

1 **BEFORE THE**
2 **PUBLIC SERVICE COMMISSION OF WISCONSIN**

3 Application of Madison Gas and Electric
4 Company for Authority to Change Electric
5 and Natural Gas Rates

Docket 3270-UR-118

6 **DIRECT TESTIMONY OF TAMARA J. JOHNSON**
7 **ON BEHALF OF APPLICANT**

8 **Q. Please state your name and title.**

9 A. My name is Tamara J. Johnson. I am the Senior Director - Financial Reporting and Budgets
10 for Madison Gas and Electric Company (MGE) and my business address is 133 South Blair
11 Street, Madison, Wisconsin.

12 **Q. What is your educational background and work experience?**

13 A. I graduated from the University of Wisconsin-Madison in 1986 with a bachelor of business
14 administration degree in accounting and information systems. Since June 1993, I have been
15 employed by MGE as an Internal Auditor, EDP Auditor, Director - Budgets and currently
16 Senior Director - Financial Reporting and Budgets. I have been in this position since July
17 2004. Prior to my employment with MGE, I was a Manager at Morton, Nehls and Tierney,
18 S.C., a public accounting firm located in Madison, Wisconsin. I am a Wisconsin certified
19 public accountant and a member of the Wisconsin Institute of Certified Public Accountants.

20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. The purpose of my testimony is to present the electric and gas income statements including
22 the operation and maintenance expense estimates for the test year (the 12 months ended
23 December 31, 2013), and the electric and gas average net investment ratebase for the test year.
24 I will also explain the major factors contributing to the Company's proposed rate increases and
25 the steps taken to hold down those increases.

1 **Q. Was Exhibit 1.1 prepared by you or under your supervision?**

2 A. Yes.

3 **Q. Please describe what is presented in Exhibit 1.1, Schedules 1 and 2.**

4 A. Both schedules contain the test year estimates and, for comparative purposes, the final figures
5 approved in Docket 3270-UR-117 (as adjusted by the limited re-opener Order dated
6 December 15, 2011, issued in the same docket) for operating revenues, operation and
7 maintenance (O&M) expenses, and other expenses to determine net operating income.
8 Schedule 1 relates to the electric utility and Schedule 2 relates to the gas utility.

9 **Q. Please explain the information on these schedules.**

10 A. For the electric utility, line 20 on Exhibit 1.1, Schedule 1 in the UR-118 column shows the
11 amount of \$26,108,000, which is the estimated net operating income for the test year under
12 present rates. This amount is used to show MGE's projected rate of return on ratebase for the
13 test year ending December 31, 2013 without a rate increase. This projected rate of return is
14 then used in Exhibit 1.2, Schedule 3, line 3, presented by Company witness Kenneth G.
15 Frassetto, to develop the revenue requirement for electric rates. Similarly, for the gas utility,
16 line 18 on Exhibit 1.1, Schedule 2 in the UR-118 column shows the amount of \$9,057,000,
17 which is the estimated net operating income for the test year under present rates. As with the
18 electric utility, this amount is used to show MGE's estimated rate of return on ratebase for the
19 test year ending December 31, 2013. This projected rate of return is then used in Exhibit 1.2,
20 Schedule 3, line 12 to develop the revenue requirement for gas rates.

21 **Q. Please describe the methodology used in developing the operation and maintenance**
22 **expense estimates shown on Schedule 1, lines 5 through 12 and Schedule 2, lines 4**
23 **through 10 of Exhibit 1.1.**

24 A. The Company has approximately 80 responsibility centers (RC). Each RC budgets for
25 expenditures based on various work activities it expects to perform. The RCs make estimates

1 of both labor and non-labor expenses. The labor and non-labor cost estimates are combined to
2 form the individual RC budgets. The Budget Department, with the aid of other Company
3 personnel where necessary, also budgets for items that are not covered by the budgets
4 prepared by individual RCs. Total expense estimates are accumulated and translated into
5 FERC accounts. These account estimates are compiled into an income statement that is
6 reviewed by the Budget Department.

7 **Q. Please explain the data contained on Exhibit 1.1, Schedule 3.**

8 A. Schedule 3 provides the basic data required for developing the average net investment
9 ratebase for the electric utility during the test year. Columns 1, 2, 4, 5, and 6 show the
10 component parts of the ratebase, resulting in the net amounts shown in Column 7. Column 8
11 shows the amounts of construction work in progress estimated for each month. All the
12 foregoing amounts are then totaled on line 14, and an average is developed on line 15 for each
13 column by dividing the total by 13. The average net investment ratebase for electric operations
14 for the test year is \$414,813,000 as shown on line 15, Column 7. Also developed on this
15 Schedule is the percentage of construction work in progress (CWIP) to net investment
16 ratebase. The percentage for the test year is 29.36% as shown on line 18 of Column 8.

17 **Q. Are there any large projects included in the 2013 construction work in progress balance**
18 **for the electric utility?**

19 A. Yes. Approximately \$99 million (13-month average) is included for the Columbia
20 environmental project approved in Docket 5-CE-138. Utilities would usually propose 100%
21 current return on CWIP for large construction projects. However, in an effort to lower the rate
22 impact, MGE is proposing that the cost of this construction project be treated similarly to
23 other smaller utility construction projects, with 50% categorized as current return on CWIP
24 and 50% categorized as allowance for funds used during construction (AFUDC).

1 **Q. Will you now turn to Exhibit 1.1, Schedule 4, and explain the information contained on**
2 **that page.**

3 A. Schedule 4 pertains to the gas utility. It is set up in the same manner as Schedule 3 and has
4 been computed in the same way. It should be noted that the average gas net investment
5 ratebase for the test year is \$136,452,000 and the percentage of construction work in progress
6 to average net investment ratebase is 5.47%.

7 **Q. Please describe the factors contributing to the increase in electric rates.**

8 A. Some of the contributing factors are:

9 1. Generation Costs. MGE is committed to providing a dependable, affordable and
10 environmentally responsible supply of energy to its customers. To that end, MGE is
11 involved in two major generation projects that are affecting 2013 rates.

12 a. Columbia. The two baseload units at Columbia require upgrades to comply with
13 current federal environmental standards. MGE will be investing \$140 million in a
14 scrubber project that will provide our customers with cleaner energy.

15 b. Elm Road Generating Station (ERGS). ERGS Unit 1 became operational in February
16 2010 and ERGS Unit 2 became operational in January 2011. The ERGS project was
17 the largest single construction project ever undertaken in the State of Wisconsin. The
18 100 MW of clean coal energy that the ERGS units produce on behalf of MGE will
19 assure our customers of an adequate supply of energy while allowing MGE and its
20 customers to be better stewards of the environment. In previous rate cases, an
21 estimated start date for the lease payments was assumed for each of the units. The
22 actual start dates for ERGS Unit 1 and ERGS Unit 2 ended up later than the estimates
23 and the excess lease payments collected resulted in a one-time benefit and were
24 returned to customers in the 2012 limited reopener. Also, for 2013 the Company has

1 included increased O&M expense as well as an increase in lease payments associated
2 with the final construction costs of the project.

3 2. Transmission-related costs. As noted earlier, the charges the Company will be assessed for
4 reliability purposes by ATC have also increased.

5 3. Fuel and Purchased Power. There is an increase in capacity costs related to power
6 purchase agreements.

7 **Q. Please describe the primary factor contributing to the increase in gas rates.**

8 A. The increase in natural gas rates is primarily due to increased ratebase associated with
9 infrastructure improvements which will enhance reliability of the gas distribution system.

10 **Q. Please describe the cost control measures MGE has implemented to minimize the
11 necessary increases in electric and gas rates.**

12 A. MGE took a number of steps to control costs and keep the requested increase as low as
13 possible. These include:

14 1. MGE made additional non-required cash contributions to its pension fund in order to
15 reduce pension expense for the 2013 test year.

16 2. MGE required all of its responsibility centers to scrutinize their budgets to ensure they
17 were at their lowest possible level while still providing safe and reliable energy to
18 customers and complying with all governmental requirements.

19 3. The Company has required increased employees' contributions to their medical insurance
20 premiums.

21 4. The Company revised its income tax methods of accounting for repairs based on the
22 Treasury regulations and case law. This aggressive tax change allows MGE to benefit
23 from tax savings (with a corresponding increase in deferred taxes). This change continues
24 to benefit customers both by creating cash flow and reducing ratebase.

1 5. The Company's CEO continues to review each open position with the goal of filling only
2 critical positions (those necessary for safety, reliability or compliance).

3 6. The Company accelerated the steps necessary to retire 90 MW at the Blount Generating
4 Station and to lower labor expenses associated with operating the plant.

5 **Q. Ms. Johnson, are you aware of any items that will need to be updated during the rate**
6 **case proceeding?**

7 A. Yes. The following items may need to be updated when additional information is available:

8 1. Electric fuel and purchased power costs. These will be updated before the Commission
9 makes its decision to reflect projected gas costs based on the most recent 12-month
10 NYMEX strip and the energy futures for 2013.

11 2. Pension and benefit costs. These will be updated, if necessary, during the audit or before
12 the hearings to reflect current market conditions.

13 3. Costs associated with ERGS, if applicable.

14 4. ATC network service fee (update estimate provided by ATC on October 1 of each year)
15 and MISO Schedule 26.

16 **Q. Is the proposed amount to be included in rates for MGE's costs in this proceeding less**
17 **than four times the total amount assessed to the Company under Sections 196.85(1) and**
18 **(2) of the Wisconsin Statutes?**

19 A. Yes.

20 **Q. Does that conclude your direct testimony?**

21 A. Yes.