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Issues:	Rate Design
Witness:	Michael J. Ensrud
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Direct Testimony
Case No.:	GR-2006-0422
Date Testimony Prepared:	October 20, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

MICHAEL J. ENSRUD

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Jefferson City, Missouri
October 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Missouri Service Area	))))	Case No. GR-2006-0422

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 11 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael J. Ensrud

Michael J. Ensrud

Subscribed and sworn to before me this 17th day of October, 2006.

Rosemary R. Robinson

Notary Public

My commission expires 9-23-2008

ROSEMARY R. ROBINSON
Notary Public - Notary Seal
State of Missouri
County of Callaway
My Commission Exp. 09/23/2008

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Q. Please state your name and business address.

A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Rate & Tariff Examiner II in the Energy Department of the Missouri Public Service Commission (Commission).

Q. What is your educational and professional experience?

A. I have a Bachelor of Science from Drake University in Accounting. I have attended the NARUC Annual Regulatory Studies Program at Michigan State University. In the regulatory field, I've worked for CompTel Missouri, and CommuniGroup, Inc., Teleconnect, Telecom* USA, and General Telephone Company of the Midwest in the private sector. In addition, I have four-years experience with the Iowa Public Utility Board – Iowa's equivalent to the Missouri Commission

Q. Have you previously testified before the Missouri Public Service Commission?

A. Yes, I have testified before this Commission. I have also filed written testimony and have testified in several other jurisdictions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the various tariff changes Missouri Gas Energy (MGE or Company) is proposing within the context of this case.

Executive Summary

I will address the following issues:

MGE's proposal to reduce the Unmetered Gaslight Service's Delayed Payment Charge to 0.5%;

MGE's proposal to establish a 36-month retention period for customer deposit repayments;

MGE's proposal to change the method of calculating customer deposits. MGE wants the lesser of two highest months or four average months in lieu of two highest months being the criteria;

MGE's proposal to collect transport costs from transport customers via the cash out provision;

MGE's proposal relating to a seven-month "minimum bill" recovery period for seasonal disconnects; and

MGE's proposal of a Standby Facilities Charge for transport customers.

Unmetered Gaslight Service's Delayed Payment Charge to 0.5%.

Q. Does Staff agree with MGE's proposed reduction in the Unmetered Gaslight Service's Delayed Payment Charge from 1.5% to 0.5%?

A. Staff agrees with this proposed change. This action constitutes correction of an oversight from a previous case. It brings the Delayed Payment Charge into line with what the other rate classes pay.

Customer Deposit Retention Period

Q What is Staff's position regarding MGE's proposal to expand the retention period of customer deposits from 12 months to 36 months?

A. Staff is opposed to this proposal. MGE's proposal violates the existing Rule. Rule 4 CSR 240-13.030 clearly states:

> (4) A deposit shall be subject to the following term:
> (D)…Upon satisfactory payment of all undisputed utility charges **during the last twelve (12) billing months**, it shall be promptly refunded or credited, with accrued interest, against charges stated on subsequent bills... **(Emphasis added).**

Staff further notes that MGE's stated justification for this proposed change, from MGE's response to Staff Data Request (DR) No. 132, is no more than discussions from a Commission Roundtable. Staff believes that the mere fact that Roundtable discussions have taken place on this topic is not a sufficient or appropriate reason to approve tariff language that is in direct violation of existing rules. Accordingly, the Commission should reject MGE's proposal.

Method of Calculating Customer Deposits

Q. What is Staff's position regarding MGE's proposal to change the method of calculating deposits from the current tariff deposit language that states that customer deposits shall not exceed two (2) times the highest bill to either the deposit shall not exceed two (2) times the highest bill option, or four (4) times the average bill option, whichever is less?

A. The Staff opposes MGE's proposal. Staff proposes that MGE's existing tariff and the current rules should be maintained. 4 CSR 240-13.030 - Deposits and Guarantees of Payment rule states:

> (4) A deposit shall be subject to the following terms:
> (A) It shall not exceed two (2) times the highest bill for utility charges actually incurred or estimated to be incurred by the customer during the most proximate twelve (12)-month period at the service location....

This proposed tariff revision is also predicated upon ongoing discussions from the Commission Roundtable (See MGE's response to Staff DR 129). Again, Staff believes that the fact that Roundtable discussions have taken place concerning this topic is not a sufficient or appropriate reason to approve tariff language that is in direct violation of existing rules. Accordingly, the Commission should reject MGE's proposal.

Transportation Cash Out Provision

Q. What is a transportation "cash out" provision and what is Staff's recommendation as to whether it should be modified to allow MGE to recover transportation costs?

A. A cash-out provision is a procedure in which transportation customers are allowed to resolve imbalances by cash payments, rather than making up imbalances with gas volumes in kind. An imbalance is a discrepancy between the amounts of gas a transportation customer delivers versus what it uses. A negative imbalance is created when a transport customer uses more gas than it delivers into MGE's system. On the other hand, a positive imbalance is created when the transport customer uses less gas than it delivers into MGE's system.

Staff accepts MGE's justification for expanding its existing cash-out provision to include the recovery of transportation costs from transportation customers. Since the cost of transporting gas to the city gate is a cost that MGE redistributes to firm customers via the PGA (See response to Staff DR No. 133), then the cost of transporting a transportation customer's gas, likewise, needs to be recovered. Unless the costs are recovered from the transportation customer who uses the delivered gas, such costs end up being redistributed to firm customers – who derived no benefit from the gas being consumed by the transportation customer.

Q. How will the revenues generated by these new cash-out provisions (including transport costs) be recognized?

A They will flow through to all firm customer classes via the Purchased Gas Adjustment (PGA) mechanism. This means that if MGE fails to recover underlying costs from transportation customers, then firm customers will pay the difference.

<u>Seven-Month "Minimum Bill" Recovery Period for Seasonal Disconnects.</u>

Q. What is a seven-month minimum bill recovery period for seasonal disconnects?

A MGE proposes a reconnection charge that collects an amount that is equal to a minimum charge per each month missed, had the customer remained on the system, for a period of up to seven months.

MGE proposes the following tariff language:

> In the event a customer orders a disconnection and a reconnection at the same premises within a period of seven (7) months, Company will collect, as a reconnection charge, the sum of such minimum bills as would have occurred during the period of disconnection, but in no event less than the reconnection charge provided for in Section 14, herein.

Q. What is Staff's position relating to this proposal?

A. Staff believes that the proposal should be modified.

Q. How does Staff interpret MGE's proposal?

A. MGE's proposal addresses seasonal disconnections. In MGE's response to Staff's DR No. 127, MGE states that the filing is "intended to serve as a disincentive to seasonal disconnects." Seasonal disconnects are generally customers who disconnect from service for a month or more, traditionally in the summer, and these customers then generally reconnect during the heating period.

These seasonal disconnect customers shift costs to customers who remain connected to the system year around. Seasonal disconnects avoid paying the Customer Charge, as well as the current Commodity Charge. Staff believes that a customer engaging in a seasonal disconnection utilizes it as a way to save money for that specific customer. However, since most distribution costs are fixed, customers taking a summer hiatus from paying bills benefit themselves, but harm others. MGE incurs almost no cost savings by a customer engaging in a summer disconnection. The revenue streams to recover these costs are impeded by customers engaging in summer disconnections.

Q What is Staff proposing as an alternative to MGE's proposal?

A. Staff proposes four changes to MGE's proposal to improve the chances that a proper reconnection charge will either recapture revenues foregone during seasonal disconnect, or to discourage customers from engaging in seasonal disconnects. Staff proposes to:

> 1) Institute a two-component reconnection charge. First, MGE should charge the traditional reconnection charge plus the monthly Customer Charge (in today's environment) or the Delivery Charge (in the proposed environment) that are foregone during the disconnection period;
>
> 2) In MGE's response to Staff's DR No. 127, MGE asserts it will exempt customers from the proposed seven-month back-billing provision if they are disconnected for reasons other than requesting a seasonal disconnect. MGE proposes exemptions for "other" types of disconnection, such as a disconnection for non-payment, from the cumulative recovery aspect. Whatever the reason for the disconnection, the two-component reconnection fee should apply with no exceptions, except as noted in this testimony;
>
> 3) Staff proposes that the threshold to avoid the two-component charge should be for a period of at least 12-months; and
>
> 4) Staff proposes to use the Delivery Charge in lieu of MGE's proposed term of a "minimum bill" in its proposed language.

Q. What is meant by a "delivery charge"?

A. The Company's current tariff uses the terms "Customer Charge" to denote a fixed monthly charge whereby it collects a portion of its margin costs, and the term "Commodity Charge" to describe a volumetric charge by which it collects the remainder of its margin. In its proposed tariff sheets, MGE changes these terms to "Basic Service Charge" and "Delivery Charge," respectively, without stating a reason for the change. Throughout this testimony, to avoid confusion, Staff will use "Customer Charge" and "Commodity Charge" to refer to the current two part margin recovery rates, and "Delivery Charge" to refer to Staff's proposed single, fixed charge for recovery of margin costs. Staff witness Anne Ross of the Commission's Energy Economic Analysis Department is proposing a new rate called a "Delivery Charge." This Delivery Charge will be the basis for the second-component reconnection charge. The Staff's Delivery Charge will recapture the costs that are currently recovered in MGE's Customer Charge and Commodity Charge. Staff is proposing to charge a two-step reconnection fee that would allow the Company to collect the Delivery Charges missed during the disconnection period, as well as the traditional reconnection charge. This will ensure that the MGE's fixed costs are equitably paid for by all customers.

Q. What are the specifics of Staff's proposal?

A. First, MGE would charge the traditional cost-based reconnection charge. The established reconnection charge is $45.00. Additionally, Staff's proposal would allow MGE to accumulate the number of Delivery Charges that a customer avoided when service was disconnected. (If the customer did not miss paying a Delivery Charge, only the $45.00 reconnection charge would apply for reconnection.) As a prerequisite to re-establishing service, the customer would assume responsibility for both components of the two-component reconnection charge. This two-component rate structure is Staff's proposal to alleviate seasonal disconnections and the inequitable cost shifts associated with activity.

Q. What happens when a customer disconnects, but moves to a different locale and gets back on the system?

A. A customer who disconnects and moves to a different location should not be subject to reconnection charge, but should only pay a connection charge. A customer who disconnects and never returns to the same premise has truly severed the relationship with MGE and will avoid the reconnection charge.

Those who merely interrupt service for an interim period are in a different situation and should pay the residual charge. These customers never fully terminated service. Instead, they placed it in a state of suspension, and will reactivate themselves in cooler months.

Q. Should there be any limitation to this proposed policy?

A. Yes. This policy is geared to discourage the seasonal disconnect customer from engaging in such activity. If a customer were to have service disconnected for 12-consecutive months (or longer), Staff believes that should not constitute a seasonal disconnect. That should be the duration where a customer should revert to only paying the $45.00 reconnection charge.

Q. Is there an administrative aspect to the Staff's proposal to be addressed?

A. Yes. MGE should give customers time to repay the two-component reconnection charges. Since some seasonal customers are off for a prolonged period of time, in some cases, special payment provisions may be applicable. Staff advocates that for those who voluntarily disconnect, they should be given the ability to pay the reconnection charges over the same duration as they were disconnected, or up to a maximum period of three months. For voluntary disconnects, where the duration of disconnection exceeded three months, MGE should allow the total cost of reconnection to be spread over only three months.

For those customers who were involuntarily disconnected, such customers should be subject to the same provisions of scheduling past-due bills as any other customer subject to involuntary disconnects.

Standby Facilities Charge

Q. What are "Standby Facilities"?

A. In its response to Staff DR No.130, MGE states that:

> The purpose of the clause is to prevent a customer who bypasses MGE from being able to use MGE as a back up provider without compensation for the metering and regulating equipment in place. The objective is to recognize the actual cost of serving a particular customer who for what ever reason has required the Company to provide meters, services, or regulators which are not correctly sized for the actual level of service being provided. Its impact will be very limited. In normal circumstances, when a customer for whatever reason moves to a lower rate class from the transportation or LV sales class, MGE will remove the electronic facilities necessary to serve the customer as an LV customer and if necessary change out meters and regulators and replace them with the proper sized equipment. The Company has one steam customer who requires MGE to provide the meter and service necessary to serve them as a Large Volume customer in case the steam service is unavailable. At most there are possibly two other customers which have the same situation. The additional revenue to be realized from make this tariff change is at most $13,887 which also assumes that if this tariff change is made, the customer will still want MGE to leave the larger equipment in place. There is also the possibility that the customer will request MGE to remove the large equipment instead of paying the higher charge.
>
> The facilities include an Electronic Corrector and a Communications device plus conduit and wiring along with meter, service line and sometimes regulator which is much costlier than the same equipment needed to serve an SGS or LGS customer.

Essentially, MGE generally removes specialized meters when a customer downgrades or converts to a transportation customer. Some former Large Volume Service (LVS) customers request that the meter be left in place and not be salvaged. This action is contradictory because the customer is no longer in the LVS customer class. Under the current practice today, a customer who no longer wants to be, or qualifies as an LVS customer, but requests retention of the LVS sized meter, only pays the Customer Charge for the newly installed smaller meter.

The switch in customer class is typically from LVS to a Small General Gas Service (SGS) or to a Large General Gas Service (LGS) customer. The converted customer pays a Customer Charge commensurate with the customer class of service currently prescribed, even though the converted customer wants to retain the LVS meter. In addition, under MGE's proposal, the customer pays a Standby facilities charge. These two components equal a LVS Customer Charge.

Q. What is Staff's proposal on this issue?

A. Staff agrees with the concept of what MGE is proposing, but disagrees with MGE's proposed mechanics. Putting a dollar-specific rate in the tariff for this meter retention can be cumbersome. Staff proposes the following alternative language:

> Standby facilities charge - When a customer requests (in writing) retention of a meter larger than what is typical for the class of service that the customer has subscribed, the Company may charge the customer the Staff's proposed Delivery Charge commensurate with the size of meter being retained. In situations where a customer has two meters on the customer's premise, MGE may charge the customer for the higher of the two Staff proposed Delivery Charges commensurate with the size of the larger of the two meters being retained, but shall not bill the customer the Staff proposed Delivery Charges for both meters. If the customer does not agree (in writing) to pay the Staff proposed Delivery Charge commensurate with the larger sized meter being retained, MGE is free to remove the un-utilized meter.

This language eliminates the need to revise the Standby facilities charge each and every time a change in rates for the proposed Delivery Charge occurs. Under MGE's methodology, the Standby facilities charge is calculated as a function of the differences in rates between various classes of customers. MGE's proposal is based upon differences between the various Customer Charges. Staff's proposal incorporates the use of Staff's proposed Delivery Charges. Under MGE's proposed methodology, each and every time the proposed Customer Charge changes, the Standby facilities charge would need to be revised in order to maintain the proper inter-relationships. Staff's proposed methodology eliminates this problem. This language is more reflective of the various caveats addressed in MGE's response to Staff DR No.130. It establishes a policy that directly "ties" the size of the idle meter to what the customer should pay. Further, customers must solicit retention of the larger meter in order for the Standby facilities charge to apply. No charge is applicable in instances where MGE simply delays retrieving the larger meter that a customer has no interest in.

Staff's proposal is that the customer having a meter commensurate with LVS will pay Staff's proposed Delivery Charge for that class. MGE will waive the Staff proposed Delivery Charge commensurate with the class of service the customer is currently subscribed to when the customer seeks retention of a larger meter. MGE will charge the customer the Delivery Charge based upon the larger sized meter. The customer will not be charged for both meters.

Paying the Staff's proposed Delivery Charge is fair to the customers requesting the privilege of retaining the meter and assorted accoutrements. If the customer requests retention of the LVS meter, the customer should pay the charge commensurate with that degree of service.

Q. Does this conclude your direct testimony?

A. Yes it does.