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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DEPARTMENT

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

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

FILE NO. GU-2011-0392

*Jefferson City, Missouri
November, 2011*

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OF
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MISSOURI GAS ENERGY,
A Division of Southern Union Company
FILE NO. GU-2011-0392

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1981. I have been employed by the Missouri Public Service Commission ("Commission") since September 1981 within the Auditing Unit.

Q. What is your current position with the Commission?

A. In April 2011, I assumed the position of Acting Manager of the Auditing Unit, Utility Services Department, Regulatory Review Division, of the Commission.

Q. Are you a Certified Public Accountant (CPA)?

A. Yes, I am. In November 1981, I passed the Uniform Certified Public Accountant examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1990 to current, is attached as Schedule 1 to this rebuttal testimony.

1 Q. What knowledge, skills, experience, training and education do you have in the
2 areas of which you are testifying as an expert witness?

3 A. I have been employed by this Commission as a Regulatory Auditor for almost
4 30 years, and have submitted testimony on ratemaking matters numerous times before the
5 Commission. I have also been responsible for the supervision of other Commission
6 employees in rate cases and other regulatory proceedings many times. I have received
7 continuous training at in-house and outside seminars on technical ratemaking matters since
8 I began my employment at the Commission.

9 Q. Have you participated in the Commission Staff's ("Staff") audit of Missouri
10 Gas Energy (MGE or "Company") concerning its request for an accounting authority order in
11 this proceeding?

12 A. Yes, I have, with the assistance of other members of Staff.

13 **EXECUTIVE SUMMARY**

14 Q. Please summarize your rebuttal testimony in this proceeding.

15 A. As set forth in its *Application* in this proceeding, as well as in the direct
16 testimony of MGE witness Michael R. Noack, MGE is requesting an accounting authority
17 order (AAO) to allow it to defer certain costs it incurred in relation to a tornado that struck its
18 Joplin, Missouri area service territory in May 2011. While Staff is recommending that the
19 Commission grant some components of MGE's AAO request, this testimony will explain why
20 Staff is recommending that the Commission reject the Company's request to defer
21 "lost revenues" (or what MGE refers to as "lost fixed cost recovery"). Staff opposes this
22 request both on general policy grounds, and for additional specific reasons discussed below.

1 Q. Are other members of Staff also submitting rebuttal testimony in this
2 proceeding?

3 A. Yes. Staff witness Amanda C. McMellen of the Auditing Unit is also
4 submitting rebuttal testimony on Staff's position on the issues of the duration of and the start
5 date of the amortization period for any deferral that results from the Company's Application.

6 **LOST REVENUES**

7 Q. What does MGE request in its Application in File No. GU-2011-0392?

8 A. MGE requests that the Commission issue an AAO allowing the Company to
9 defer certain capital related costs, operation and maintenance (O&M) expenses, and "lost
10 fixed cost recovery" associated with a tornado that hit MGE's Joplin-area service territory on
11 May 22, 2011.

12 Q. What is an AAO?

13 A. An AAO is an authorization by the Commission for a utility to account for
14 a cost in a different manner than is normally prescribed in the Uniform System of
15 Accounts (USOA) which is adopted by the Commission. The most common example
16 of AAOs in this jurisdiction are orders from the Commission allowing a company to defer
17 on its books costs associated with "extraordinary events," such as natural disasters or
18 so-called "Acts of God."

19 Q. How does it benefit a utility to defer costs associated with an extraordinary
20 event?

21 A. Under normal accounting practices, a utility would charge to expense as
22 incurred on its income statement all costs associated with an extraordinary event. If deferral
23 of those costs is authorized through an AAO, the utility treats the costs associated with an

1 extraordinary event as a regulatory asset and records them on its balance sheet to be amortized
2 over some period of time. In that manner, an AAO gives the utility an opportunity to obtain
3 rate recovery of extraordinary costs even if the costs were not actually incurred within an
4 ordered test year.

5 Q. Is it the Commission's general practice to allow a utility to preserve deferrals
6 on its balance sheet until such time that an amortization of the deferred costs can be included
7 in the company's rates?

8 A. No. In most cases, utilities have agreed or the Commission has ordered that
9 deferred costs begin to be amortized to expense a short time after the extraordinary event
10 triggering the deferral has occurred, even if the company does not have a rate application on
11 file. However, utilities still benefit from the deferral and amortization process in the absence
12 of immediate rate recovery because they can spread the financial impact of the extraordinary
13 event over a number of years rather than reflecting the entire impact in the year the
14 extraordinary event occurred.

15 Q. What is a "regulatory asset?"

16 A. A regulatory asset is a cost booked by a utility as an asset on its balance sheet
17 based upon a reasonable likelihood that regulatory authorities will agree to allow rate
18 recovery of the cost at a later time.

19 Q. What standard has the Commission used to determine whether it should
20 authorize a utility to deviate from normal USOA accounting rules?

21 A. Generally, the Commission in prior cases has stated that the standards for
22 granting the authority to a utility to defer costs incurred outside of a test year as a regulatory

1 asset are: 1) that the costs pertain to an event that is extraordinary, unusual, unique and
2 non-recurring; and 2) that the costs associated with the event are material.

3 Q. Does Staff consider MGE's loss of infrastructure associated with the May 2011
4 tornado to be extraordinary in nature?

5 A. Yes. This storm caused massive loss of life and property damage, and has
6 been described as one of the worst tornadoes to strike the United States in its history in these
7 respects. This storm destroyed all or almost all of the above-ground utility infrastructure that
8 was in its path.

9 Q. Does Staff consider the O&M and capital related costs associated with the
10 May 2011 tornado to be material to MGE?

11 A. Yes. A more detailed discussion of Staff's conclusions regarding the
12 extraordinary nature of the May 2011 tornado and the materiality of its associated costs to
13 MGE can be found in *Staff's Recommendation to Approve MGE's Application in Part and*
14 *Deny in Part*, filed August 19, 2011 in this proceeding, and is included as Schedule 2 to this
15 testimony.

16 Q. What parts of the Company's Application does Staff support?

17 A. Staff recommends that MGE's request to defer actual incremental O&M
18 expenses and costs related to capital additions associated with the tornado be granted.

19 Q. What parts of the Company's Application does Staff recommend the
20 Commission deny?

21 A. Staff recommends and I am supporting in my testimony that the Commission
22 deny MGE's request to include an item it terms "lost fixed cost recovery" in its tornado
23 deferral for the reasons stated in this testimony. Staff witness McMellen will also address

1 certain issues regarding MGE's proposal for amortization of its tornado deferral in her
2 rebuttal testimony.

3 Q. What is "lost fixed cost recovery?"

4 A. "Lost fixed cost recovery" is the way MGE refers to the reduction in revenues
5 it has experienced from Joplin area customers leaving the system in the aftermath of the
6 tornado. Many customers' homes or businesses were totally destroyed by the tornado, and
7 consequently those customers are no longer receiving service from MGE at those locations.

8 Q. What kinds of costs are normally included in a utility's cost of service in
9 Missouri and charged to customers in their utility bills?

10 A. A utility in Missouri is normally allowed to recover in its rates prudently
11 incurred expenses necessary to provide utility service to customers. Those expenses can be
12 divided into two categories; "variable" expenses and "fixed" expenses. Variable expenses are
13 incurred in direct relationship to the amount of sales a utility makes to its retail customers or
14 the amount of customers the utility has. Fixed expenses do not vary in amount with the
15 volume of sales made by the utility or its customer numbers.

16 In addition to these expenses, a utility in Missouri is also allowed to recover through
17 customer bills a rate of return on its prudent rate base investment. Rate base is a measurement
18 of the value of a utility's net asset investment made to provide utility service. Rate of return
19 is usually made up of two components; a return on debt component that is intended to allow a
20 company to recover the costs of paying the required interest on its issued debt, and a
21 return on equity (ROE) component that is intended to allow a company to recover in rates
22 amounts sufficient to pay dividends to its shareholders or to reinvest in the utility business, or

1 both. A utility's ROE allowance can be generally thought of as equivalent to the concept of
2 "profit" as measured for non-regulated business entities.

3 Q. Is MGE contending that it is not able to recover its variable expenses due to the
4 tornado?

5 A. No. To the extent the utility is no longer selling gas to certain customers due
6 to the tornado, it is also not incurring any variable costs associated with serving those
7 customers.¹

8 Q. Is MGE contending that it is not able to recover its fixed costs due to the
9 tornado?

10 A. Yes. The Company is asserting that while the amount of fixed costs it incurs
11 to provide service to customers has not changed, the amount of customer revenues it receives
12 has decreased due to the tornado. MGE alleges that each dollar of revenue it receives from
13 customers is intended in part to allow it to recover a portion of its fixed costs. Under MGE's
14 interpretation, a reduction in revenues received from customers must result in a failure to
15 recover all of its fixed costs.

16 Q. Does the Staff agree that the tornado has resulted in a situation where MGE is
17 failing to recover all of its fixed costs from customers?

18 A. No, not at all. MGE's claim is highly misleading when viewed in light of
19 conventional regulatory accounting practices. These conventions call for any reduction in a
20 company's revenues to be first measured against the company's earned ROE results, and then
21 against its overall earned rate of return results. A company that is earning a positive rate of
22 return is fully recovering all of its expenses, both fixed and variable. A company that is

¹ This generally refers to the cost of gas that MGE passes onto customers through its Straight Fixed-Variable (SFV) rate design. Staff's position is that some costs that vary with the number of customers are included in MGE's calculation of "fixed costs". This is discussed more fully later in this testimony.

1 earning a positive ROE is fully recovering all of its expenses as well as its required interest
2 payments to bondholders. As I will demonstrate below, there can be no serious dispute that
3 MGE is fully recovering its fixed costs at this time, even after taking the impact of the tornado
4 into account.

5 Another way of presenting the same concept is to state that a utility's ROE is
6 measured as the residual amount remaining after the enterprise has charged all of its fixed and
7 variable expenses against revenues, and also deducted its interest payments to debt holders.
8 This regulatory accounting convention is appropriate because a utility's equity holders are
9 "last in line" in terms of the priority of receiving compensation from the utility for their
10 investment in the enterprise, behind the utility's employees, vendors and bondholders.

11 Q. Could you illustrate the above point using a simple example?

12 A. Yes. Assume a utility's annual revenues of \$100 are exactly equal to its cost
13 of service as measured for regulatory purposes in the following manner:

14 Revenues \$100

15 Less:

16 Fixed Expenses \$40

17 Variable Expenses \$20

18 Interest Payments \$20

19 Residual:

20 **Return on Equity/Profit \$20**

21 Then, assume that the utility experiences a \$10 reduction in revenues, with a
22 proportionate \$2 decrease in variable expenses, but that its fixed expense and interest expense
23 obligations do not change. In this case, the utility's financial results will be as follows:

1	Revenues	\$90
2	<u>Less:</u>	
3	Fixed Expense	\$40
4	Variable Expense	\$18
5	Interest Expense	\$20
6	<u>Residual:</u>	
7	Return on Equity/Profit	\$12

8 In the above example, the reduction in the utility's margin (revenues less fixed and
9 variable expenses) of \$8 resulted in an equal reduction in the utility's ROE of \$8. Please note,
10 that even after taking into account the reduction in revenues experienced by the utility in the
11 above example, the company's total revenues exceed the amount of its fixed costs and some
12 amount of ROE/profit is realized. The hypothetical utility financial results presented above
13 show a company that is fully recovering its fixed costs, but that has experienced a reduction in
14 its profit levels due to a decrease in its revenues.

15 Q. Is the above hypothetical example consistent with MGE's current financial
16 condition following the tornado?

17 A. Yes. The information provided in data request responses show that MGE's
18 total revenues easily exceed its total fixed costs, even after the impact of the tornado on
19 MGE's revenues are taken into account. I have prepared analyses of MGE's earnings level
20 before and after the tornado, on both an annual basis and quarterly basis. I reviewed MGE's
21 annual level of recent earnings as twelve-month periods are normally used to assess the
22 adequacy of a utility's earnings. I reviewed MGE's quarterly levels of recent earnings in

1 order to compare two periods, one of which had no impact from the tornado at all, the other
2 that occurred entirely after the tornado struck.

3 Q. What is Schedule 3 to this testimony?

4 A. Schedule 3 shows two simplified annual income statements for MGE, the first
5 one covering the 12 months ending September 2011 (including the tornado impact) and the
6 second one the comparable period of the twelve months ending September 2010 (prior to the
7 tornado impact). Note that under both scenarios, MGE's revenues exceed its fixed costs, and
8 it earned a positive rate of return. While MGE's earnings did decline from the twelve months
9 ended September 2010 to the twelve months ended September 2011, this Schedule shows the
10 vast majority of that phenomenon is associated with an increase to MGE's fixed expenses, not
11 a reduction in revenues. Further, MGE's income statements reflect an approximate
12 \$2.1 million reduction in revenue for the first quarter of 2011, compared to the first quarter of
13 2010. Again, the tornado did not occur until the second quarter of 2011.

14 Q. What is Schedule 4 to this testimony?

15 A. Schedule 4 shows two simplified quarterly income statements for MGE, the
16 first one covering the third quarter of 2011 (including the tornado impact) and the second one
17 the comparable period of the third quarter of 2010 (prior to the tornado impact). Again, this
18 schedule shows that in both time periods MGE's revenues exceeded its fixed costs, and that it
19 earned a positive rate of return for both periods depicted. Also, please note that there is only
20 an approximate \$300,000 reduction in MGE's earnings for this quarter compared to the same
21 quarter in 2010.

1 MGE's own financial results as depicted in Schedules 3 and 4 show that it is currently
2 recovering all of its fixed costs in rates, even after taking into account customer loss in the
3 Joplin area due to the tornado.

4 Q. Why don't Schedules 3 and 4 depict any ROE results for MGE for the various
5 periods reflected in the Schedules?

6 A. The income statements provided by MGE in data request responses did not
7 break out its rate of return results between return on equity and return on debt (i.e., interest
8 expense) components. Based upon my discussions with the Company, MGE does not
9 routinely monitor its earned ROE results for internal analysis purposes.

10 Q. Notwithstanding the above, does Staff have an opinion as to whether MGE is
11 currently earning a positive ROE?

12 A. Yes. Based upon my experience as a regulatory auditor, and my knowledge of
13 MGE operations from prior rate audits, MGE's financial results as depicted in its financial
14 statements for the periods reflected in Schedules 3 and 4 support a firm opinion that MGE is
15 still earning a positive ROE after taking the tornado's earnings impact into account, and when
16 such ROE is calculated appropriately on an annual basis.

17 Q. Since MGE is still recovering all of its fixed expenses in rates following the
18 tornado, is MGE's lost revenues request really related to recovery of fixed costs, or to
19 sustaining the Company's profits?

20 A. MGE's request to defer lost revenues through an AAO is a request that MGE
21 be granted a mechanism to restore its pre-tornado profit levels. The reality is that MGE is
22 proposing the Commission allow it to defer the impact of a reduced rate of return, caused in
23 turn by a reduction in revenues, on its balance sheet in order to provide it the opportunity to

1 earn a higher rate of return in the future if its deferral is ultimately granted recovery in rates.
2 In other words, future customers would pay higher rates to compensate MGE for a prior
3 reduction in its earned rate of return due to the tornado.

4 Q. Should the Commission allow the financial impact of reduced return levels
5 associated with losses in revenue to be deferred by utilities?

6 A. No, for several reasons.

7 First, this approach violates fundamental regulatory principles that the amount of a
8 utility's profits should never be guaranteed, either in whole or in part. Through regulation, a
9 utility should be given the opportunity to earn a reasonable return, but not be guaranteed that
10 it will earn a certain level of return.

11 Second, and a related point, Staff contends that revenue levels from a particular
12 customer or group of customers should not be guaranteed in whole or in part to a utility. A
13 customer's utility usage may fluctuate significantly, or even end permanently, for many
14 reasons other than destruction via a natural disaster. A utility should be presumed to be at risk
15 for deviations in a customer's usage level compared to the level of sales from that customer
16 previously assumed in setting rates.

17 Q. Wouldn't the incremental O&M and capital related costs caused by the
18 tornado also reduce MGE's ROE if not given deferral treatment?

19 A. Yes. However, there is a clear and fundamental distinction between allowing
20 deferral of incremental O&M and capital related costs caused by the tornado and allowing
21 deferral of lost revenues associated with the tornado.

22 There is generally no recognition in the normal ratemaking process for costs
23 associated with unanticipated and unusual extraordinary events such as tornadoes, floods, and

1 major wind and ice storms. That is because the ratemaking process is premised upon
2 allowing recovery from customers of prudently incurred normal and ongoing expenses
3 necessary to provide utility service. But, when a utility's service territory is affected by a
4 catastrophic event such as the Joplin tornado that involves extensive damage to utility
5 infrastructure and large numbers of customers being without utility service, the utility has the
6 obligation to expend the funds necessary to make necessary repairs to its system and restore
7 service to customers as fast as reasonably possible. Staff has long held, and the Commission
8 has long agreed, that good regulatory policy requires some rate recognition of the prudently
9 incurred out-of-pocket costs incurred by utilities to restore service in the aftermath of an
10 extraordinary event. Permitting deferral of these costs through an issuance of an AAO allows
11 the utility the ultimate ability to seek recognition of these costs in rates through an
12 amortization to expense. But, even for these costs, the current practice of the Commission is
13 to give only partial recognition of this type of expense in customer rates. Thus, utility
14 shareholders in effect "share" responsibility for these costs under current regulatory practices
15 by not being allowed to earn a return in rate base on the unamortized balance of deferrals of
16 extraordinary expenses.

17 In contrast, there is no "out-of-pocket" expenditure associated with lost revenues from
18 an extraordinary event, just a reduction in the earnings level of the affected utility. Use of the
19 AAO mechanism solely to restore utility earnings to an assumed pre-extraordinary event level
20 is not an appropriate use of deferral authority. Use of the AAO in this manner would
21 improperly serve to facilitate a guarantee that a utility would earn a certain return even in the
22 event of a decline in revenues from a customer or group of customers.

1 Q. Isn't it possible that a reduction in revenues associated with an extraordinary
2 event could result in adverse financial consequences to a utility that may require regulatory
3 action?

4 A. That is theoretically possible. However, in its Application MGE has not
5 alleged that its lost revenues due to the tornado are of such a magnitude that it materially
6 impairs its financial health or negatively affects its ability to provide safe and adequate
7 service to its customers. Nor does the evidence presented to the Staff by MGE in data request
8 responses suggest that the amount of lost revenues is of large enough magnitude to seriously
9 affect MGE's financial health. (Refer to Schedules 3 and 4.) In the event that a utility's loss
10 of sales/customers was sufficient to damage its financial health and ability to provide safe and
11 adequate service, Staff suggests the appropriate course of action would be for the utility to file
12 for interim ("emergency") rate relief.

13 Q. How many customers has MGE asserted it "lost" due to the tornado?

14 A. Per Noack direct Schedule 3, MGE has alleged a loss of approximately
15 3,200 customers as of September 30, 2011 in the Joplin area due to the tornado. This should
16 be compared to a total company customer base of approximately 515,000 as of the end of
17 April 2011, prior to the tornado (MGE Response to Staff Data Request No. 19). Thus,
18 MGE's calculation of the reduction in customers in the Joplin area accounts for approximately
19 0.62% of MGE's Missouri customer count.

20 Q. What amount of lost revenues does MGE allege it has experienced due to the
21 tornado?

22 A. On page 10 of Mr. Noack's direct testimony, he presents an estimate that, on
23 an annual basis, MGE is foregoing approximately \$1.1675 million in revenues due to the

1 | tornado. This should be compared to a projected total company annual net revenues amount
2 | in Missouri of approximately \$203.8 million in the Company's 2011 budget (Response to
3 | Staff Data Request No. 1). Thus, MGE's own calculation of the reduction in revenues in the
4 | Joplin area accounts is approximately 0.57% of MGE's expected Missouri net revenues.

5 | Q. Does Staff consider MGE's estimate of the annual lost revenues impact to
6 | MGE of approximately \$1.1675 million to be accurate?

7 | A. No. This quantification does not reflect the reduction in income tax expense
8 | that occurs when a company's revenues decrease. ROE is taxable to business entities. All
9 | other things being equal, a reduction in utility revenues will result in a decrease to its ROE,
10 | and any reduction to ROE will lead to lower taxes payable to state and federal taxing
11 | authorities. In general, a reduction of a dollar in revenue for a utility should result in an
12 | offsetting reduction of approximately \$0.38 in the utility's income tax expense. MGE has
13 | ignored the offsetting benefit to income tax expense in its quantification of the financial
14 | impact of the tornado in Schedule 3 attached to Mr. Noack's direct testimony.

15 | Q. Assuming all other aspects of MGE's quantification are correct, what is the
16 | amount of MGE's asserted annual loss of revenues on an after-tax basis?

17 | A. Stated appropriately to take into account the reduction in income tax expense
18 | associated with lower revenue levels. MGE's quantification of its annual lost revenues due to
19 | the tornado is approximately \$720,000.

20 | Q. Does Staff consider this quantification to be an accurate measurement of
21 | MGE's reduced earnings due to its lost revenues?

22 | A. Not entirely. MGE's quantification of the lost revenue impact on its
23 | earnings in Schedule 3 attached to Mr. Noack's direct testimony assumes that all of the

1 costs represented in the current monthly customer charge as calculated using the SFV rate
2 design approach are "fixed" and will not vary with a reduction in the number of customers.
3 This is inaccurate. In a data request response, MGE has identified a relatively small amount
4 of costs associated with billing of its customers (postage, envelopes, etc.) that it is not
5 presently incurring for customers who left the Company's system following the tornado.
6 MGE's quantification of these costs on a monthly basis is approximately 41.4 cents per
7 customer (MGE Response to Staff Data Request No. 22), or approximately \$16,000 on an
8 annual basis. Subtracting this reduction in costs from MGE's asserted after-tax lost revenues
9 value results in an approximate reduction in earnings to MGE of \$704,000 on an after-tax
10 basis associated with lost revenue. This amount is approximately 0.34% of MGE's budgeted
11 2011 Missouri net revenues.

12 Q. Correcting for the Company's failure to account for the income tax
13 implications of lost revenues and variable costs associated with the number of customers
14 served, and assuming for the sake of argument that MGE's quantification is otherwise correct,
15 is MGE's reduction in profit due to the tornado material in nature compared to its net income
16 levels?

17 A. In Staff's opinion, no. The Gas USOA, in its Instruction 7, *Extraordinary*
18 *Items*, sets an initial standard of materiality for deferral of extraordinary costs of 5.0% of
19 annual net income. (While the USOA does not preclude a utility from deferring extraordinary
20 costs worth less than 5% of annual net income, the USOA requires a utility to seek explicit
21 authorization from the Commission before doing so.) \$704,000 is less than 5.0% of the net
22 income amount projected for MGE in its 2011 budget. This amount is also less than 5.0% of
23 the net income amount reflected in MGE's last rate case, No. GR-2009-0355. In fact, it is less

1 than 3.0% of the income amount projected for MGE in its 2011 budget. It is only be
2 aggregating this impact with other costs for which deferral is requested that the USOA 5.0%
3 threshold is met.

4 Q. Does MGE's quantification of the lost revenues impact of the tornado take into
5 account loss of customers not associated with the tornado?

6 A. Yes. Schedule 3, attached to MGE witness Noack's direct testimony, clearly
7 shows that the Company's Joplin area service territory experienced a loss of 169 customers
8 from April 2010 to April 2011, prior to the tornado occurring in May of 2011. Yet, by using a
9 September 2010 vs. September 2011 customer count, MGE's quantification of its "lost fixed
10 cost recovery" due to the tornado includes does not attempt to exclude this pre-tornado
11 customer loss impact. Also, MGE Schedule 3 shows a declining level of customers in both
12 August and September 2011 compared to year-earlier totals, and includes these declines in its
13 lost revenues calculation. There is no clear rationale supporting the notion that MGE's loss of
14 customers three to four months after the tornado can be attributed to the tornado event.

15 Q. Is there any precedent in Missouri for deferral of "lost revenues?"

16 A. No. It is important to note that many previous "Acts of God" for which
17 utilities sought deferral treatment in this jurisdiction resulted in customers being without
18 utility service for a period of time, such as floods, windstorms and ice storms. Serious wind
19 and ice storms have led to a far greater number of customers being without service for a
20 period of time than is the case with MGE and the tornado, but admittedly these outages
21 generally lasted for a duration of days and weeks, not months. In any event, no utility to date
22 in this state has requested that the impact of those lost revenues be included in extraordinary
23 cost deferrals.

1 Q. Is the Staff aware of any precedent in other jurisdictions for deferral of
2 lost revenues in situations analogous to MGE's?

3 A. Again, no. This is notwithstanding the fact that events such as severe
4 tornadoes and hurricanes can lead to long-term loss of customer and their associated revenues.
5 It appears that MGE's request is unprecedented, both in Missouri and in other states.

6 Q. If MGE's AAO request to defer lost revenues is denied, does the Company
7 have any other options for regulatory relief in relation to the reduction in revenues due to the
8 tornado?

9 A. If MGE believes loss of load due to the tornado will persist in the future on a
10 long-term basis, MGE has the option of filing for general rate relief to take into account its
11 reduced number of customers in setting its permanent rates.

12 Q. At pages 13-14 of his direct testimony, Mr. Noack states that any AAO order
13 issued by the Commission would not determine whether deferred costs are recoverable in
14 future rates. Do you agree with this characterization?

15 A. Yes. Staff certainly agrees that the Commission should make clear in any
16 AAO it would authorize in this case that it is maintaining its traditional approach of not
17 considering issues regarding recovery of deferred amounts until subsequent general rate
18 proceedings. However, Mr. Noack's assertion should not be interpreted as implying that there
19 would be no harmful consequences from Commission approval of MGE's lost revenues
20 deferral request.

21 Q. Please explain.

22 A. Any authorization for MGE to defer costs resulting from its AAO request will
23 allow MGE to book the deferred amounts as a regulatory asset on its balance sheet until

1 MGE's next general rate case filings, with the regulatory asset increasing in amount for a
2 period of possibly several years. If the Commission were to deny rate recovery of these
3 deferred costs in a subsequent general rate case, MGE would have to then "write off" to
4 expense the disallowed deferred costs. In Staff's prior experience, utilities will assert that
5 they will suffer harmful financial consequences as a result of any ordered write-off of
6 deferrals, and that this alleged financial detriment is a sufficient reason in and of itself to
7 preclude any Commission decision to deny rate recovery of the costs. In other words, a
8 Commission decision allowing cost deferral in this proceeding may be argued to necessarily
9 require a subsequent decision by the Commission to allow rate recovery of the deferred costs
10 to avoid alleged financial detriment. For this reason, Staff recommends that the Commission
11 rule in this case on the "merits" of the Company's AAO request at this time.

12 Q. Please summarize Staff's position in this proceeding concerning MGE's
13 request to defer lost revenues associated with the May 2011 Joplin tornado.

14 A. MGE has incorrectly and inaccurately characterized their request as pertaining
15 to "lost fixed cost recovery," though what MGE is seeking to defer through its Application is
16 "lost revenues" or "lost profits" allegedly associated with the tornado. Utilities should not be
17 given the opportunity to be guaranteed a particular level of revenues and profits from a group
18 of customers or from its customers in total, and accordingly MGE's request to defer lost
19 revenues should be denied. Further, even if the Commission accepts MGE's request to
20 guarantee its level of profit, MGE's calculation of the amount to be deferred is incorrect and
21 significantly overstated.

22 Q. What is Staff's recommendation concerning MGE's requests?

23 A. Staff recommends that the Commission:

1 (1) authorize deferral of MGE's actual incremental O&M expenses associated with
2 repair and restoration activities associated with the May 22, 2011 tornado, and depreciation
3 and carrying charges equal to its ongoing AFUDC rates associated with tornado-related
4 capital expenditures;

5 (2) order any such deferral to be amortized to expense over a ten- year period
6 beginning January 2012, and

7 (3) deny MGE's request to defer "lost fixed cost recovery" or "lost revenues.

8 Q. Does this conclude your rebuttal testimony?

9 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) File No. GU-2011-0392
Authority Order Relating to its Natural Gas)
Operations and for a Contingent Waiver of the)
Notice Requirement of 4 CSR 240-4.020(2))
)

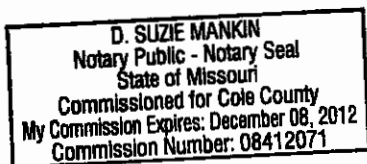
AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 20 pages 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.

Mark L. Oligschlaeger
Mark L. Oligschlaeger

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



D. Suzie Mankin
Notary Public

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs
Missouri-American Water Company	WR-91-211	True-up; Known and Measurable
Missouri Public Service	EO-91-358 and EO-91-360	AAO
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Generic Electric	EO-93-218	Preapproval
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
St. Louis County Water	WR-95-145	Policy
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-96-263	Future Plant
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
The Empire District Electric Company	ER-97-82	Policy
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
United Water Missouri	WA-98-187	FAS 106 Deferrals
Laclede Gas Company	GR-99-315 (remand)	Depreciation and Cost of Removal
Missouri-American Water	WM-2000-222	Conditions
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
UtiliCorp United & The Empire District Electric Company	EM-2000-369	Overall Recommendations
Green Hills Telephone	TT-2001-115	Policy
IAMO Telephone Company	TT-2001-116	Policy
Ozark Telephone Company	TT-2001-117	Policy

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
Peace Valley Telephone	TT-2001-118	Policy
Holway Telephone Company	TT-2001-119	Policy
KLM Telephone Company	TT-2001-120	Policy
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
The Empire District Electric Company	ER-2001-299	Prudence/State Line Construction/Capital Costs
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
Gateway Pipeline Company	GM-2001-585	Financial Statements
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectibles
Laclede Gas Company	GA-2002-429	AAO Request
Aquila, Inc., d/b/a Aquila Networks-MPS-Electric and Aquila Networks-L&P-Electric and Steam	ER-2004-0034 and HR-2004-0024 (Consolidated)	Aries Purchased Power Agreement; Merger Savings
Missouri Gas Energy	GR-2004-0209	Revenue Requirement Differences; Corporate Cost Allocation Study; Policy; Load Attrition; Capital Structure
Empire District Electric	ER-2006-0315	Fuel/Purchased Power; Regulatory Plan Amortizations; Return on Equity; True-Up
Missouri Gas Energy	GR-2006-0422	Unrecovered Cost of Service Adjustment; Policy
Laclede Gas Company	GR-2007-0208	Case Overview; Depreciation Expense/Depreciation Reserve; Affiliated Transactions; Regulatory Compact
Missouri Gas Utility	GR-2008-0060	Report on Cost of Service; Overview of Staff's Filing

CASE PARTICIPATION OF MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
The Empire District Electric Company	ER-2008-0093	Case Overview; Regulatory Plan Amortizations; Asbury SCR; Commission Rules Tracker; Fuel Adjustment Clause; ROE and Risk; Depreciation; True-up; Gas Contract Unwinding
KCP&L Greater Missouri Operations Company	EO-2008-0216	Rebuttal AAO Request
Missouri Gas Energy, a Division of Southern Union	GR-2009-0355	Staff Report Cost of Service; Direct Report on Cost of Service; Overview of the Staff's Filing; Rebuttal Kansas Property Taxes/AAO; Bad Debts/Tracker; FAS 106/OPEBs; Policy; Surrebuttal Environmental Expense, FAS 106/OPEBs
The Empire District Electric Company, The-Investor (Electric)	ER-2010-0130	Staff Report Cost of Service; Direct Report on Cost of Service; Overview of the Staff's Filing; Regulatory Plan Amortizations; Surrebuttal Regulatory Plan Amortizations
The Empire District Electric Company	ER-2011-0004	Staff Report on Cost of Service; Direct Report on Cost of Service; Overview of the Staff's Filing

Cases prior to 1990 include:

Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199
Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. GU-2011-0392, Missouri Gas Energy

FROM: Amanda C. McMellen, Auditing Department
Mark L. Oligschlaeger, Auditing Department

/s/ Mark L. Oligschlaeger 08/19/11
Utility Services / Date

/s/ Amanda C. McMellen 08/19/11
Utility Services / Date

/s/ Thomas M. Imhoff 8/19/11
Utility Operations / Date

/s/ Sarah Kliethermes 08/19/11
Staff Counsel's Office / Date

SUBJECT: Staff Recommendation to approve in part and deny in part MGE's request for an Accounting Authority Order for certain accounting procedures for costs related to Joplin tornado on May 22, 2011.

DATE: August 19, 2011

Authority Requested in MGE's Application

On June 10, 2011, Missouri Gas Energy (MGE) filed an Application for an Accounting Authority Order (AAO) requesting accounting treatment for what it characterized as extraordinary and unusual costs resulting from the Joplin tornado that occurred on May 22, 2011. MGE requests authority to defer these costs to Uniform System of Accounts (USOA) Account 182.3, Other Regulatory Assets, and amortize them over a five-year period commencing with the effective date of rates set in MGE's next general rate proceeding. MGE states in its Application that it may incur approximately \$5 to \$10 million of incremental costs to rebuild and repair the damages to its system directly related to the tornado and severe weather. MGE states that it will seek recovery of these deferred amounts in future rate proceedings.

As part of its request, MGE seeks authority to defer certain incremental operations and maintenance (O&M) expenses it has incurred related to the tornado. These O&M expenses include labor and material costs to make repairs to its system in the immediate aftermath of the storm.

MGE also requests authority to defer the capital-related costs associated with new infrastructure placed into service as it rebuilds its system in the area affected by the tornado. Capital-related costs in this context refer to depreciation expense and carrying charges associated with capital expenditures once they are considered operational and used for service.

MGE claims that the May 22, 2011 Joplin tornado either damaged or destroyed up to an estimated 8,000 MGE customer locations. [MGE Application, page 4.] So, in addition to its

requests for authority to defer the tornado-related O&M expenses and capital costs, MGE also requests authority to defer “the lost fixed cost recovery from its distribution rates” resulting from what it alleges will be lower customer usage due to the tornado.

In summary, in this Application, MGE is seeking deferral treatment of:

- Incremental O&M costs incurred and to be incurred
- Incremental capital-related costs incurred and to be incurred
- Alleged financial impact of the tornado on sales (lost fixed cost recovery or “lost revenues”)

Background for AAO Deferral Requests

In past AAO cases, the Missouri Public Service Commission (“Commission”) has granted authority for utilities to defer costs in a number of circumstances, almost always involving the occurrence of “extraordinary events” of various types. By allowing deferral of these costs, the Commission gave the utilities the **opportunity to seek future recovery** of the extraordinary costs in a subsequent rate proceeding.

Some deferral requests pertain to incremental O&M expenses associated with extraordinary events or natural disasters. When the Commission granted these requests, the expenses were booked as an asset on the company’s balance sheet, and subsequently amortized to expense on the income statement over a period of time, normally five years.

Other deferral requests pertain to incremental capital expenditures entered into by a utility as a result of an extraordinary event. When granted, the Commission authorized the company to defer the depreciation expense and carrying charges associated with the capital expenditures once the plant was considered operational and used for service. The normal accounting treatment associated with capital related AAO deferrals ordered by the Commission is to amortize these costs to the utility’s income statement over ten years.

Commission Staff (“Staff”) has not found any prior instances where the Commission granted an AAO allowing deferral of the fixed cost components of the Company’s rates, or “lost revenues,” resulting from lower customer usage due to the extraordinary event or natural disaster.

Standard for Deferral Authorization

In its Report and Order in Case Nos. EO-91-358 and EO-91-360, cases filed by Missouri Public Service, a division of UtiliCorp United, Inc. (now KCP&L Greater Missouri Operations Company) (“Order”), the Commission stated its criterion for deferral of costs incurred outside a rate case test year. The Commission has consistently used this same criterion since those cases. In that Order, the Commission stated:

The deferral of costs from one period to another period for the development of a revenue requirement violates the traditional method of setting rates.... Under historical test year ratemaking, costs are rarely considered from earlier than the test year to determine what is a reasonable revenue requirement for the future. Deferral of costs from one period to a subsequent rate case should be allowed only on a limited basis. [Order, pages 6-7.]

In the “Standards for Deferral” section of the Order, the Commission described the following criteria for allowing utility companies to defer costs incurred outside of a rate case test year as a regulatory asset:

1. Events occurring during a period that are extraordinary, unusual and unique, and not recurring¹; and
2. The costs associated with the material event are material.

¹ The Commission has adopted the Uniform System of Accounts. The Federal Energy Regulatory Commission (FERC) USOA defines the term “extraordinary items” in General Instruction No. 7. The FERC USOA for natural gas utilities reads as follows:

Extraordinary items. It is the intent that net income shall reflect all items of profit or loss during the period with the exception of prior period adjustments as described in paragraph 7.1 and long-term debt as described in paragraph 17 below. Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future. (In determining significance, items should be considered individually and not be in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate.) To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items. Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary.

Application of Extraordinary and Material Standard to MGE's Requests

Staff concludes that the May 22, 2011 tornado was an extraordinary event for purposes of MGE's requests to defer tornado-related O&M costs and related capital-related costs. Staff also concludes that the tornado was of a material nature for purposes of MGE's requests to defer tornado-related O&M costs and tornado-related capital costs. The remainder of this section will consider only these items of relief requested in MGE's Application. Staff will separately discuss MGE's lost revenues request in the section "Authority to Defer Lost Revenues Should Not Be Granted."

Staff obtained from MGE updated quantifications of its actual incurred tornado-related costs and estimated future costs associated with the May 22, 2011, tornado. Based upon data request responses received from MGE, through July 28, 2011, MGE has incurred approximately \$99,500 in capital related costs and approximately \$1.042 million in additional O&M expenses associated with the tornado.

Based solely upon the costs incurred by MGE through July 28, 2011, Staff estimates the deferral that could be booked by MGE, if the Commission approves this Application, would be approximately \$1.042 million for O&M expenditures and \$5,500 for capital related cost, for a total first year deferral amount of \$1,047,500. Based upon MGE's projection of total tornado-related costs, including projected costs past July 28, 2011, Staff estimates that the deferral MGE could book would be approximately \$1.042 million for O&M expenditures and \$497,000 (annualized amount) for capital related costs, for a total annualized deferral of \$1,539,000. While O&M costs would be in essence deferred "once" as they are incurred, capital related costs would continue to be deferred until such time as those amounts are considered for rate treatment in future MGE rate proceedings.

Given the extent of damage relative to the size of MGE's system, the May 22, 2011 tornado was an extraordinary event. Further, from the evidence presented by MGE in its Application and obtained through later discovery, Staff has come to the conclusion that the required O&M expenditures and the capital-related costs associated with those expenditures have had and will have a material impact on MGE's financial position. For these reasons, Staff recommends that MGE's request to defer O&M expenses and related capital-related costs resulting from the tornado be granted subject to the conditions described in the "Staff Recommendation" section of this Memorandum. These conditions are summarized below.

The Carrying Charge Rate Should be Set Equal to the AFUDC Rate.

When deferral of capital related expenses is allowed, current Commission practice is to set the carrying cost rate equal to the Company's ongoing Allowance for Funds Used During Construction (AFUDC) rate, as calculated in accordance with the Commission's USOA. The Staff recommends that this practice continue if authority to defer capital related costs is granted to MGE.

A Ten-Year Amortization Period Is Appropriate.

Because a majority of the projected total costs related to the tornado are capital expenditures, Staff recommends that this deferral be treated in a similar fashion to prior capital expenditure deferrals. Past Commission practice has been to utilize a ten-year period for purposes of amortizing capital expenditure deferrals. MGE requested a five-year amortization period, which the Commission has more typically used for deferral of non-capital related extraordinary costs.

Amortization of Deferrals Should Begin Reasonably Close in Time to Cost Incurrence.

MGE's Application included the request that it begin to amortize any deferrals at the time rates go into effect in its next rate proceeding. Staff opposes this aspect of MGE's Application as being unreasonable. While granting of the deferral will allow MGE to avoid charging the majority of the financial impact of the tornado to expense in the year incurred (i.e., 2011), and instead spread that impact over subsequent years, it is not reasonable or appropriate for a utility to "hoard" such deferrals for an extended period in its balance sheet and not charge any of the costs to expense until years after the precipitate cause of the deferred costs occurred. The AAO is already a departure from usual accounting practices. Staff has consistently recommended that amortizations to expense for deferred costs should begin shortly after the incremental costs associated with the extraordinary item have been incurred. In this case, Staff recommends that any deferral authorized by the Commission in this case should be amortized over 120 months (ten years), beginning January 2012.

Any Deferral Order Should Have No Ratemaking Effect.

In all past AAOs granted by the Commission, of which the Staff is aware, the Commission included language in its orders making clear that the authorization was not determinative in any way on the question of future rate recovery of deferred costs. The Staff recommends that similar language is appropriate in any order related to this Application allowing MGE to defer costs.

Any Insurance or Government Reimbursements Should Offset Deferral Amount.

Staff recommends that any insurance or government proceeds applicable to incremental O&M expense or capital related costs be used to offset the total amount of deferred expense. It is not appropriate for MGE to have the opportunity to double-recover these costs.

No Recovery of Tornado Related Capital Expenditures Through ISRS.

It is possible that some portion of MGE's tornado related capital expenditures may be eligible for rate recovery through the Infrastructure System Replacement Surcharge (ISRS) mechanism. Because the ISRS mechanism provides for expedited rate recovery of certain capital related costs incurred by natural gas utilities, it would not be appropriate for MGE to seek ISRS rate treatment of any capital costs related to the tornado for which depreciation and carrying charges are being deferred through an AAO.

MGE Must Maintain Materials for the Subsequent Audit of Any Deferrals.

MGE should maintain detailed supporting records, work papers, invoices and other documents to support the amount of costs deferred under any AAO, including any related deferred taxes recorded as a result of the cost deferral. Such records should include documentation of the controls in place to ensure all expenditures were reasonable and not utilized to take advantage of the situation, detailing of food and lodging costs, labor and material costs, procedures and verification for expense versus capitalization determinations, and determination of incremental levels of such costs versus normal ongoing levels of costs. Such records should be made available for review by the Commission Staff, The Office of the Public Counsel, and other intervenors, pursuant to 4 CSR 240-2.085 and Section 386.480.

Authority to Defer Lost Revenues Should Not Be Granted

In its Application, MGE seeks authority to defer the "loss of the fixed cost recovery provided by the Company's distribution rates incurred by MGE and related to the events surrounding the May 22, 2011 tornado and severe weather..." Based on subsequent information from MGE, to clarify exactly what relief MGE seeks through this particular request: MGE is not seeking to defer certain "fixed costs" that would normally be included in its income statement. Instead, MGE seeks to defer the financial impact of not receiving a certain level of revenues from its customers that it assumes it would have received but for the tornado. In a data request response, MGE estimated that the annualized amount of lost revenues due to the tornado would be approximately \$1 million.

MGE's request to defer and obtain the opportunity to seek subsequent recovery of lost revenues associated with an extraordinary event is unprecedented in this jurisdiction. Though many prior natural disasters in Missouri (for example floods, wind, and ice storms) resulted in a loss of customer load by the affected utility for a period of time, at no time in the past have these utilities included lost revenues (or "loss of fixed cost recovery") as a financial item for which deferral treatment was requested.²

² Staff was unable to find a similar request for lost revenues in other states in a survey of cases for the last 25 years. Staff invites MGE to alert it and the Commission to any request it may have overlooked, or from a further time period.

Application of the standard outlined above for deferral of costs from one period to another period to MGE's lost revenues request indicates that deferral of lost revenues is not appropriate. Notwithstanding MGE's characterization of this aspect of its request as seeking to defer "the fixed cost recovery provided by the Company's distribution rates," the information provided to Staff in this proceeding indicates that MGE has billed revenues sufficient to fully recover its fixed costs even after the tornado occurred³. Consequently, the impact of allowing MGE the relief it seeks by deferring "the fixed cost recovery from its distribution rates" would be to provide MGE the opportunity to earn an increased level of return on equity (ROE), in subsequent periods to compensate it for the alleged decreased level of ROE it asserts it is currently earning due to the tornado. Staff asserts that it is not reasonable for the Commission to permit the AAO mechanism to be used to prop up a utility's profit levels following an extraordinary event.

Further, there is a clear distinction between allowing deferral treatment of extraordinary expenditures incurred by a utility to make repairs and restore service following a disaster, and allowing deferral treatment of a certain level of revenues that is allegedly foregone due to a disaster. When considering the former category of financial impact associated with a disaster, it is vitally important and in the public interest for a public utility to make expenditures as necessary to repair damages to its system and restore service to customers as quickly as possible in an emergency situation following a natural disaster. Since this type of cost is not normally allowed in a utility's rates as part of ongoing expense, Staff believes, and the Commission has long held, that a utility should be allowed the opportunity to subsequently recover at least a portion of these unanticipated and extraordinary costs in its rates, through a "sharing" of these costs between customers and shareholders. "Lost revenues" are different from these extraordinary repair and restoration costs in that they are an estimation of "specific sales not made" due to the emergency event. As a substitute for competition, it is not reasonable for regulation to offer a utility a financial guarantee it will receive all of its assumed "normal" customer usage or sales and, further, Staff asserts that the return on equity allowance included in a utility's rates is intended to compensate a utility for the risk of any fluctuations in sales or revenues from the level previously assumed in setting that utility's rates.

Finally, as a practical matter, any recognition of lost revenues in an AAO deferral requires some baseline estimation of what the utility's revenues would have been absent the extraordinary event; i.e., a "what-if" scenario must be relied upon. Accordingly, any "lost revenues" deferral will necessarily be an estimate and not a verifiable and auditable financial quantification.

³ Staff does not concede that failure to fully recover fixed costs would constitute a lawful basis to authorize the deferral of lost revenues.

Staff Recommendation

As described above, the Staff concludes that MGE's tornado-related O&M costs and related capital-related costs are extraordinary in nature and are material. Therefore, the Staff recommends that, in this case, the Commission grant MGE's AAO Application in part.

Specifically, the Staff recommends that the Commission grant MGE's AAO request as described below:

That:

1. MGE be authorized to defer actual incremental O&M expenses associated with repair and restoration activities associated with the May 22, 2011, tornado, and depreciation and carrying charges equal to its ongoing AFUDC rates associated with tornado-related capital expenditures, to Account 182.3, Other Regulatory Assets.
2. Nothing in the Commission's order shall be considered a finding by the Commission of the reasonableness of the costs and/or expenditures deferred, and the Commission reserves the right to consider the ratemaking treatment to be afforded all deferred costs and/or expenditures.
3. Any and all offsets including, but not limited to, insurance claim proceeds or government payments or credits applicable to incremental operation and maintenance expense or capital expenditures shall be used to offset the total amount of costs to be deferred.
4. MGE shall not seek to recover any tornado related capital costs for which it is deferring depreciation and carrying charges pursuant to this AAO through its Infrastructure System Replacement Surcharge rate mechanism.
5. MGE shall begin, as of January 1, 2012, ratably amortizing to expense, over a ten-year (120-month) period, the appropriate amount of all costs it is authorized to defer, which are directly related to the May 2011 tornado. Thus, the ten-year amortization period will conclude December 31, 2021.
6. MGE shall maintain detailed supporting records, work papers, invoices and other documents to support the

amount of costs deferred under this AAO, including any related deferred taxes recorded as a result of the cost deferral. Such records shall be made available for review by the Commission Staff, The Office of the Public Counsel and other intervenors, pursuant to 4 CSR 240-2.085 and Section 386.480.

7. MGE's request for authority to defer the fixed cost components of the Company's rates resulting from sales lost due to the tornado be denied.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Case No. GU-2011-0392

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
)
COUNTY OF COLE)

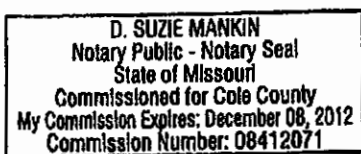
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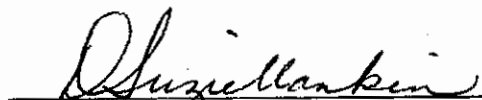
COMES NOW Mark L. Oligschlaeger, being of lawful age, and on his oath states that as a Utility Regulatory Auditor V, in the Auditing Department of the Utility Services Division, he has the knowledge of matters as follows: Amanda C. McMellen is a Utility Regulatory Auditor IV in the Missouri Public Service Commission's Auditing Department. Amanda C. McMellen of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.



Mark L. Oligschlaeger

Subscribed and sworn to before me this 19th day of August, 2011.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

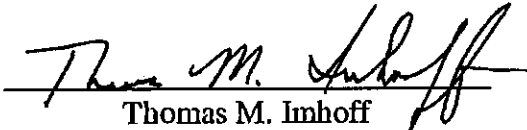
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Case No. GU-2011-0392

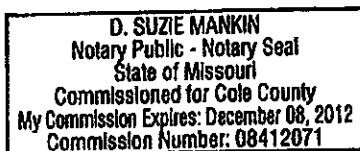
AFFIDAVIT OF THOMAS M. IMHOFF

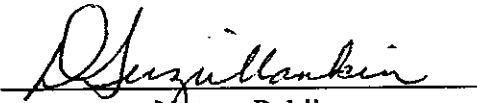
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Thomas M. Imhoff of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.


Thomas M. Imhoff

Subscribed and sworn to before me this 19th day of August, 2011.




Notary Public

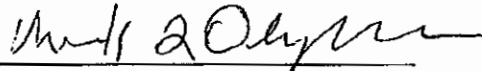
BEFORE THE PUBLIC SERVICE COMMISSION
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AFFIDAVIT OF MARK L. OLIGSCHLAEGER

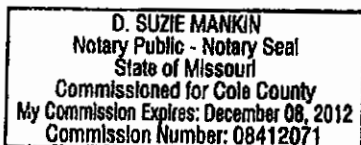
STATE OF MISSOURI)
) ss.
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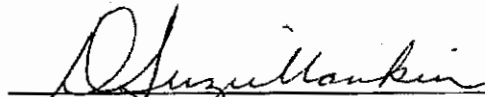
Mark L. Oligschlaeger of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Mark L. Oligschlaeger

Subscribed and sworn to before me this 19th day of August, 2011.





Notary Public

File No. GU-2011-0392
Missouri Gas Energy
Annual Comparison of Earnings

Twelve Months Ended 9/30/11

Net Sales Margin (1)	203.7
Less: Fixed Expenses (2)	155.0
PreTax Operating Income	48.7
Less: Income Taxes/Other Deductions (3)	18.9
Net Income Available to Common Shareholders (4)	29.8

Twelve Months Ended 9/30/10

Net Sales Margin (1)	205.1
Less: Fixed Expenses (2)	141.2
PreTax Operating Income	63.9
Less: Income Taxes/Other Deductions (3)	23.7
Net Income Available to Common Shareholders (4)	40.2

(All Numbers Stated in Millions)

- (1) Total Revenues Excluding PGA Revenues
- (2) Operating Expenses Excluding Gas Costs
- (3) Income Taxes, Misl. Interest, Other Income
- (4) Includes Interest on Long Term Debt

Source: MGE Response to Staff Data Request No. 17

File No. GU-2011-0392
Missouri Gas Energy
Quarterly Comparison of Earnings

Three Months Ended 9/30/11

Net Sales Margin (1)	46.1
Less: Fixed Expenses (2)	38.4
PreTax Operating Income	7.7
Less: Income Taxes/Other Deductions (3)	3.0
Net Income Available to Common Shareholders (4)	4.7

Three Months Ended 9/30/10

Net Sales Margin (1)	46.5
Less: Fixed Expenses (2)	38.4
PreTax Operating Income	8.1
Less: Income Taxes/Other Deductions (3)	3.1
Net Income Available to Common Shareholders (4)	5.0

(All Numbers Stated in Millions)

- (1) Total Revenues Excluding PGA Revenues
- (2) Operating Expenses Excluding Gas Costs
- (3) Income Taxes, Misl. Interest, Other Income
- (4) Includes Interest on Long Term Debt

Source: MGE Response to Staff Data Request No. 17