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Witness: Gary L. Smith

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Sponsoring Party: Atmos Energy Corporation

Case No.: GR-2006-0387

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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-0387

PREPARED REBUTTAL TESTIMONY

OF

GARY L. SMITH

On Behalf of

ATMOS ENERGY CORPORATION

October 2006

Atmos Exhibit No. 3
Case No(s). GR 2006-0387
Date 11-30-06 Rptr PF

**REBUTTAL TESTIMONY OF
GARY L. SMITH
ATMOS ENERGY CORPORATION
CASE NO.: GR-2006-0387**

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

2 A. My name is Gary L. Smith. I am Vice President – Marketing and
3 Regulatory Affairs for Atmos Energy Corporation’s (sometimes hereinafter
4 referred to as the “Company”) Kentucky/Mid-States division. My business
5 address is 2401 New Hartford Road, Owensboro, Kentucky 42303.

6 **Q. Did you present Direct Testimony in this proceeding?**

7 A. Yes. I presented Direct Testimony in this docket on April 7, 2006. My
8 direct testimony addressed the impact of changing customer usage patterns
9 under traditional rate designs which recover distribution (non-gas) costs
10 through components consisting of fixed monthly charges and volumetric
11 charges. Factors affecting customer usage patterns include weather and
12 changes in customer usage patterns over time.

13 **Q. What is the purpose of your rebuttal testimony?**

14 A. The purpose of my rebuttal testimony is to address the rate design proposals
15 presented by Commission Staff witness Anne Ross and the Office of Public
16 Counsel (OPC) witness Barbara Meisenheimer. Ms. Ross’ testimony
17 addresses a number of rate design issues, including a proposal for Atmos
18 Energy to recover its distribution (non-gas) revenue from residential and
19 Small General Service customers through a fixed monthly charge (labeled as

1 a "Delivery" charge). Ms. Meisenheimer's testimony presents the OPC's
2 recommendations regarding rate design and class cost of service. While the
3 Company's original rate design proposal embodied a Weather
4 Normalization Adjustment ("WNA"), after careful consideration of the
5 Staff's proposal, the Company supports the adoption of the Staff's rate
6 design recommendations in lieu of the WNA.

7 **Q. Why does Ms. Ross propose that Atmos Energy collect its distribution**
8 **margin through a Delivery Charge?**

9 A. Ms. Ross acknowledges the same fundamental issues I initially addressed in
10 my Direct Testimony:

- 11 • The utility's cost to serve customers is largely fixed and unaffected
12 by volume changes; whether those changes are due to weather or due
13 to other factors.
- 14 • The collection of fixed distribution costs through a volumetric
15 charge, as is typical under traditional rate structures, serves as a
16 disincentive for utilities to encourage customer conservation efforts.

17 Ms. Ross notes that customer's using less natural gas, either in response to a
18 warm winter or because of conservation efforts, does not necessarily lower
19 the utility's cost of distribution service. Ms. Ross explains the fixed nature
20 of both capital investments and operating expenses, concluding that
21 volumetric recovery of these fixed costs indeed links the utility's profits to
22 sustained or growing volumes.

1 Finally, Ms. Ross cites numerous references endorsing innovative rate
2 designs which encourage energy conservation and energy efficiency,
3 including resolutions by the National Association of Regulatory Utility
4 Commissioners ("NARUC") and a recent forum sponsored by the American
5 Gas Foundation and NARUC's Education and Research Foundation.

6 **Q. Are there other factors that the Company considered in supporting**
7 **Staff's proposal?**

8 A. Yes. As stated in my original Direct Testimony, the Company, like Staff, is
9 interested in moving toward rate structures which decouple distribution cost
10 recovery from customer volumetric measures. We believe, like Staff, that
11 the interests of the utility, consumer, and regulator are best aligned under
12 such rate structures, and that consequently the interests for conservation and
13 energy efficiency are best served by such structures.

14 **Q. Did all of the participants in this case discuss rate design issues?**

15 A. Yes. As agreed in the procedural schedule, the participants in this case met
16 in Jefferson City on June 14, 2006 and June 15, 2006 for a Rate Design
17 Technical Conference. In addition to the scheduled technical conference,
18 Commission Staff met with Atmos on August 23, 2006 to discuss rate
19 design issues.

20 **Q. What was the primary rate design discussion at the June technical**
21 **conference?**

22 A. Atmos had the opportunity at the June technical conference to present and
23 answer questions regarding our WNA proposal. In addition, follow-up

1 discussions were held in August to discuss the Staff's rate design proposals.
2 During those meetings, Staff explained the advantages and challenges
3 associated with the adoption of such a rate structure, including the impact to
4 low income customers, smaller usage commercial customers, and the impact
5 on seasonal turn-offs.

6 **Q. Does the Company have any distribution rate design suggestions which**
7 **could address such challenges?**

8 A. We believe seasonally sculpting the fixed monthly Delivery Charge may be
9 an alternative which will aid customer acceptance and alleviate some of the
10 seasonal loss concerns. If the Delivery Charges proposed were increased
11 during winter months and lowered in summer months, while producing the
12 equivalent annual revenue Ms. Ross proposes, the Company's risk of
13 customer loss could be reduced. For example, the lower summer Delivery
14 Charge would provide less incentive for heating-only customers to abandon
15 service during non-winter months. Also, the degree of change for all
16 affected customers would be less significant. Under Atmos' traditional rate
17 structures, for the typical heating customer, distribution margins were
18 greater in the winter than in the summer months.

19 **Q. What would your sculpting proposal look like?**

20 A. In Schedule GLS-1 utilizing Staff's billing determinants I have broken out
21 the seasonal bills and calculated a proposed Residential Delivery charge for
22 each of proposed rate areas as follows:

23 B.

		<u>Summer</u>	<u>Winter</u>
1			
2	Northeast	\$15.00	\$28.24
3	Southeast	\$10.00	\$19.23
4	Butler	\$15.00	\$25.46

5 **Q. How did you determine the summer Delivery Charge?**

6 A. I took the Residential Delivery Charge proposed by Ms. Ross and multiplied
7 it by 75% and rounded to the nearest whole dollar.

8 **Q. How did you determine the winter Delivery Charge?**

9 A. Utilizing monthly Billing Determinants that have been proposed by Staff, I
10 calculated the total revenue from the summer Delivery Charge, subtracted
11 that from the annual revenue, and divided the result by the winter billing
12 determinants.

13 **Q. Have you done this for any of the other classes?**

14 A. No, however I have reviewed Ms. Ross proposal for the other classes and
15 agree with her methodology for determining how the Delivery Charge and
16 remaining volumetric charge (as applicable) would be derived.

17

18 **Q. Have you also reviewed the testimony Ms. Meisenheimer filed in this**
19 **case?**

20 A. Yes.

21 **Q. Do you agree with her rate design recommendations?**

22 A. No. Ms. Meisenheimer's direct testimony regarding rate design would in
23 effect maintain the status quo. Any changes in revenue requirement on a

1 district by district basis would be achieved through lowering or raising of
2 the volumetric portion of the rate.

3 **Q. What is wrong with maintaining “traditional” rate design?**

4 A. As both Company and Staff explained in their direct testimony, the
5 Company and the Customer’s interests cannot be aligned through
6 “traditional” rate design.

7 **Q. What is Ms. Meisenheimer’s primary reasoning for maintaining the
8 status quo?**

9 A. Ms. Meisenheimer’s primary argument is that rates should not be shifted
10 around or moved without a Class Cost of Service Study.

11 **Q. Has a Class Cost of Service Study been performed?**

12 A. Yes. Commission Staff witness Mr. Tom Imhoff has performed a Cost of
13 Service Study. The Company has reviewed this study and the Company is
14 in agreement with Mr. Imhoff. Ms. Meisenheimer has also submitted a
15 Class Cost of Service Study, but her methodology appears to have been
16 previously rejected in two prior Missouri Gas Energy cases (GR-96-285 and
17 GR – 2004-0209).

18 **Q. Did Ms. Meisenheimer offer any other testimony that provides sound
19 reasoning for maintaining the status quo?**

20 A. No.

21 **Q. Would you like to make any closing comments?**

22 A. Yes. The Company believes that it is good public policy to adopt a rate
23 design in this case that allows it a reasonable opportunity to collect its

1 revenue requirement. It is the Company's position that the Delivery Charge
2 rate design proposed by Staff will achieve this goal by allowing the
3 Company and Customers interest to be aligned.

4

5 **Q. Does that conclude your rebuttal testimony?**

6 A. Yes

**Atmos Energy
Case No. GR-2006-0387**

Staff Billing Determinants / Atmos Sculpted Residential Delivery Charge

	Staff Billing Determinants			Delivery Charge	Atmos Sculpted Residential			
	Customer Bills	CCF's Usage	Revenues		Summer		Winter	
					Charge	Revenue	Charge	Revenue
'Old' BUTLER (71) Residential	38,677	2,514,034	\$722,109					
'Old' GREELEY (29) Residential	4,982	317,869	\$126,374					
Total "Butler" Rate District Residential	<u>43,659</u>	<u>2,831,903</u>	<u>\$848,483</u>	\$19.43	\$15.00	\$377,325	\$25.46	\$471,158
'Old' KIRKSVILLE (70) Residential	61,049	4,018,470	\$728,728					
'Old' PALMYRA (97P) Residential	14,747	997,810	\$208,246					
'Old' UCG (EXCL Neelyville) (97U) Residential	132,685	9,487,300	\$3,360,356					
Total Northeast Rate District Residential	<u>208,481</u>	<u>14,503,580</u>	<u>\$4,297,330</u>	\$20.61	\$15.00	\$1,801,500	\$28.24	\$2,495,830
'Old' SEMO (72) Residential	370,881	20,204,770	\$5,139,948					
NEELYVILLE Residential	4,842	211,327	\$88,528					
Total Southeast Rate District Residential	<u>375,723</u>	<u>20,416,097</u>	<u>\$5,228,476</u>	\$13.92	\$10.00	\$2,163,440	\$19.23	\$3,065,036