

Exhibit No.:
Issues: *Bad Debts;*
Revenues-Customer Growth
Witness: *Paul R. Harrison*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *GR-2004-0209*
Date Testimony Prepared: *June 14, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

PAUL R. HARRISON

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
June 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

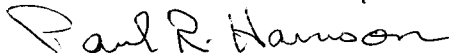
In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate)
Increase for Natural Gas Service)

Case No. GR-2004-0209

AFFIDAVIT OF PAUL R. HARRISON

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Paul R. Harrison, being of lawful age, on his oath states: that he has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the following surrebuttal 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.



Paul R. Harrison

Subscribed and sworn to before me this 10th day of June 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

1
2
3
4
5
6
7
8
9

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY OF
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MISSOURI GAS ENERGY
CASE NO. GR-2004-0209

REVENUES 1

BAD DEBT EXPENSE 4

SURREBUTTAL TESTIMONY

OF

PAUL R. HARRISON

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Q. Please state your name and business address.

A. Paul R. Harrison, P. O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I previously submitted direct and rebuttal testimonies in this case.

Q. What is the purpose of your surrebuttal testimony?

A The purpose of my testimony is to respond to the rebuttal testimony of Missouri Gas Energy (MGE or Company) witnesses F. Jay Cummings involving revenues and Michael R. Noack involving bad debt expense.

REVENUES

Q. Does the Staff agree with Company witness Cummings' statement on page 16, line 21 to page 17, line 4 of his rebuttal testimony, that the Company experienced declining 12-month average customer counts during the winter of 2000/2001 for residential customers?

A. No. While it is true that the Company experienced decreased residential customer numbers for a few of the months during the winter months of 2000/2001 when

1 compared to the same months in the calendar year 1999/2000, the Company ended the year
2 2001 with more customers than they had during any preceding year. Additionally, the
3 Company's residential customer class has continued to grow each and every succeeding year
4 since 2001.

5 In contrast to the residential customers, the Small General Service (SGS) customer
6 class showed modest customer level decreases prior to the winter of 2001, but the Company
7 has experienced greater customer growth since 2001 in the SGS class than any other time in
8 its history.

9 Q. Do you have an example to demonstrate the amount of growth experienced by
10 the Company for total residential and SGS customers to support the Staff's position?

11 A. Yes. Attached as Schedules 1 and 2 to this surrebuttal testimony are graphs
12 that track the historical customer levels for total residential and SGS customer classes. These
13 graphs provide support for the Staff's methods used to annualize customer levels.

14 Q. Dr. Cummings states at page 16, lines 15 to 21 to page 17, line 15 of his
15 rebuttal testimony, that the Company's customer growth has slowed significantly since
16 2000/2001. Do you agree that a customer growth annualization process should not reflect
17 pre-2000/2001 customer growth data?

18 A. No. The Staff has used a customer growth procedure in this case based on
19 1998-2003 data. Attached as Schedules 3, 4 and 5 to this surrebuttal testimony are
20 spreadsheets that compare the Staff's annualized customer levels to the Company's actual
21 customer numbers for January through April of 2004.

22 These schedules show that the Staff's annualized customers numbers are actually
23 conservative. As of April 2004, the Staff's annualized total residential, SGS and Large

1 General Service (LGS) customer levels had 658, 4,198 and 7 fewer customers respectively
2 than the Company's actual number of regular bill customers in those classes.

3 Q. Did the Staff perform its customer growth analysis independent of the actual
4 2004 customer counts that are included in Schedules 3, 4 and 5?

5 A. Yes. In fact, when the Staff performed the actual customer annualization, the
6 updated April 2004 customer counts from the Company had not yet been received.

7 Q. Please explain MGE's regular and final bill proration for revenues.

8 A. When a new customer obtains gas service from MGE, they usually have only a
9 partial month of service on their regular bill. Additionally, when a current customer
10 terminates their gas service with MGE, they usually have only a partial month of service on
11 their final bill. MGE "prorates" these regular and final bill customers based upon a
12 percentage of the month that the customer received service. The proration percentage is
13 determined by dividing the number of days that each customer received gas service by 30 to
14 establish a proration factor. The Company then performs a weighting of this proration factor
15 to develop a monthly billing days proration factor for its regular and final bill customers.
16 MGE annualized these monthly proration factors as part of its annualization of revenues.

17 Q. Does the Staff agree with Company witness Cummings that the customer
18 proration factor calculation for regular bills should be included in MGE's annualized
19 revenues?

20 A. No. The Staff disagrees that regular bills should be prorated during the
21 revenue annualization process. New customers, with a partial month of service in one month,
22 will receive a whole month of service each and every month until they discontinue service.
23 As indicated by Dr. Cummings' Rebuttal Schedule (FJC-5), the average customer count

1 continues to increase over time for MGE residential and SGS customers, and to prorate these
2 customer bills would understate annualized revenues on an ongoing basis. The Staff's
3 annualization process for customer growth, in this case, considers the total number of regular
4 customers who have received gas service through the update period of December 31, 2003.
5 This procedure eliminates the need to prorate the regular bill customers of MGE. Regular bill
6 customer proration is the largest difference between the Company and the Staff in the
7 customer growth annualization area.

8 Q. Can you provide an example of the Company's inconsistency in its position on
9 customer bill prorating in this case?

10 A. Yes. This Company has never proposed to prorate its employee pay increases
11 for new employees as they start their work with the Company as part of its payroll
12 annualization. For example, if a payroll increase happened December 15, 2003, (five and
13 one-half months after the start of the test year update period), the Company would expect and
14 the Staff would annualize payroll as if that pay increase was reflected for the whole test year.
15 This process is designed to provide a salary expense amount that is more reflective of a
16 utility's future expenses. Similarly, the Staff's position on customer bill proration is designed
17 to provide a revenue amount levels that is more reflective of a utility's future revenue levels.
18 Given that average customer levels continue to increase, the Staff is merely reflecting in its
19 case that those customer levels reflected in its customer growth adjustment will continue in
20 full.

21 **BAD DEBT EXPENSE**

22 Q. Mr. Noack discusses on pages 19 through 23 of his rebuttal testimony four
23 factors (unemployment rate, average Purchased Gas Adjustment (PGA), average number of

Surrebuttal Testimony of
Paul R. Harrison

1 customers and average sales per residential customer) that he claims influence MGE's bad
2 debt expense during the five-year period 1999 through 2003. Does the Staff agree with
3 Mr. Noack's conclusions drawn from these factors?

4 A. No. The Staff does not believe that there has been a study done by the
5 Company to determine how much of an impact each one of these factors has on the
6 Company's bad debt expense, nor has MGE done a study outlining how much of an impact
7 the combination of all of these factors would have on the Company's bad debt expense. In
8 response to Staff Data Request No. 70.2, Company witness Noack responded:

9 No specific study was done to determine the specific impact of any one
10 item on the balance of bad debts. Rather the combination of all of the
11 factors was looked at in connection with the history of bad debts
12 written off. From that analysis my conclusions were formed that the
13 level of bad debts indeed is influenced by a combination of factors
14 including the unemployment rate, the cost of gas, weather and the
15 overall number of, and usage by customers.

16 While the Company may conclude that the level of bad debt is influenced by a
17 combination of these factors, the Staff does not believe that the effect of these factors on bad
18 debt are known and measurable or predictive of the future.

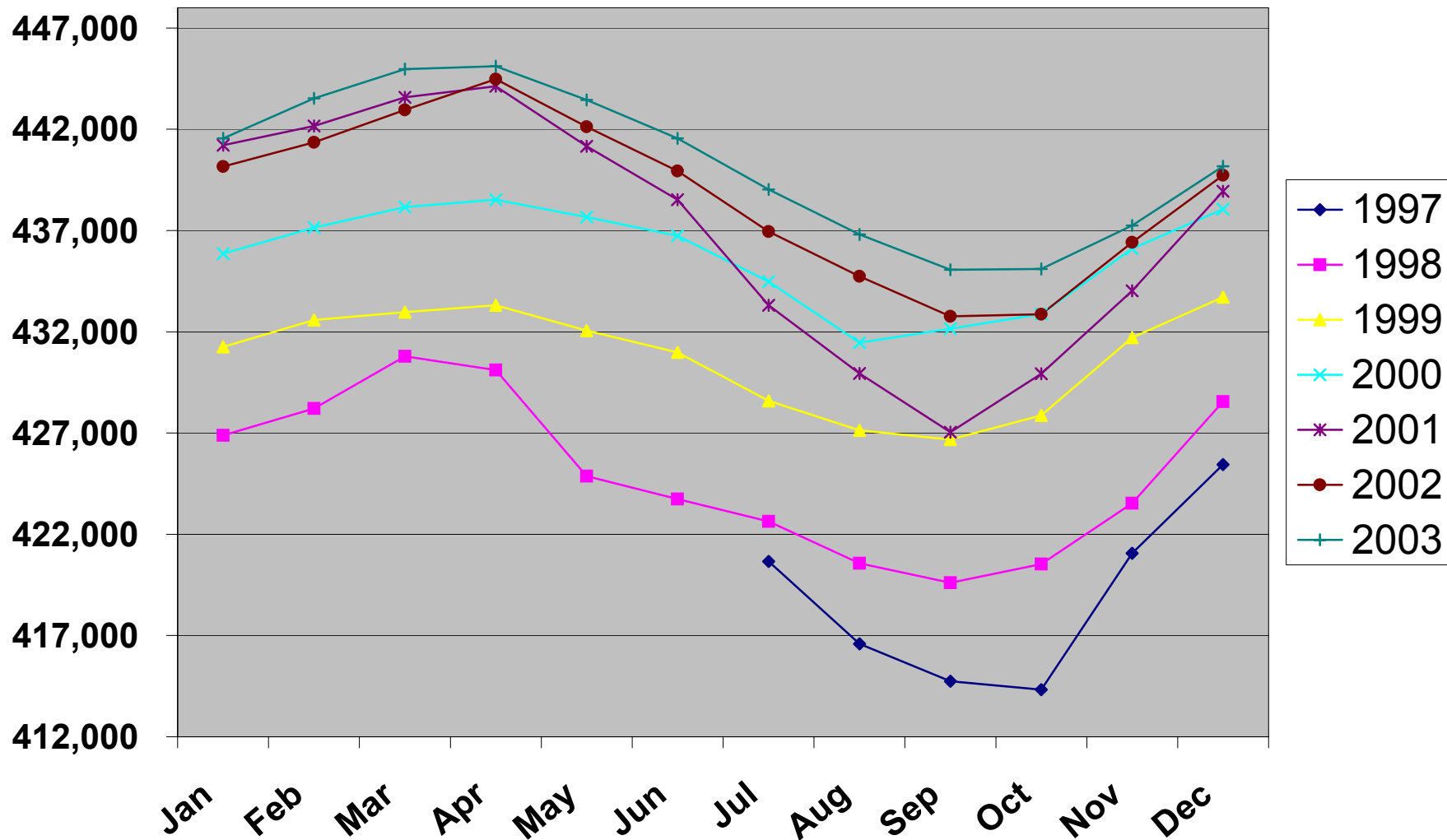
19 Q. Are there additional concerns that the Staff has with the Company's use of
20 these factors?

21 A. Yes. While most of these factors are increasing from year to year from 2001
22 through 2003, the Company's bad debt expense has been decreasing over that period. During
23 calendar years 2001, 2002 and 2003, the Company's bad debt expense has decreased from
24 \$14,666,835 to \$5,544,382 to \$5,426,928, respectively.

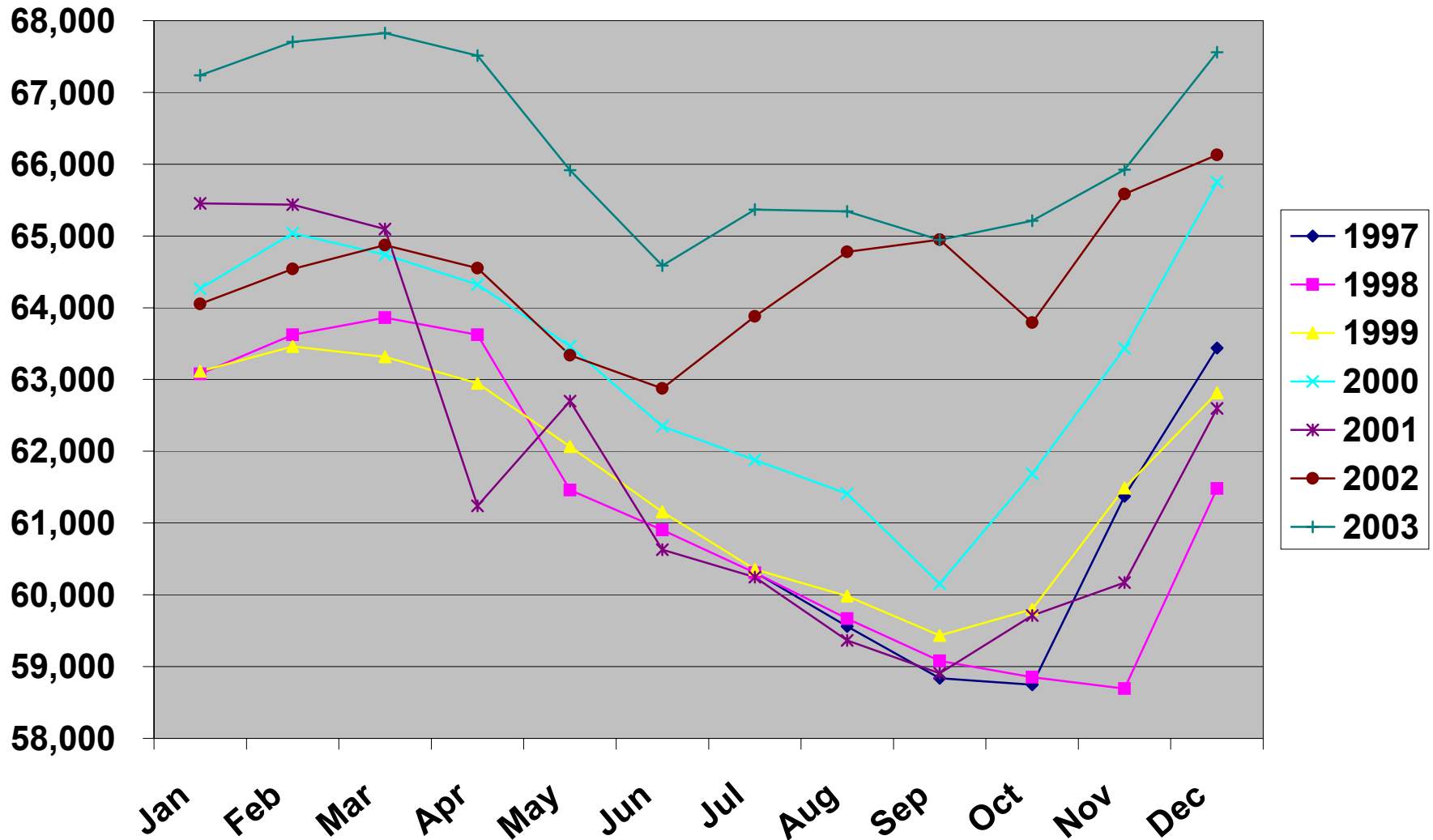
25 Q. Does this conclude your surrebuttal testimony?

26 A. Yes, it does.

Total Company Residential Customers



Total Small General Service Customers



Missouri Gas Energy

GR-2004-0209

Staff Annualized customer growth compared to actual customer numbers 04/30/04

Source: Jay Cumming's Workpapers, 311 Report and DR 4343

PRH

MGE Customers Residential

	<u>Staff Annualized Customers</u>	<u>Actual Regular bill Customers 2004</u>	<u>Difference</u>
<u>KC</u>			
Jan	345,351	345,200	(151)
Feb	346,340	345,943	(397)
Mar	346,617	346,644	27
Apr	<u>345,752</u>	<u>346,214</u>	<u>462</u>
	1,384,060	1,384,001	(59)
<u>Joplin</u>			
Jan	65,192	65,341	149
Feb	65,298	65,438	140
Mar	65,489	65,265	(224)
Apr	<u>64,806</u>	<u>64,923</u>	<u>117</u>
	260,784	260,967	183
<u>St. Joseph</u>			
Jan	25,711	25,704	(7)
Feb	25,661	25,797	136
Mar	25,569	25,735	166
Apr	<u>25,290</u>	<u>25,530</u>	<u>240</u>
	102,231	102,766	535
<u>Total Co.</u>			
Jan	436,254	436,245	(9)
Feb	437,299	437,178	(121)
Mar	437,675	437,644	(31)
Apr	<u>435,847</u>	<u>436,667</u>	<u>820</u>
	1,747,076	1,747,734	658

Missouri Gas Energy

GR-2004-0209

Staff Annualized customer growth compared to actual customer numbers 04/30/04

Source: Jay Cumming's Workpapers, 311 Report and DR 4343

PRH

MGE Customers SGS

	<u>Staff Annualized Customers</u>	<u>Actual Regular bill Customers 2004</u>	<u>Difference</u>
<u>KC</u>			
Jan	48,551	49,629	1,078
Feb	48,769	49,048	279
Mar	48,801	49,023	222
Apr	<u>47,384</u>	<u>48,571</u>	<u>1,187</u>
	193,507	196,271	2,764
<u>Joplin</u>			
Jan	12,632	12,676	44
Feb	12,715	12,742	27
Mar	12,665	12,741	76
Apr	<u>12,352</u>	<u>12,476</u>	<u>124</u>
	50,365	50,635	270
<u>St. Joseph</u>			
Jan	3,560	3,759	199
Feb	3,522	3,741	219
Mar	3,405	3,702	297
Apr	<u>3,186</u>	<u>3,634</u>	<u>448</u>
	13,673	14,836	1,163
<u>Total Co.</u>			
Jan	64,744	66,064	1,320
Feb	65,006	65,531	525
Mar	64,872	65,466	594
Apr	<u>62,923</u>	<u>64,681</u>	<u>1,758</u>
	257,544	261,742	4,198

Missouri Gas Energy

GR-2004-0209

Staff Annualized customer growth compared to actual customer numbers 04/30/04

Source: Jay Cumming's Workpapers, 311 Report and DR 4343

PRH

MGE Customers LGS

	<u>Staff Annualized Customers</u>	<u>Actual Regular bill Customers 2004</u>	<u>Difference</u>
<u>KC</u>			
Jan	320	326	6
Feb	321	324	3
Mar	319	329	10
Apr	<u>337</u>	<u>324</u>	<u>(13)</u>
	1,296	1,303	7
<u>Joplin</u>			
Jan	42	41	(1)
Feb	42	41	(1)
Mar	42	42	(0)
Apr	<u>43</u>	<u>42</u>	<u>(1)</u>
	169	166	(3)
<u>St. Joseph</u>			
Jan	27	29	2
Feb	28	28	(0)
Mar	28	28	0
Apr	<u>28</u>	<u>29</u>	<u>1</u>
	111	114	3
<u>Total Co.</u>			
Jan	389	396	7
Feb	391	393	2
Mar	389	399	10
Apr	<u>407</u>	<u>395</u>	<u>(12)</u>
	1,576	1,583	7