?

A. No. The primary benefit of an AAO to a utility is the avoidance of a material charge to earnings in the year the extraordinary event occurs. MGE should be afforded this benefit by deferring the extraordinary expenses that it otherwise would have had to charge to earnings in 2004. The Staff would be more concerned if the final determination of the legality of these taxes had not been made prior to MGE seeking direct rate recovery of the deferrals. At that point the issue of whether the taxes would actually have to be paid would become more relevant. As it stands now, the Commission granting an AAO, prior to the final legal determination, can do no harm to either MGE's customers or its shareholders.

Q. At page 6 of her rebuttal testimony, OPC witness Bolin disagrees with the Staff's position that the first time imposition of a property tax by the state of Kansas on MGE is an extraordinary event. Please comment.

A. The problem with Ms. Bolin's testimony is her description of the event. She describes the event at line 21 of her rebuttal testimony, as just an increase in a cost (property taxes) of providing service. This is not the case. In the past, MGE has only paid property taxes to the state of Missouri. It has never paid property taxes to the state of Kansas. This imposition of a brand new tax, significant and material in amount, by a foreign state is a unique, unusual and nonrecurring event that meets the Commission's criteria to be classified as an extraordinary event.

Q. At page 11 of her rebuttal testimony, OPC witness Bolin describes the matching principle and states that an AAO allows for the violation of the matching principle. Do you agree?

A. Strictly speaking, yes. However, what is important in a regulatory proceeding such as this is not necessarily the strict application of the matching principle, but the application of the matching principle to the greatest extent possible consistent with other equally important regulatory concerns. In my opinion, the granting of relief to a utility when it incurs an extraordinary event that leads to significant and material costs is more important than a strict application of the matching principle. However, as I described above, the matching principle and its closely related principle of intergenerational equity in setting rates is very important and also should be applied to the greatest extent possible.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Missouri Gas Energy
Case No. GU-2005-0095

| Month | Year | Per Books Unamortized Deferral | Per Books Monthly Amortization | Rate Case Status | Direct Rate Recovery |
|---|---|---|---|---|---|
| | | | | | |
| 3 | 2005 | $1,700,000 | $0 | **Commission grant AAO** | |
| 4 | 2005 | $1,700,000 | $0 | | |
| 5 | 2005 | $1,700,000 | $0 | | |
| 6 | 2005 | $1,700,000 | $0 | | |
| 7 | 2005 | $1,700,000 | $0 | | |
| 8 | 2005 | $1,700,000 | $0 | | |
| 9 | 2005 | $1,700,000 | $0 | | |
| 10 | 2005 | $1,700,000 | $0 | | |
| 11 | 2005 | $1,700,000 | $0 | | |
| 12 | 2005 | $1,700,000 | $0 | | |
| 1 | 2006 | $1,700,000 | $0 | | |
| 2 | 2006 | $1,700,000 | $0 | | |
| 3 | 2006 | $1,700,000 | $0 | | |
| 4 | 2006 | $1,700,000 | $0 | | |
| 5 | 2006 | $1,700,000 | $0 | | |
| 6 | 2006 | $1,700,000 | $0 | | |
| 7 | 2006 | $1,700,000 | $0 | | |
| 8 | 2006 | $1,700,000 | $0 | | |
| 9 | 2006 | $1,700,000 | $0 | | |
| 10 | 2006 | $1,700,000 | $0 | | |
| 11 | 2006 | $1,700,000 | $0 | **MGE Files Rate Case 1** | |
| 12 | 2006 | $1,700,000 | $0 | | |
| 1 | 2007 | $1,700,000 | $0 | | |
| 2 | 2007 | $1,700,000 | $0 | | |
| 3 | 2007 | $1,700,000 | $0 | | |
| 4 | 2007 | $1,700,000 | $0 | | |
| 5 | 2007 | $1,700,000 | $0 | | |
| 6 | 2007 | $1,700,000 | $0 | | |
| 7 | 2007 | $1,700,000 | $0 | | |
| 8 | 2007 | $1,700,000 | $0 | | |
| **9** | **2007** | **$1,700,000** | **$28,333** | **Rates--Case 1 in effect** | **$28,333** |
| 10 | 2007 | $1,671,667 | $28,333 | | $28,333 |
| 11 | 2007 | $1,643,333 | $28,333 | | $28,333 |
| 12 | 2007 | $1,615,000 | $28,333 | | $28,333 |
| 1 | 2008 | $1,586,667 | $28,333 | | $28,333 |
| 2 | 2008 | $1,558,333 | $28,333 | | $28,333 |
| 3 | 2008 | $1,530,000 | $28,333 | | $28,333 |
| 4 | 2008 | $1,501,667 | $28,333 | | $28,333 |
| 5 | 2008 | $1,473,333 | $28,333 | | $28,333 |
| 6 | 2008 | $1,445,000 | $28,333 | | $28,333 |
| 7 | 2008 | $1,416,667 | $28,333 | | $28,333 |
| 8 | 2008 | $1,388,333 | $28,333 | | $28,333 |
| 9 | 2008 | $1,360,000 | $28,333 | | $28,333 |
| 10 | 2008 | $1,331,667 | $28,333 | | $28,333 |
| 11 | 2008 | $1,303,333 | $28,333 | | $28,333 |
| 12 | 2008 | $1,275,000 | $28,333 | | $28,333 |
| 1 | 2009 | $1,246,667 | $28,333 | | $28,333 |
| 2 | 2009 | $1,218,333 | $28,333 | | $28,333 |
| 3 | 2009 | $1,190,000 | $28,333 | | $28,333 |
| 4 | 2009 | $1,161,667 | $28,333 | | $28,333 |
| 5 | 2009 | $1,133,333 | $28,333 | | $28,333 |

| | | | | | |
|---|---|---|---|---|---|
| 6 | 2009 | $1,105,000 | $28,333 | | $28,333 |
| 7 | 2009 | $1,076,667 | $28,333 | | $28,333 |
| 8 | 2009 | $1,048,333 | $28,333 | | $28,333 |
| 9 | 2009 | $1,020,000 | $28,333 | | $28,333 |
| 10 | 2009 | $991,667 | $28,333 | | $28,333 |
| **11** | **2009** | **$963,333** | **$28,333** | **MGE Files Rate Case 2** | **$28,333** |
| 12 | 2009 | $935,000 | $28,333 | | $28,333 |
| 1 | 2010 | $906,667 | $28,333 | | $28,333 |
| 2 | 2010 | $878,333 | $28,333 | | $28,333 |
| 3 | 2010 | $850,000 | $28,333 | | $28,333 |
| 4 | 2010 | $821,667 | $28,333 | | $28,333 |
| 5 | 2010 | $793,333 | $28,333 | | $28,333 |
| 6 | 2010 | $765,000 | $28,333 | | $28,333 |
| 7 | 2010 | $736,667 | $28,333 | | $28,333 |
| 8 | 2010 | $708,333 | $28,333 | | $28,333 |
| **9** | **2010** | **$680,000** | **$28,333** | **Rates--Case 2 in effect** | **$28,333** |
| 10 | 2010 | $651,667 | $28,333 | | $28,333 |
| 11 | 2010 | $623,333 | $28,333 | | $28,333 |
| 12 | 2010 | $595,000 | $28,333 | | $28,333 |
| 1 | 2011 | $566,667 | $28,333 | | $28,333 |
| 2 | 2011 | $538,333 | $28,333 | | $28,333 |
| 3 | 2011 | $510,000 | $28,333 | | $28,333 |
| 4 | 2011 | $481,667 | $28,333 | | $28,333 |
| 5 | 2011 | $453,333 | $28,333 | | $28,333 |
| 6 | 2011 | $425,000 | $28,333 | | $28,333 |
| 7 | 2011 | $396,667 | $28,333 | | $28,333 |
| 8 | 2011 | $368,333 | $28,333 | | $28,333 |
| **9** | 2011 | **$340,000** | $28,333 | | $28,333 |
| 10 | 2011 | $311,667 | $28,333 | | $28,333 |
| 11 | 2011 | $283,333 | $28,333 | | $28,333 |
| 12 | 2011 | $255,000 | $28,333 | | $28,333 |
| 1 | 2012 | $226,667 | $28,333 | | $28,333 |
| 2 | 2012 | $198,333 | $28,333 | | $28,333 |
| 3 | 2012 | $170,000 | $28,333 | | $28,333 |
| 4 | 2012 | $141,667 | $28,333 | | $28,333 |
| 5 | 2012 | $113,333 | $28,333 | | $28,333 |
| 6 | 2012 | $85,000 | $28,333 | | $28,333 |
| 7 | 2012 | $56,667 | $28,333 | | $28,333 |
| 8 | 2012 | $28,333 | $28,333 | | $28,333 |
| **9** | 2012 | $0 | | | $28,333 |
| 10 | 2012 | | | | $28,333 |
| **11** | **2012** | | | **MGE Files Rate Case 3** | **$28,333** |
| 12 | 2012 | | | | $28,333 |
| 1 | 2013 | | | | $28,333 |
| 2 | 2013 | | | | $28,333 |
| 3 | 2013 | | | | $28,333 |
| 4 | 2013 | | | | $28,333 |
| 5 | 2013 | | | | $28,333 |
| 6 | 2013 | | | | $28,333 |
| 7 | 2013 | | | | $28,333 |
| 8 | 2013 | | | | $28,333 |
| **9** | 2013 | | | **Rates--Case 3 in effect** | $0 |
| | | | | | |
| Total Amortized Per Books | | | **$1,700,000** | Total Recovered in Rates | **$2,039,991** |