

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)
MICHIGAN GAS UTILITIES CORPORATION)
for authority to increase retail natural gas rates.)
_____)

Case No. U-15990

DIRECT TESTIMONY OF

KATHERINE A. DE CRAMER

FOR

MICHIGAN GAS UTILITIES CORPORATION

July 1, 2009

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BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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**QUALIFICATIONS
OF
KATHERINE A. DE CRAMER
PART I**

1 **Q. Please state your name, business address and position.**

2 A. My name is Katherine A. De Cramer. My business address is Integrys Business
3 Support, LLC ("IBS"), 700 North Adams Street, P.O. Box 19001, Green Bay, WI
4 54307-9001. I am a Rate Case Consultant in the Regulatory Affairs Department of
5 Integrys Energy Group, Inc ("Integrys"). Both IBS and Michigan Gas Utilities
6 Corporation ("MGUC") are wholly-owned subsidiaries of Integrys. Integrys resulted
7 from the February 21, 2007 merger between WPS Resources Corporation ("WPSR")
8 and Peoples Energy Corporation.

9
10 **Q. For whom are you providing testimony?**

11 A. I am providing testimony on behalf of MGUC.

12

13 **Q. Please describe briefly your educational, professional, and utility background.**

14 A. I have a Bachelors Degree from Lakeland College, Sheboygan, Wisconsin in
15 Accounting. I have a Masters in Business Administration Degree ("MBA") from the
16 University of Wisconsin-Oshkosh, and a Master of Science Degree in Information
17 Systems from the University of Wisconsin-Oshkosh.

18

19 In June of 2003, I was hired by Wisconsin Public Service Corporation ("WPS Corp")

1 as a Revenue Requirements Forecaster in the Regulatory Affairs Department. While
2 working as a Revenue Requirements Forecaster, my primary responsibility was the
3 revenue requirements analysis for WPS Corp's wholesale electric jurisdiction. Since
4 the acquisition of MGUC in 2006, my job responsibilities have expanded to include
5 the revenue requirements analyses for MGUC, as well. In January of 2009, I
6 became a Rate Case Consultant within the Regulatory Affairs Department.

7

8 **Q. Have you previously testified before any regulatory agency?**

9 A. No, I have not. I have, however, participated in the preparation of various
10 accounting and filing exhibits for WPS Corp and MGUC for presentation to the Public
11 Service Commission of Wisconsin ("PSCW"), and the Michigan Public Service
12 Commission ("Commission").

**KATHERINE A. DE CRAMER
DIRECT TESTIMONY
PART II**

1 **Q. What is the purpose of your pre-filed direct testimony?**

2 A. The purpose of my pre-filed direct testimony is to provide an explanation of the
3 methodology used to the develop MGUC's revenue deficiency for the 2010 projected
4 test year.

5
6 **Q. Are you sponsoring any exhibits in this proceeding?**

7 A. Yes, I am. I am sponsoring:

- 8
9 1. Exhibit A-1 (KAD-1), Schedule A1,
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11 2. Exhibit A-2 (KAD-2), Schedules B1-B6,
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13 3. Exhibit A-3 (KAD-3), Schedules C1-C20,
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15 4. Exhibit A-7 (KAD-4),
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17 5. Exhibit A-8 (KAD-5),
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19 6. Exhibit A-10 (KAD-6),
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21 7. Exhibit A-11 (KAD-7), Schedule A1,
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23 8. Exhibit A-12 (KAD-8), Schedules B1-B4, and
24
25 9. Exhibit A-13 (KAD-9), Schedules C1-C11.
26

27 **Q. Were these exhibits prepared by you or under your direction and supervision?**

28 A. Yes, they were.
29

30 **Q. Please describe Schedule A1 of Exhibit A-1 (KAD-1).**

31 A. Schedule A1 of Exhibit A-1 (KAD-1) calculates MGUC's 2010 projected test year
32 revenue deficiency based on its rate base, adjusted net operating income, rate of
33 return, and revenue conversion factor.
34

- 1 **Q. Please describe Schedule B1 of Exhibit A-2 (KAD-2).**
- 2 A. Schedule B1 of Exhibit A-2 (KAD-2) calculates MGUC's 2010 projected test year rate
3 base.
- 4
- 5 **Q. Please describe Schedule B2 of Exhibit A-2 (KAD-2).**
- 6 A. Schedule B2 of Exhibit A-2 (KAD-2) calculates MGUC's 2010 projected test year
7 utility plant.
- 8
- 9 **Q. Please describe Schedule B3 of Exhibit A-2 (KAD-2).**
- 10 A. Schedule B3 of Exhibit A-2 (KAD-2) depicts MGUC's 2010 projected test year
11 accumulated provision for depreciation.
- 12
- 13 **Q. Please describe Schedule B4 of Exhibit A-2 (KAD-2).**
- 14 A. Schedule B4 of Exhibit A-2 (KAD-2) calculates MGUC's 2010 projected test year
15 working capital.
- 16
- 17 **Q. Please describe Schedule B5 of Exhibit A-2 (KAD-2).**
- 18 A. Schedule B5 of Exhibit A-2 (KAD-2) identifies the capital projects with expenditures
19 greater than \$500,000 forecasted from July 2008 through December 2010.
- 20
- 21 **Q. Please describe Schedule B6 of Exhibit A-2 (KAD-2).**
- 22 A. Schedule B6 of Exhibit A-2 (KAD-2) is a trending analysis of MGUC's rate base from
23 2002 through the 2010 projected test year.
- 24
- 25 **Q. Please describe Schedule C1 of Exhibit A-3 (KAD-3).**
- 26 A. Schedule C1 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year
27 adjusted net operating income.

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Q. Please describe Schedule C2 of Exhibit A-3 (KAD-3).

A. Schedule C2 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year gross revenue conversion factor.

Q. Please describe Schedule C3 of Exhibit A-3 (KAD-3).

A. Schedule C3 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year total revenue.

Q. Please describe Schedule C4 of Exhibit A-3 (KAD-3).

A. Schedule C4 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year cost of gas.

Q. Please describe Schedule C5 of Exhibit A-3 (KAD-3).

A. Schedule C5 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year total operation and maintenance ("O&M") expense, exclusive of the cost of gas.

Q. Please describe Schedule C6 of Exhibit A-3 (KAD-3).

A. Schedule C6 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year total depreciation and amortization expense.

Q. Please describe Schedule C7 of Exhibit A-3 (KAD-3).

A. Schedule C7 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year total for taxes other than income taxes.

Q. Please describe Schedule C8 of Exhibit A-3 (KAD-3).

A. Schedule C8 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year

1 federal income taxes.

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3 **Q. Please describe Schedule C9 of Exhibit A-3 (KAD-3).**

4 A. Schedule C9 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year state
5 income taxes.

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7 **Q. Please describe Schedule C10 of Exhibit A-3 (KAD-3).**

8 A. Schedule C10 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year local
9 taxes.

10

11 **Q. Please describe Schedule C11 of Exhibit A-3 (KAD-3).**

12 A. Schedule C11 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year
13 AFUDC.

14

15 **Q. Please describe Schedule C12 of Exhibit A-3 (KAD-3).**

16 A. Schedule C12 of Exhibit A-3 (KAD-3) develops the O&M costs for MGUC's 2010
17 projected test year.

18

19 **Q. Please describe Schedule C13 of Exhibit A-3 (KAD-3).**

20 A. Schedule C13 of Exhibit A-3 (KAD-3) calculates the "Known and Measurable"
21 ("K&M") adjustment for Acquisition Related Transition Costs. Both labor and non-
22 labor costs were included in this adjustment.

23

24 **Q. Please describe Schedule C14 of Exhibit A-3 (KAD-3).**

25 A. Schedule C14 of Exhibit A-3 (KAD-3) calculates the K&M adjustment for charges
26 from Vertex, which was formerly known as Alliance Data Systems ("ADS"). Vertex
27 provides third-party customer service functions (call center, dispatch, billing,

1 payment processing, etc.) for MGUC.

2

3 **Q. Please describe Schedule C15 of Exhibit A-3 (KAD-3).**

4 A. Schedule C15 of Exhibit A-3 (KAD-3) calculates the K&M adjustment associated with
5 the amortization of Manufactured Gas Plant remediation costs.

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7 **Q. Please describe Schedule C16 of Exhibit A-3 (KAD-3).**

8 A. Schedule C16 of Exhibit A-3 (KAD-3) calculates the K&M adjustment associated with
9 Injuries and Damages.

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11 **Q. Please describe Schedule C17 of Exhibit A-3 (KAD-3).**

12 A. Schedule C17 of Exhibit A-3 (KAD-3) calculates the K&M adjustment associated with
13 uncollectibles expense.

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15 **Q. Please describe Schedule C18 of Exhibit A-3 (KAD-3).**

16 A. Schedule C18 of Exhibit A-3 (KAD-3) calculates the 2010 uncollectibles expense of
17 \$2,009,903, and supports Schedule C17 of Exhibit A-3 (KAD-3).

18

19 **Q. Please describe Schedule C19 of Exhibit A-3 (KAD-3).**

20 A. Schedule C19 of Exhibit A-3 (KAD-3) calculates the K&M adjustment for the
21 PeopleSoft accounting and supply chain system upgrade at IBS.

22

23 **Q. Please describe Schedule C20 of Exhibit A-3 (KAD-3).**

24 A. Schedule C20 of Exhibit A-3 (KAD-3) calculates the K&M adjustment associated with
25 increased benefit costs for MGUC.

26

27

1 **Q. Please describe Exhibit A-7 (KAD-4).**

2 A. Exhibit A-7 (KAD-4) calculates the inflation factors for 2009 and 2010 that were
3 applied to the 2008 historic test year O&M expenses to determine 2010 projected
4 test year O&M expenses, exclusive of K&M items.

5

6 **Q. Please describe Exhibit A-8 (KAD-5).**

7 A. Exhibit A-8 (KAD-5) is a sample calculation for the proposed Uncollectible Expense
8 True-Up Mechanism ("UETM").

9

10 **Q. Please describe Exhibit A-10 (KAD-6).**

11 A. Exhibit A-10 (KAD-6) is a summary of Awards & Recognition earned by Integrys and
12 Integrys subsidiaries during 2006-2009.

13

14 **Q. Please describe Schedule A1 of Exhibit A-11 (KAD-7).**

15 A. Schedule A1 of Exhibit A-11 (KAD-7) calculates MGUC's 2008 historic test year
16 revenue deficiency based on its rate base, adjusted net operating income, rate of
17 return, and revenue conversion factor.

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19 **Q. Please describe Schedule B1 of Exhibit A-12 (KAD-8).**

20 A. Schedule B1 of Exhibit A-12 (KAD-8) calculates MGUC's 2008 historic test year rate
21 base.

22

23 **Q. Please describe Schedule B2 of Exhibit A-12 (KAD-8).**

24 A. Schedule B2 of Exhibit A-12 (KAD-8) calculates MGUC's 2008 historic test year
25 utility plant.

26

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1 **Q. Please describe Schedule B3 of Exhibit A-12 (KAD-8).**

2 A. Schedule B3 of Exhibit A-12 (KAD-8) depicts MGUC's 2008 historic test year
3 accumulated provision for depreciation.

4

5 **Q. Please describe Schedule B4 of Exhibit A-12 (KAD-8).**

6 A. Schedule B4 of Exhibit A-12 (KAD-8) calculates MGUC's 2008 historic test year
7 working capital.

8

9 **Q. Please describe Schedule C1 of Exhibit A-13 (KAD-9).**

10 A. Schedule C1 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year
11 adjusted net operating income.

12

13 **Q. Please describe Schedule C2 of Exhibit A-13 (KAD-9).**

14 A. Schedule C2 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year
15 gross revenue conversion factor.

16

17 **Q. Please describe Schedule C3 of Exhibit A-13 (KAD-9).**

18 A. Schedule C3 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year total
19 revenue.

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21 **Q. Please describe Schedule C4 of Exhibit A-13 (KAD-9).**

22 A. Schedule C4 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year total
23 cost of gas.

24

25 **Q. Please describe Schedule C5 of Exhibit A-13 (KAD-9).**

26 A. Schedule C5 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year total
27 O&M expense, exclusive of the cost of gas.

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Q. Please describe Schedule C6 of Exhibit A-13 (KAD-9).

A. Schedule C6 of Exhibit A-13 (KAD-9) depicts MGUC’s 2008 historic test year total depreciation and amortization expense.

Q. Please describe Schedule C7 of Exhibit A-13 (KAD-9).

A. Schedule C7 of Exhibit A-13 (KAD-9) calculates MGUC’s 2008 historic test year total for taxes other than income taxes.

Q. Please describe Schedule C8 of Exhibit A-13 (KAD-9).

A. Schedule C8 of Exhibit A-13 (KAD-9) depicts MGUC’s 2008 historic test year federal income taxes.

Q. Please describe Schedule C9 of Exhibit A-13 (KAD-9).

A. Schedule C9 of Exhibit A-13 (KAD-9) depicts MGUC’s 2008 historic test year state income taxes.

Q. Please describe Schedule C10 of Exhibit A-13 (KAD-9).

A. Schedule C10 of Exhibit A-13 (KAD-9) depicts MGUC’s 2008 historic test year local taxes.

Q. Please describe Schedule C11 of Exhibit A-13 (KAD-9).

A. Schedule C11 of Exhibit A-13 (KAD-9) depicts MGUC’s 2008 historic test year Allowance of Funds Used During Construction (“AFUDC”).

1 **Background**

2 **Q. Are you familiar with the application of MGUC for authority to increase retail**
3 **gas rates?**

4 A. Yes, I am.

5

6 **Q. Please provide a brief description of MGUC and the area it serves.**

7 A. MGUC is a corporation organized under the laws of the state of Delaware, with its
8 principal office located at 899 S. Telegraph Road, Monroe, Michigan 48161, and is
9 authorized to transact business in the state of Michigan. MGUC is a subsidiary of
10 Integrys, which prior to February 21, 2007, was known as WPSR. MGUC is a sister
11 utility company to UPPCO and WPS Corp, both of which are also regulated by this
12 Commission. MGUC is also a sister utility company to, among others, Minnesota
13 Energy Resources Corporation, The Peoples Gas Light and Coke Company, and
14 North Shore Gas Company, none of which is regulated by this Commission. MGUC
15 was acquired by WPSR from Aquila, Inc. on April 1, 2006 as authorized by the
16 Commission's order in Case No. U-14657. Prior to its acquisition by WPSR, MGUC
17 conducted business as "Aquila Networks – MGU".

18 MGUC is a public utility engaged in the purchase, storage, transportation, distribution
19 and sale of natural gas to approximately 166,000 customers in 147 communities in
20 the Southern and Western portions of Michigan's lower peninsula.

22

23 Integrys and its subsidiaries have been recognized as superior performers in the
24 utility industry, as summarized on Exhibit A-10 (KAD-6).

25

26 **Q. Please describe the most recent rate relief obtained by MGUC.**

27 A. In the most recent rate case, Case No. U-15549, MGUC used a 2009 test year. A
28 settlement was reached and approved by the Commission granting rate relief of \$6.0

1 million, based on an overall rate of return of 7.60%, and a return on common equity
2 of 10.45%, effective January 14, 2009. MGUC's rates for retail gas service
3 established in Case No. U-15549 do not reflect the current costs of providing retail
4 gas service, and MGUC requires further rate relief.

5
6 **Q. Please explain, generally, why rate relief is sought at this time.**

7 A. First, the 2008 historic test year indicates that MGUC suffered a revenue deficiency
8 of \$7,561,201. This corresponds to a 5.7% return on common equity. This value is
9 well below MGUC's authorized return on common equity of 10.45% authorized in
10 MGUC's most recent general rate case proceeding in Case No. U-15549. Even if
11 the \$6.0 million of rate relief that became effective on January 14, 2009 was imputed
12 into the 2008 historical test year, MGUC still would have suffered a revenue
13 deficiency in 2008. MGUC expects to suffer a significant revenue deficiency in 2009
14 and 2010 as well.

15
16 Second, based in part on the world-wide financial turmoil over the past year,
17 MGUC's cost of capital has increased. This topic is discussed in more detail in the
18 pre-filed direct testimony of Ms. Lisa J. Gast, CPA; and Mr. Paul R. Moul.

19
20 Third, from the 2008 historic test year to the 2010 projected test year, MGUC has
21 forecasted a margin revenue decrease of \$1.2 million due to lowering sales and a
22 weak economy.

23
24 Fourth, from the 2008 historic test year to the 2010 projected test year, MGUC will
25 experience increased billings from Vertex to provide third-party customer service
26 functions such call handling, dispatch, billing, payment processing, etc. Vertex was
27 formerly known as ADS.

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Fifth, based in part on the world-wide financial turmoil over the past year, MGUC's employee benefits costs have increased. This topic is discussed in more detail in the pre-filed direct testimony of Christine M. Phillips, CPA.

Sixth, general inflation is expected to increase costs at a rate of about 4.63% over the 2008-2010. MGUC's estimate for inflation for 2009 and 2010 was calculated using a methodology similar to that used by MPSC Staff witness, Kirk K. Megginson, in Case No. U-14893, SEMCO Energy Gas Company's 2007 general rate case.

As shown above, the growth in revenues has not kept up with the growth in costs.

MGUC Witnesses

Q. Please identify the MGUC witnesses, and indicate the subjects they will address in their testimony.

- A. I provide testimony and evidence regarding:
- 1. The revenue deficiency, including
 - a. O&M Expenses,
 - b. K&M Items,
 - c. Common equity adjustments,
 - d. Capital structure adjustments,
 - e. Rate base, and
 - f. Operating Income
 - 2. Depreciation rates,
 - 3. Bonus Depreciation,
 - 4. Implementation of an uncollectible expense true-up mechanism,
 - 5. Implementation of a decoupling mechanism,
 - 6. Interim rates, and
 - 7. Gas Costs and Revenues.

Ms. Lisa J. Gast, CPA, provides testimony on MGUC's capital structure and

1 requested return on common equity.

2

3 Ms. Valerie H. Grace provides testimony on MGUC's decoupling proposal.

4

5 Ms. Joylyn C. Hoffman Malueg provides testimony on the class cost of service
6 studies.

7

8 Mr. Harry W. Johns provides testimony on the sales forecast.

9

10 Ms. Linda M. Kallas provides testimony on IBS charges.

11

12 Mr. Paul R. Moul provides testimony on the required return on common equity.

13

14 Ms. Christine M. Phillips, CPA, provides testimony regarding employee benefits.

15

16 Mr. David J. Tyler provides testimony on rate design, including the proposed rate
17 design for interim rate relief.

18

19 **The Revenue Deficiency**

20 **Q. What is the amount of rate relief MGUC is seeking in this proceeding?**

21 A. MGUC's analysis of the test year ending December 31, 2010 indicates a need for an
22 annual rate increase of \$8,444,435, or 4.5%, for retail gas operations. This increase
23 is based on the rates authorized in the Commission's January 13, 2009 Order
24 Approving Settlement Agreement in Case No. U-15549, and a proposed return on
25 common equity of 12.00%, which is supported by the pre-filed direct testimony of Mr.
26 Paul R. Moul.

27

28 The rates sponsored by Mr. David J. Tyler are designed to produce the requested

1 revenue requirement, and to move toward the MGUC goal of a rate design where
2 each rate schedule will return the overall allowed rate of return, consistent with
3 MGUC's cost of service study, MGUC's rate design general principles, and existing
4 law.

5
6 **Q. What test period is MGUC's proposed rate increase based on?**

7 A. MGUC has used a projected test year ending December 31, 2010.

8
9 **O&M Expenses**

10 **Q. Please describe how MGUC developed 2010 O&M expenses.**

11 A. MGUC started with 2008 actual O&M expenses, and inflated them to 2010 using
12 inflation factors developed by a methodology similar to that used by MPSC Staff
13 witness, Kirk D. Megginson, in Case No. U-14893, SEMCO Energy Gas Company's
14 2007 general rate case. The inflation factors used were 1.47% for 2009, and 3.11%
15 for 2010, as developed on Exhibit A-7 (KAD-4). MGUC then adjusted this 2010 O&M
16 expense value for certain items, as shown on Schedules C12 – C20 of Exhibit A-3
17 (KAD-3).

18
19 **K&M Items**

20 **Q. Please describe the K&M adjustments included in the 2010 projected test year
21 O&M expenses, as detailed on Schedules C12 – C20 of Exhibit A-3 (KAD-3),
22 compared to actual O&M expenses from the 2008 historic test year.**

23 A. There are seven K&M adjustments. Three are K&M increases, and four are K&M
24 decreases.

25
26 MGUC has defined K&M items to be any O&M cost item that was increased (or
27 decreased) at a rate other than the rates of inflation calculated on Exhibit A-7 (KAD-
28 4).

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The three K&M increases are associated with:

1. Increased billings from Vertex to provide third-party customer service functions such call handling, dispatch, billing, payment processing, etc. Vertex was formerly known as ADS.
2. The costs of the PeopleSoft accounting and supply chain system upgrade at IBS, and
3. Increased Benefit costs.

The four K&M decreases are associated with:

1. Manufactured Gas Plant Remediation costs,
2. Injuries and Damages,
3. Uncollectibles expense, and
4. Acquisition Related Transition Costs.

Each of these K&M adjustments is discussed in further detail later in this testimony.

Q. Please explain Schedule A1 of Exhibit A-1 (KAD-1).

A. Schedule A1 of Exhibit A-1 (KAD-1) calculates MGUC's 2010 projected test year revenue deficiency based on its rate base, adjusted net operating income, rate of return, and revenue conversion factor. This schedule indicates that the 2010 Total Company revenue deficiency is \$8,444,435, or 4.5%, based on the rates authorized in the Commission's January 13, 2009 Order Approving Settlement Agreement in Case No. U-15549, and a proposed 12.00% return on equity, as shown on Line 16. The component parts of this schedule are taken from the various sources indexed to the left of each value.

Common Equity Adjustments

Q. What adjustments were made to the equity portion of MGUC's capital structure?

1 A. MGUC has removed certain accounts both from the 2008 historic test year and the
2 2010 projected test year. For both the 2008 historic test year and the 2010 projected
3 test year, Goodwill, Trade Name, and the associated deferred income taxes, were
4 removed from MGUC's Equity balance. This resulted in a reduction of equity of
5 \$132,057,352 in 2008, and \$124,239,704 in 2010, which tends to reduce the
6 revenue requirement.

7

8 **Capital Adjustments**

9 **Q. What adjustments were made to MGUC's overall capital structure?**

10 A. For both the 2008 historic test year and the 2010 projected test year, interest bearing
11 accounts in working capital were removed from the capital structure to prevent
12 MGUC from earning a return on these items. This adjustment included items related
13 to:

- 14 1. GCR Over/Under Collections, and
- 15 2. Customer Advances and Deposits.

16 This resulted in a reduction in the capital structure of \$11,252,181 in 2008, and
17 \$13,048,786 in 2010, which tends to reduce the revenue requirement.

18

19 **Rate Base**

20 **Q. Please explain Schedule B1 of Exhibit A-2 (KAD-2).**

21 A. Schedule B1 of Exhibit A-2 (KAD-2) calculates MGUC's 2010 projected test year rate
22 base. The 2010 Total Company rate base is \$189,879,193, as shown on Line 21.
23 The component parts of this schedule are taken from the various sources indexed to
24 the left of these amounts. Also, all values shown are 13-month averages.

25

26 **Q. Please explain Schedule B2 of Exhibit A-2 (KAD-2).**

27 A. Schedule B2 of Exhibit A-2 (KAD-2) depicts MGUC's 2010 projected test year utility
28 plant. To arrive at the 2010 projected test year utility plant, the June 30, 2008 actual

1 balance of utility plant was projected forward using MGUC's 2008, 2009, and 2010
2 construction budgets. The 2010 Total Company utility plant is \$294,770,124, as
3 shown on Line 13. Also, all values shown are 13-month averages.

4

5 **Q. Please explain Schedule B3 of Exhibit A-2 (KAD-2).**

6 A. Schedule B3 of Exhibit A-2 (KAD-2) depicts MGUC's 2010 projected test year
7 accumulated provision for depreciation. To arrive at the 2010 projected test year
8 accumulated provision for depreciation, the June 30, 2008 actual balance of
9 accumulated provision for depreciation was projected forward using MGUC's 2008,
10 2009, and 2010 construction budgets. The 2010 Total Company accumulated
11 provision for depreciation is \$158,319,815, as shown on Line 2. Also, all values
12 shown are 13-month averages.

13

14 **Q. Please explain Schedule B4 of Exhibit A-2 (KAD-2).**

15 A. Schedule B4 of Exhibit A-2 (KAD-2) calculates MGUC's 2010 projected test year
16 working capital. The 2010 Total Company working capital is \$53,428,884, as shown
17 on Line 38. Also, all values shown are 13-month averages.

18

19 **Q. Please explain Schedule B5 of Exhibit A-2 (KAD-2).**

20 A. Schedule B5 of Exhibit A-2 (KAD-2) identifies the projects that have capital
21 expenditures greater than \$500,000 for the time period of July 2008 through June
22 2010. These expenditures were forecasted in our 2009 budget process which
23 occurred in the fall of 2008, and then updated in December 2008.

24

25 In addition to the South Haven Integrity project described below, Schedule B5 also
26 details the expenditures for "routine" projects such as Gas Revenue Extensions, Gas
27 Service Extensions, Fleet additions, and other Miscellaneous gas projects.

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Q. Please explain the South Haven Integrity project, as shown on Schedule B5 of Exhibit A-2 (KAD-2).

A. South Haven and the twin cities of Douglas/Saugatuck are two Lake Michigan shoreline communities separated geographically by about fifteen miles. MGUC serves both communities with two separate distribution systems, separated by approximately six miles. Over the years, residential and commercial growth has stressed both distribution systems to the point where peak day deliveries would be jeopardized if actions to enhance the distribution system in this area were not completed. MGUC's Operating Standards state that when a 50% pressure drop is experienced in system pressures, MGUC will consider taking corrective action. At varying points in time, each of these systems was experiencing pressure drops of up to 60%. Furthermore, strong growth of large homes along the Lake Michigan lakefront also prompted MGUC to take action.

The first phase of a long range plan was to install 22,700 feet of 4" steel high pressure line to the north end of South Haven, which was completed in the fall of 2008. This new feed into the north end of the South Haven distribution system now provides adequate supply for the South Haven system. It will also provide the needed capacity to serve the twin cities of the Douglas/Saugatuck distribution system when a connector distribution system is installed in the future.

The route chosen for the high pressure line was strategic in order to gain the most new customers along the way. Seventeen service lines have been connected to this high pressure line thus far with potential for an additional thirteen.

1 **Q. Please explain Schedule B6 of Exhibit A-2 (KAD-2).**

2 A. Schedule B6 of Exhibit A-2 (KAD-2) presents a projected 2010 rate base developed
3 by trending analysis. The results from this trending show that MGUC's 2010 trended
4 rate base based upon actual historical data from January 1, 2002 through December
5 31, 2008 is almost \$45 million higher than MGUC's 2010 projected test year rate
6 base in the instant general rate case proceeding, as shown on Line 35. Based on
7 the results of the rate base trending, it is very unlikely that the 2010 proposed test
8 year rate base used in this case is overstated.

9

10 The major reasons for the difference between the 2010 trended rate base and the
11 2010 forecasted rate base include a decrease in Net Plant of \$15M due to
12 forecasted capital spending being lower than the trended amount of capital
13 spending; and a decrease in Storage Gas of \$25M due to a lower cost of gas
14 commodity.

15

16 **Operating Income**

17 **Q. Please explain Schedule C1 of Exhibit A-3 (KAD-3).**

18 A. Schedule C1 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year
19 adjusted net operating income. The 2010 Total Company adjusted net operating
20 income is \$9,623,803, as shown on Line 22.

21

22 **Q. Please explain Schedule C2 of Exhibit A-3 (KAD-3).**

23 A. Schedule C2 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year
24 gross revenue conversion factor. The 2010 gross revenue conversion factor is
25 1.637, as shown on Line 16.

26

27

1 **Q. Please explain Schedule C3 of Exhibit A-3 (KAD-3).**

2 A. Schedule C3 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year
3 total revenue. The 2010 Total Company total revenue is \$188,644,604, as shown on
4 Line 6.

5

6 **Q. Please explain Schedule C4 of Exhibit A-3 (KAD-3).**

7 A. Schedule C4 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year
8 cost of gas. The 2010 Total Company cost of gas is \$129,245,488, as shown on
9 Line 7.

10

11 **Q. Please explain Schedule C5 of Exhibit A-3 (KAD-3).**

12 A. Schedule C5 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year
13 total O&M expense, exclusive of the cost of gas. The 2010 Total Company total
14 O&M expense, exclusive of the cost of gas, is \$34,572,202, as shown on Line 19.

15

16 **Q. Please explain Schedule C6 of Exhibit A-3 (KAD-3).**

17 A. Schedule C6 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year total
18 depreciation and amortization expense. The 2010 Total Company total depreciation
19 and amortization expense is \$7,648,263, as shown on Line 6.

20

21 **Q. Please explain Schedule C7 of Exhibit A-3 (KAD-3).**

22 A. Schedule C7 of Exhibit A-3 (KAD-3) calculates MGUC's 2010 projected test year
23 total for taxes other than income taxes. The 2010 Total Company total for taxes
24 other than income taxes is \$4,746,900, as shown on Line 29.

25

26 **Q. Please explain Schedule C8 of Exhibit A-3 (KAD-3).**

27 A. Schedule C8 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year

1 federal income taxes. The 2010 Total Company federal income taxes are
2 \$2,189,585, as shown on Line 2.

3

4 **Q. Please explain Schedule C9 of Exhibit A-3 (KAD-3).**

5 A. Schedule C9 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year state
6 income taxes. The 2010 Total Company state income taxes are \$382,761, as shown
7 on Line 2.

8

9 **Q. Please explain Schedule C10 of Exhibit A-3 (KAD-3).**

10 A. Schedule C10 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year local
11 taxes. The 2010 Total Company local taxes are \$0, as shown on Line 2.

12

13 **Q. Please explain Schedule C11 of Exhibit A-3 (KAD-3).**

14 A. Schedule C11 of Exhibit A-3 (KAD-3) depicts MGUC's 2010 projected test year
15 AFUDC. The 2010 Total Company AFUDC is \$0, as shown on Line 5.

16

17 **Q. Please explain Schedule C12 of Exhibit A-3 (KAD-3).**

18 A. Schedule C12 of Exhibit A-3 (KAD-3) develops the O&M costs for MGUC's 2010
19 projected test year. This series of workpapers starts with 2008 actual O&M
20 amounts, excluding the cost of gas. The 2008 expenses were first inflated at the
21 estimated inflation factors of 1.47% for 2009 and 3.11% for 2010, as calculated on
22 Exhibit A-7 (KAD-4). O&M was then adjusted for K&M items.

23

24 **Q. Please explain Schedule C13 of Exhibit A-3 (KAD-3).**

25 A. Schedule C13 of Exhibit A-3 (KAD-3) calculates the K&M adjustment for Acquisition
26 Related Transition Costs, including both labor and non-labor costs. These are costs
27 that were charged to MGUC in 2008 from IBS related to the Integrys merger, and

1 these costs are not expected to re-occur in 2010. This schedule shows the 2008
2 amount inflated to 2010 levels based on the inflation, and the associated reduction to
3 expense in the 2010 projected test year. Account 920 was reduced by \$136,115, as
4 shown on Line 8 of page 1; Account 921 was reduced by \$408,050, as shown on
5 Line 8 of page 2; and Account 926 was reduced by \$46,665, as shown on Line 8 of
6 page 3.

7
8 **Q. Please explain Schedule C14 of Exhibit A-3 (KAD-3).**

9 A. Schedule C14 of Exhibit A-3 (KAD-3) calculates the K&M adjustment for increased
10 costs from Vertex. Vertex provides third-party customer service functions for MGUC
11 (call center, dispatch, billing, payment processing, etc.). Vertex began to provide
12 these services in July 2006, shortly after the acquisition of MGUC by Integrys, and
13 after a competitive bidding process and subsequent negotiations were completed.
14 Contracting with Vertex to provide third-party customer service functions was
15 necessary because under Aquila ownership, MGUC utilized Aquila's centralized
16 systems for these functions, and ownership of Aquila's centralized systems remained
17 with Aquila after Integrys acquired MGUC. Because Integrys was not able to provide
18 these services to MGUC using WPS Corp's existing systems in a timely manner,
19 contracting with a third-party, like Vertex, was necessary.

20
21 The contract between MGUC and Vertex for these services is for a multiple year
22 term, and contains annual cost escalators. For the 2010 projected test year, MGUC
23 estimates that the K&M increase associated with these services will be \$1,378,778 in
24 Account 903, as shown on Line 8.

25
26 **Q. Please describe the K&M increase regarding costs to remediate former**
27 **manufactured gas plant sites.**

1 A. In its March 30, 1994 order in Case No. U-10503, and its November 10, 2005 order
2 in Case No. U-14657, the Commission authorized MGUC to employ deferred
3 accounting treatment for costs associated with the remediation of former
4 manufactured gas plant sites. Since 2002, MGUC has conducted remediation
5 activities at former manufactured gas plant sites located in:

- 6 1. Benton Harbor (Remedial investigations, source removal, groundwater
7 monitoring, and property acquisition)
8
- 9 2. Cadillac (Remedial investigations, groundwater monitoring, source
10 removal, and property acquisition)
11
- 12 3. Coldwater (Remedial investigations, source removal, and groundwater
13 monitoring)
14
- 15 4. Grand Haven (Remedial investigations, source removal, and groundwater
16 monitoring)
17
- 18 5. Hillsdale (Remedial investigations, source removal, and groundwater
19 monitoring)
20
- 21 6. Otsego (Remedial investigations, and property acquisition)
22
- 23 7. South Haven (Remedial investigations, source removal, and property
24 acquisition)
25
- 26 8. Sturgis (Groundwater monitoring and closure documentation)
27
- 28 9. Traverse City (Groundwater monitoring)
29

30 MGUC calculated the 2010 projected test year amortization expense in accordance
31 with the Commission's current practice of amortizing deferred manufactured gas
32 plant remediation costs on a vintage basis over ten years. Therefore, for the 2010
33 projected test year, MGUC has calculated a K&M decrease of \$12,975 in Account
34 735, as shown on Line 8.

35

36 **Q. For what time period has Commission Staff already audited MGUC's**
37 **Manufactured Gas Plant expenses?**

38 A. As documented in Paragraph 10(b) of the Settlement Agreement in Case No. U-
39 15549, Commission Staff has audited Manufactured Gas Plant expenses through

1 September 2008 business.

2

3 **Q. Please explain Schedule C16 of Exhibit A-3 (KAD-3).**

4 A. Schedule C16 of Exhibit A-3 (KAD-3) calculates the K&M adjustment associated with
5 Injuries and Damages. Because MGUC has only been under Integrys ownership
6 since April 1, 2006, the three year average of actual amounts from 2006 – 2008 was
7 used to calculate the 2010 projected test year amount, as Integrys does not have
8 actual Injuries and Damages data for periods prior to Integrys ownership. This
9 results in a total K&M decrease of \$133,754 in Account 925, as shown on Line 8.
10 Note that the 2006 data point was extrapolated using nine months of actual 2006
11 data, corresponding to Integrys' ownership of MGUC.

12

13 **Q. Please explain Schedule C17 of Exhibit A-3 (KAD-3).**

14 A. Schedule C17 of Exhibit A-3 (KAD-3) calculates the K&M adjustment associated with
15 uncollectibles expense. MGUC has forecasted its 2010 projected test year
16 uncollectibles expense to equal its 2004 - 2008 5-year historical average, which is
17 \$2,009,903. This results in a total K&M reduction of \$1,288,055 in Account 904, as
18 shown on Line 8. Uncollectibles data for periods prior to Integrys ownership was
19 used because it is publicly available in historical P-522 reports.

20

21 **Q. Please explain Schedule C18 of Exhibit A-3 (KAD-3).**

22 A. Schedule C18 of Exhibit A-3 (KAD-3) calculates the 2010 projected test year
23 uncollectibles expense of \$2,009,903 referenced in Schedule C17 of Exhibit A-3
24 (KAD-3). As shown on this exhibit, for the 5-year period 2004-2008, MGUC's
25 average net uncollectibles have equaled 1.06544% of MGUC's tariff revenues. This
26 value was multiplied by MGUC's 2010 projected test year retail revenues of
27 \$188,644,604 to arrive at a 2010 projected test year uncollectibles expense of

1 \$2,009,903, as shown on Line 14.

2

3 **Q. Please explain Schedule C19 of Exhibit A-3 (KAD-3).**

4 A. Schedule C19 of Exhibit A-3 (KAD-3) calculates the K&M adjustment for the
5 PeopleSoft accounting and supply chain system upgrade at IBS. This upgrade
6 begins in 2009, and will be fully operational in 2010. The benefits of this upgrade
7 include:

- 8 1. The leveraging of new functionality to streamline processes and realize
9 productivity improvements,
 - 10 2. The implementation of on-line access for suppliers and employees,
 - 11 3. Becoming compliant with PeopleSoft current releases, as Integrys is
12 currently 4 versions behind the current standard, and the existing Integrys
13 version will likely not be supported by PeopleSoft in the future,
 - 14 4. The movement toward standard delivered functionality,
 - 15 5. A reduced number of customizations, and
 - 16 6. A more robust functionality and data visibility from a project costing tool.
- 17
18
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22

23 The associated depreciation expense and carrying charges of this upgrade are
24 allocated from IBS to the various Integrys operating companies, including MGUC.
25 The estimated cost for MGUC in 2010 is \$328,808, which was included in Account
26 930, as shown on Line 8. The current PeopleSoft system is fully depreciated and no
27 amounts for depreciation or return are currently allocated to MGUC from IBS for the
28 use of this system. Therefore, the full \$328,808 is the "Known and Measurable"
29 addition.

30

31 **Q. Please explain Schedule C20 of Exhibit A-3 (KAD-3).**

32 A. Schedule C20 of Exhibit A-3 (KAD-3) calculates the Benefits K&M increase for
33 MGUC.

34

1 First, in the Commission's January 9, 2007 Order in Case No. U-15138, the
2 Commission authorized the deferral and amortization of MGUC's pension and OPEB
3 obligations recorded on its opening balance sheet as a result of the purchase of
4 MGUC from Aquila. As a result of this order, MGUC annually amortizes \$1,594,678
5 of expense. Because this amortization is not impacted by inflation, a K&M decrease
6 of \$73,765 in Account 926 was calculated to reverse the impact of inflation on this
7 amount, as shown on Line 8 of page 1.

8
9 Second, excluding the Account 926 impact of the K&M adjustment in Schedule C13
10 of Exhibit A-3 (KAD-3), and the amortization discussed above, MGUC is forecasting
11 a K&M increase for MGUC employees of \$1,643,001 in Account 926, as shown on
12 Line 8 of page 2. Further information regarding this calculation can be found on
13 page 2 of Schedule C20 of Exhibit A-3 (KAD-3), and in the pre-filed direct testimony
14 of Christine M. Phillips.

15
16 Taken together, these two adjustments result in a net K&M increase of \$1,569,236 in
17 Account 926.

18
19 **Q. Please explain Exhibit A-7 (KAD-4).**

20 A. Exhibit A-7 (KAD-4) calculates the inflation factors for 2009 and 2010 that were
21 subsequently applied to 2008 historic year O&M expenses to calculate 2010
22 projected test year O&M expenses. The schedule calculates the simple average of
23 five independent inflation forecasts, and results in an inflation factor of 1.47% for
24 2009, and 3.11% for 2010.

25
26 This methodology is similar to that used by MPSC Staff witness, Kirk K. Megginson,
27 in Case No. U-14893, SEMCO Energy Gas Company's 2007 general rate case.

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Q. Please explain Schedule A1 of Exhibit A-11 (KAD-7).

A. Schedule A1 of Exhibit A-11 (KAD-7) calculates MGUC's 2008 historic test year revenue deficiency based on its rate base, adjusted net operating income, rate of return, and revenue conversion factor. This schedule develops the 2008 Total Company revenue deficiency of \$7,561,201, as shown on Line 16, using a 10.45% return on equity. The component parts of this schedule are taken from the various sources indexed to the left of these amounts.

Q. Please explain Schedule B1 of Exhibit A-12 (KAD-8).

A. Schedule B1 of Exhibit A-12 (KAD-8) calculates MGUC's 2008 historic test year rate base. The 2008 Total Company rate base is \$213,109,426, as shown on Line 21. The component parts of this schedule are taken from the various sources indexed to the left of these amounts.

Q. Please explain Schedule B2 of Exhibit A-12 (KAD-8).

A. Schedule B2 of Exhibit A-12 (KAD-8) calculates MGUC's 2008 historic test year utility plant. The 2008 Total Company utility plant is \$281,322,068, as shown on Line 13.

Q. Please explain Schedule B3 of Exhibit A-12 (KAD-8).

A. Schedule B3 of Exhibit A-12 (KAD-8) depicts MGUC's 2008 historic test year accumulated provision for depreciation. The 2008 Total Company accumulated provision for depreciation is \$143,583,512, as shown on Line 2.

Q. Please explain Schedule B4 of Exhibit A-12 (KAD-8).

A. Schedule B4 of Exhibit A-12 (KAD-8) calculates MGUC's 2008 historic test year

1 working capital. The 2008 Total Company working capital is \$75,370,870, as shown
2 on Line 38.

3

4 **Q. Please explain Schedule C1 of Exhibit A-13 (KAD-9).**

5 A. Schedule C1 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year
6 adjusted net operating income. The 2008 Total Company adjusted net operating
7 income is \$10,890,953, as shown on Line 22.

8

9 **Q. Please explain Schedule C2 of Exhibit A-13 (KAD-9).**

10 A. Schedule C2 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year
11 gross revenue conversion factor. The 2008 gross revenue conversion factor is
12 1.637, as shown on Line 16.

13

14 **Q. Please explain Schedule C3 of Exhibit A-13 (KAD-9).**

15 A. Schedule C3 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year total
16 revenue. The 2008 Total Company total revenue is \$242,961,021, as shown on Line
17 6.

18

19 **Q. Please explain Schedule C4 of Exhibit A-13 (KAD-9).**

20 A. Schedule C4 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year cost
21 of gas. The 2008 Total Company cost of gas is \$186,145,205, as shown on Line 7.

22

23 **Q. Please explain Schedule C5 of Exhibit A-13 (KAD-9).**

24 A. Schedule C5 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year total
25 O&M expense, exclusive of the cost of gas. The 2008 Total Company total O&M
26 expense, exclusive of the cost of gas, was \$31,847,805, as shown on Line 19.

27

1 **Q. Please explain Schedule C6 of Exhibit A-13 (KAD-9).**

2 A. Schedule C6 of Exhibit A-13 (KAD-9) depicts MGUC's 2008 historic test year total
3 depreciation and amortization expense. The 2008 Total Company total depreciation
4 and amortization expense is \$7,308,988, as shown on Line 6.

5

6 **Q. Please explain Schedule C7 of Exhibit A-13 (KAD-9).**

7 A. Schedule C7 of Exhibit A-13 (KAD-9) calculates MGUC's 2008 historic test year total
8 for taxes other than income taxes. The 2008 Total Company total for taxes other
9 than income taxes is \$3,711,020, as shown on Line 29.

10

11 **Q. Please explain Schedule C8 of Exhibit A-13 (KAD-9).**

12 A. Schedule C8 of Exhibit A-13 (KAD-9) depicts MGUC's 2008 historic test year federal
13 income taxes. The 2008 Total Company federal income taxes are \$2,867,036, as
14 shown on Line 2.

15

16 **Q. Please explain Schedule C9 of Exhibit A-13 (KAD-9).**

17 A. Schedule C9 of Exhibit A-13 (KAD-9) depicts MGUC's 2008 historic test year state
18 income taxes. The 2008 Total Company state income taxes are \$426,747, as shown
19 on Line 2.

20

21 **Q. Please explain Schedule C10 of Exhibit A-13 (KAD-9).**

22 A. Schedule C10 of Exhibit A-13 (KAD-9) depicts MGUC's 2008 historic test year local
23 taxes. The 2008 Total Company local taxes are \$0, as shown on Line 2.

24

25 **Q. Please explain Schedule C11 of Exhibit A-13 (KAD-9).**

26 A. Schedule C11 of Exhibit A-13 (KAD-9) depicts MGUC's 2008 historic test year
27 AFUDC. The 2008 Total Company AFUDC is \$0, as shown on Line 5.

1

2 **Depreciation Rates**

3 **Q. What depreciation rates were used in this rate case?**

4 A. As required by the Commission's December 23, 2008 and February 20, 2009 Orders
5 in Case No. U-15895, MGUC used its currently approved depreciation rates and
6 practices approved in Case No. U-15550 to determine its 2010 revenue requirement
7 in the instant general rate case.

8

9 Also, in accordance with the Commission's April 30, 2009 Order in Case No. U-
10 15963, MGUC will be filing a depreciation study no later than July 31, 2009 to meet
11 the requirements of the Commission's June 26, 2007 Order in Case No. U-14292.
12 This depreciation study will have no impact on MGUC's 2010 revenue requirement.

13

14 **Bonus Depreciation**

15 **Q. How was "bonus depreciation" calculated in the 2008 historic test year, and
16 the 2010 projected test year?**

17 A. In February 2009, the American Recovery and Reinvestment Act of 2009 ("ARRA")
18 was signed into law. Included in ARRA is a provision that provides MGUC with
19 additional opportunities to claim tax deductions for "bonus depreciation" for certain
20 assets placed in service during 2009. This bonus depreciation was included when
21 the revenue requirement for the 2010 projected test year was calculated.

22

23 **Uncollectible Expense True-Up Mechanism**

24 **Q. Please explain the 2010 uncollectible expense forecasted for the 2010
25 projected test year.**

26 A. Schedule C17 of Exhibit A-3 (KAD-3) calculates the K&M adjustment associated with
27 uncollectibles expense. To be consistent with past practice, MGUC has forecasted
28 its 2010 projected test year uncollectibles expense equal to its 5-year historic

1 average, which is \$2,009,903. This results in a total K&M reduction of \$1,288,055 in
2 Account 904.

3

4 Schedule C18 of Exhibit A-3 (KAD-3) calculates the 2010 projected test year
5 uncollectibles expense of \$2,009,903 referenced in Schedule C17 of Exhibit A-3
6 (KAD-3). As shown on this exhibit, for the 5-year period 2004-2008, MGUC's
7 average net uncollectibles have equaled 1.06544% of MGUC's tariff revenues. This
8 value was multiplied by MGUC's 2010 projected test year revenues of \$188,644,604
9 to arrive at a 2010 projected test year uncollectibles expense of \$2,009,903.

10

11 **Q. Do you believe that the uncollectibles expense amount included in MGUC's**
12 **2010 projected test year is reflective of what will actually be experienced by**
13 **MGUC in 2010?**

14 A. No, I do not. The uncollectibles expense for the 2010 projected test year was
15 calculated by using past Commission practice, and it likely understates MGUC's
16 2010 uncollectibles expense. As seen by Exhibit A-3 (KAD-3), Schedule C18,
17 MGUC has experienced significant increases in its uncollectibles expense during the
18 last few years. In fact, on a compounded, annualized basis, the percentage increase
19 that MGUC has experienced with uncollectibles expense from 2004 to 2008 is
20 11.40%. If this trend were to continue, the uncollectible expense for the 2010
21 projected test year would be \$3,775,257, or \$1,765,354 higher than what is currently
22 included in the 2010 projected test year revenue requirement.

23

24 **Q. Does MGUC have a proposal regarding the treatment of uncollectibles**
25 **expense?**

26 A. Yes. MGUC proposes that an annual reconciliation procedure be implemented for
27 actual uncollectibles expense similar to that authorized for Michigan Consolidated

1 Gas Company in Case No. U-13898. This Uncollectible Expense True-up
2 Mechanism (“UETM”) would allow MGUC to recover the majority of its actual
3 uncollectibles expense while sparing the Commission the need to determine with
4 surety the proper allowance for uncollectibles expense in this general rate case
5 proceeding.

6

7 **Q. How would the UETM work?**

8 A. By July 30 of each calendar year, MGUC would submit a report to the Commission
9 comparing its actual uncollectibles expense with the uncollectibles allowance
10 recognized in this general rate case proceeding. Ninety percent (90%) of the
11 difference between these amounts plus carrying costs at the pre-tax weighted cost of
12 capital would represent the amount to be collected or refunded to MGUC's
13 customers over the subsequent 12-month period through a temporary surcharge or
14 credit. I would propose that the Commission adopt the \$2,009,903 as the base level
15 of uncollectibles expense in this case. The surcharge or credit would be calculated
16 for each of MGUC's rate schedules as described below.

17

18 Exhibit A-8 (KAD-5) shows in detail the calculation of the UETM surcharges,
19 including the proposed allocation factors to allocate the amounts to each MGUC rate
20 schedule. These allocators presented here are proposed to remain fixed until
21 MGUC's next general rate case proceeding.

22

23 **Q. Why would only 90% of the difference be subject to collection or refund?**

24 A. Similar to the approved UETM of Michigan Consolidated Gas Company, this 10%
25 risk provides an incentive to MGUC to minimize its actual uncollectible expense.

26

27

1 **Q. Please explain Exhibit A-8 (KAD-5).**

2 A. Line 1 assumes the actual uncollectible expense over a 12-month period was
3 \$3,775,257; this amount less the assumed \$2,009,903 approved in rates creates an
4 under-collection of \$1,765,354. Line 5 equals 90% of the under-collection or
5 \$1,588,819, and Line 7 equals Line 5 times 1 plus the pre-tax weighted average cost
6 of capital, yielding a Total MGUC UETM amount of \$1,765,813.

7
8 Lines 8 – 23 allocate amounts to each rate schedule based on 2010 projected test
9 year margin revenues by rate schedule. These amounts are divided by the 2010
10 forecasted sales to develop the surcharge that would be applied to each rate
11 schedule.

12

13 **Q. Should the Commission approve MGUC's proposed UETM?**

14 A. Yes, it should. MGUC's proposed UETM would allow MGUC to recover the majority
15 of its actual uncollectibles expense during uncertain economic times. Further,
16 MGUC's proposed UETM spares the Commission from the need to determine with
17 surety the proper allowance for uncollectibles expense in this general rate case
18 proceeding. Lastly, MGUC's proposed UETM is similar to that authorized by the
19 Commission for Michigan Consolidated Gas Company in Case No. U-13898.

20

21 **Decoupling Mechanism**

22 **Q. Is MGUC proposing decoupling mechanism in this proceeding?**

23 A. Yes, we are. MGUC's proposed decoupling mechanism is described in the pre-filed
24 direct testimony of Valerie H. Grace.

25

26 **Interim Rates**

27 **Q. Does MGUC intend to self-implement interim rates in this general rate**
28 **proceeding?**

1 A. Yes, we do. In accordance with MCL 460.6a(1), MGUC intends to self-implement
2 interim rates for service rendered on and after January 1, 2010. The interim rate
3 design is discussed in the pre-filed direct testimony of Mr. David J. Tyler.

4

5 **Matching of Gas Costs and Gas Cost Revenues**

6 **Q. Has MGUC matched gas costs and gas cost revenues in the calculation of the**
7 **revenue deficiency in this general rate case proceeding?**

8 A. Yes, we have. The gas cost recovery factors used to calculate Revenues on
9 Present Rates in this general rate case proceeding was calculated such that gas
10 costs equaled gas cost revenues, resulting in one-for-one recovery of gas costs.

11

12 **Q. Does this conclude your pre-filed direct testimony?**

13 A. Yes, it does.