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Case No.: GR-2004-0209
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MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

REBUTTAL TESTIMONY

OF

JAMES OGLESBY

ON BEHALF OF MISSOURI GAS ENERGY

Jefferson City, Missouri

May 2004

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

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

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

2 A. My name is James Oglesby.

3

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

5 A. Yes.

6

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 A. From my vantage point as the President and Chief Operating Officer of Missouri Gas Energy
9 ("MGE" or "Company"), a division of Southern Union Company ("Southern Union"), I will
10 advise the Commission of a negative ramification that I believe would result if the rate of
11 return recommendations made by either the Commission Staff or the Office of the Public
12 Counsel are adopted for setting MGE's rates in this case. I will also apprise the Commission
13 of why I believe that MGE's devotion of a reasonable level of internal company human
14 resources to the legislative process is a reasonable and necessary part of operating a local
15 natural gas distribution business such that the associated costs should be recoverable through
16 rates.

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2 **Negative Ramification of Adopting the Staff or Public Counsel Rate of Return**

3 **Q. DO YOU BELIEVE A NEGATIVE RAMIFICATION WILL RESULT IF THE**
4 **COMMISSION ADOPTS THE RATE OF RETURN RECOMMENDED BY EITHER**
5 **THE COMMISSION STAFF OR THE PUBLIC COUNSEL?**

6 **A.** Yes. Under either of those circumstances, it would be difficult, if not impossible, for MGE
7 to obtain the capital needed to fund improvements in our operations.
8

9 **Q. WHY?**

10 **A.** The Staff return on equity recommendation mid-point is 9.02% and the Public Counsel return
11 on equity recommendation is below 9.5%. Southern Union also operates gas distribution
12 properties in three states other than Missouri (Pennsylvania, Rhode Island and
13 Massachusetts). The authorized return on equity for Southern Union's Rhode Island
14 distribution property is 11.25%; the other properties' rates are the product of settlement with
15 no specified authorized return on equity. If either the Staff or Public Counsel rate of return
16 recommendation is adopted, it is clear that the MGE operation would be the lowest priority
17 for any discretionary capital expenditures and I believe it would be unreasonable to expect
18 the MGE operation to obtain funding for any such expenditures.
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1 **Q. WHY SHOULD THE COMMISSION CARE WHETHER MGE IS ABLE TO**
2 **OBTAIN FUNDING FOR DISCRETIONARY CAPITAL EXPENDITURES?**

3 A. Southern Union has in the past deployed significant discretionary capital to the benefit of the
4 MGE operation and MGE's customers. The most significant example is the automated meter
5 reading system ("AMR"), an investment of roughly \$25 million, that MGE implemented in
6 1998. AMR has produced benefits for customers both in the form of enhanced customer
7 service (estimated meter reads have been reduced to less than 1,000 annually) and reduced
8 operations and maintenance expense (4 meter readers and trucks now perform the meter
9 reading function, formerly undertaken by approximately 70 meter readers and associated
10 vehicles). I do not believe Southern Union would have deployed the capital necessary to
11 implement AMR if—at the time the decision to implement AMR was made—MGE's
12 authorized rate of return had been set significantly below what other jurisdictions were then
13 authorizing for gas distribution operations.

14
15 **Q. ARE THERE OTHER EXAMPLES OF DISCRETIONARY CAPITAL**
16 **EXPENDITURES?**

17 A. Yes. Although AMR is the most significant discretionary capital expenditure MGE has
18 made in recent years, it is by no means the only one. Other examples include workforce
19 automation and in-truck terminals, the centralization of dispatching functions from multiple
20 field locations to MGE's Kansas City headquarters, and the recent implementation of "virtual
21 hold" technology in MGE's contact center. All of these initiatives provide benefits to
22 customers in the form of enhanced customer service and/or more cost-effective operations.

1 None of them would have been possible absent a decision to make such discretionary capital
2 expenditures. I do not believe that such any of such discretionary capital expenditures would
3 have been authorized under the rate of return conditions recommended by the Staff and the
4 Public Counsel.

5
6 **Q. ARE YOU SAYING THAT SOUTHERN UNION WILL NOT INVEST IN ITS**
7 **MISSOURI OPERATING SYSTEM UNLESS THE COMMISSION SETS MGE'S**
8 **RATES USING THE RATE OF RETURN RECOMMENDATION MADE BY MGE?**

9 A. No. But I am trying to make clear to the Commission my belief that setting MGE's rates on
10 the basis of the rate of return recommendations of either the Staff or the Public Counsel will
11 make it extremely difficult for MGE to obtain capital.

12
13 **Legislative Activities**

14 **Q. DO ANY MGE EMPLOYEES HAVE RESPONSIBILITY FOR LEGISLATIVE**
15 **ACTIVITIES?**

16 A. Yes. Paul Snider is the MGE staff member primarily responsible for monitoring the
17 legislative process and overseeing MGE's legislative activities. Mr. Snider also has
18 responsibility for media relations and is involved in special projects, so I estimate that he
19 spends considerably less than 50% of his time on legislative activities. Rob Hack, as the
20 chief legal officer for the MGE division, also has responsibility for monitoring the legislative
21 process. In addition, Mr. Hack has significant regulatory experience and is occasionally
22 called upon by, or offered to, members of the General Assembly as a subject matter expert

1 regarding regulatory matters. I would estimate that Mr. Hack spends no more than 10% of
2 his time on legislative matters. Finally, as MGE's President and Chief Operating Officer,
3 Mr. Snider and Mr. Hack keep me apprised of legislative matters. I have on one occasion
4 offered testimony before a committee of the General Assembly. All told, I would estimate
5 that I spend less than 10% of my time on legislative matters.

6
7 **Q. WHY DOES MGE DEVOTE INTERNAL RESOURCES TO LEGISLATIVE**
8 **ACTIVITIES?**

9 A. MGE provides natural gas service to roughly 500,000 customers in about 155 cities and
10 towns in thirty counties across the state. Natural gas service is considered by many to be
11 essential and, as such, is closely related to the public interest. MGE operates approximately
12 8,000 miles of mains, many of which are located in the public right-of-way. MGE has nearly
13 700 employees who provide service to customers throughout MGE's service territory.
14 Action taken by the General Assembly can have a very real impact on MGE's operations,
15 with the potential to affect all of MGE's core constituent groups—customers, employees and
16 shareholders. Because of this, I believe it is imperative that MGE devote a reasonable level
17 of internal human resources to the legislative process, including evaluating, analyzing, and
18 disseminating information within the Company about, proposed and passed legislation.

1 Q. DO YOU BELIEVE THAT COSTS ASSOCIATED WITH A REASONABLE LEVEL
2 OF INTERNAL HUMAN RESOURCES DEVOTED TO LEGISLATIVE
3 ACTIVITIES SHOULD BE RECOVERABLE THROUGH RATES?

4 A. Yes. As discussed earlier, I believe it is imperative that MGE, as a natural gas local
5 distribution company, be aware of and capable of being involved in the legislative process
6 and that reasonable costs associated with those activities should be recoverable through rates.

7 I am not recommending that all of the costs that MGE devotes to the legislative process
8 should be recovered through rates. In fact, as explained in the rebuttal testimony of MGE
9 witness Noack, MGE itself has excluded from cost of service costs associated with outside
10 contract lobbyists as well as dues paid for membership in the Missouri Energy Development
11 Association. However, other costs associated with legislative activities as I have discussed
12 are reasonably recoverable through rates.

13

14 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

15 A. Yes, at this time.

16

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's
Tariff Sheets Designed to Increase Rates
for Gas Service in the Company's Missouri
Service Area.

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Case No. GR-2004-0209

AFFIDAVIT OF JAMES OGLESBY

STATE OF MISSOURI)

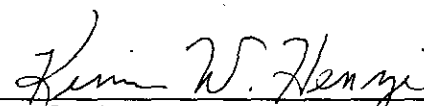
) ss.

COUNTY OF JACKSON)

James Oglesby, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


JAMES OGLESBY

Subscribed and sworn to before me this 19th day of MAY 2004.


Notary Public

My Commission Expires: Feb. 3, 2007

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