

Exhibit No.:
Issues: Revenue Requirement Reductions
Witness: Amanda C. McMellen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2014-0086
Date Testimony Prepared: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES -AUDITING**

REBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2014-0086

*Jefferson City, Missouri
July 11, 2014*

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TABLE OF CONTENTS
REBUTTAL TESTIMONY
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EXECUTIVE SUMMARY 1
REVENUE REQUIREMENT REDUCTIONS 2

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **AMANDA C. McMELLEN**

4 **SUMMIT NATURAL GAS OF MISSOURI, INC.**

5 **CASE NO. GR-2014-0086**

6 Q. Please state your name and business address.

7 A. Amanda C. McMellen, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

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

9 A. I am employed by the Missouri Public Service Commission (“Commission”)
10 as a Utility Regulatory Auditor V.

11 Q. Are you the same Amanda C. McMellen who has filed direct testimony and
12 portions of the Missouri Public Service Commission Staff’s (“Staff”) Cost of Service Report
13 in this case?

14 A. Yes.

15 Q. What is the purpose of your rebuttal testimony?

16 A. The purpose of my rebuttal testimony is to address the proposal of Summit
17 Natural Gas of Missouri, Inc. (SNG) in its direct filing to charge a reduced level of rates to
18 customers of its Branson and Warsaw districts in comparison to the rate levels that would be
19 justified using the full calculated revenue requirements for those service areas.

20 **EXECUTIVE SUMMARY**

21 Q. What topic is addressed in this piece of testimony?

22 A. I will be addressing the conditions under which Staff would be willing to
23 consider whether rates should be set for SNG’s Branson and Warsaw districts in this

1 proceeding at less than full current cost-of-service values. Stated briefly, Staff's position is
2 that any reductions in the rates charged to SNG's Branson and Warsaw district customers, as
3 compared to the levels based upon full current cost-of-service values, should only be
4 premised upon a reasonable measurement of current excess plant-in-service capacity that is
5 not needed to serve current customer levels in each district, or an equivalent ratemaking
6 approach designed to protect customers from the financial risk associated with SNG's
7 expansion of utility service into the Branson and Warsaw areas.

8 **REVENUE REQUIREMENT REDUCTIONS**

9 Q. What is SNG's position regarding rates for its Branson and Warsaw Division
10 customers in this proceeding?

11 A. SNG witness Michelle A. Mormon addresses this issue on pages 8 and 9 of her
12 direct testimony as follows:

13 The Company used management discretion in its decision to file tariff
14 sheets designed to seek less than the full revenue requirement identified
15 in the class cost-of-service study, in order to mitigate the rate increase
16 to certain customers.

17 ...

18 The Warsaw and LOO [Lake of the Ozarks] divisions share mainline
19 facilities from the tap with Southern Star. For purposes of this case, the
20 Company has allocated shared assets, as further identified in the direct
21 testimony of Company witness Mr. Porter. However, the build out of
22 the LOO Division has not been fully completed. The Company believes
23 it should wait until a subsequent rate proceeding in which the full build
24 out of the LOO Division will be considered in order to address the full
25 revenue requirement associated with the Warsaw Division. Therefore,
26 the Company is only seeking that portion of the Warsaw Division
27 revenue requirement necessary to bring the Warsaw rates up to the
28 existing LOO rates.

29

1 SNG also decided to seek less than the full revenue requirement in the
2 Branson Division. Similar to the LOO Division, the Branson Division
3 is still growing. Accordingly, SNG has sought something less than the
4 full revenue requirement in order to avoid assigning the full cost of the
5 system to early moving customers.

6 Q. Please describe the connection between the level of plant-in-service installed in
7 the Branson and Warsaw districts to the number of SNG customers in each area.

8 A. The plant facilities in each district were constructed by SNG to serve an
9 estimated level of customers. However, at this time, neither the Branson district nor the
10 Warsaw district (the latter in combination with the LOO district, for which it shares certain
11 plant facilities) has attained the planned level of customers on which the full amount of rate
12 base investment made by SNG was premised.

13 Q. Does Staff have a general concern regarding the level of plant-in-service
14 investment made by start-up natural gas utility operations?

15 A. Yes. It has been Staff's experience that natural gas utilities, such as SNG, have
16 sought to offer gas service in areas of Missouri in which the service was not previously
17 available, due to an expectation that the new utility can achieve a reasonable profit based
18 upon attracting customers away from other available heating sources, notably propane gas.
19 However, because natural gas service will face competition from these other sources, there is
20 an inherent financial risk to the natural gas utility that it will not be able to attract the planned
21 number of customers on which the amount of actual plant investment was premised. If a gas
22 utility's rates are set at a point in time when it has attracted a significantly lower level of
23 customers than what was planned for in constructing the actual plant facilities installed, as a
24 consequence each customer would have to pay for a higher amount of plant investment than is
25 economically optimal, if the full amount of plant investment is included in the utility's rate

1 base. Staff is opposed to passing on the cost of excess capacity plant investment to current
2 customers in those circumstances.

3 Q. Should it be a policy that a gas utility assumes the financial risk of expansion
4 into new service territories, as opposed to assigning that risk to its customers?

5 A. Yes. Staff has taken the consistent position in past natural gas certificate and
6 rate proceedings that the utility and its shareholders should bear the financial risk of such
7 expansion, not the utility's customers. This risk can be placed on the gas utility in rate
8 proceedings by such measures as implementing "excess capacity" adjustments to remove any
9 unnecessary plant-in-service from rate base, or, alternatively, by requiring that the utility
10 impute a level of revenues in its cost of service calculations equivalent to the projected level
11 of customers originally assumed by the utility, if the utility has not in fact attained that level
12 of customers at the time its rates are set.

13 Q. Is it Staff's understanding that SNG's proposals to offer reduced rates in this
14 proceeding to its Branson and Warsaw district customers are based upon customer rate
15 affordability concerns?

16 A. Yes.

17 Q. What is Staff's position regarding the rate levels proposed by SNG for its
18 Branson and Warsaw districts in its direct filing?

19 A. Staff believes these proposed rate levels are premised upon arbitrary reductions
20 from the full revenue requirement calculations made by SNG associated with utility service
21 for these districts. Because of the lack of support for this proposal, Staff is opposed to
22 implementation of SNG's proposed rate levels for the Branson and Warsaw districts.

Rebuttal Testimony of
Amanda C. McMellen

1 Q. Could Staff potentially support a different approach to setting rates for the
2 Branson and Warsaw districts?

3 A. Yes. Staff could potentially support rate levels for these service areas that are
4 derived from a more specific cost-of-service calculation approach, such as incorporating
5 “excess capacity” adjustments into the revenue requirements for these districts to better align
6 the amount of plant included in rate base with the number of current customers in these areas.

7 Q. Is Staff currently working with SNG to develop and quantify such “excess
8 capacity” adjustments as a possible alternative to SNG’s rate proposal in its direct filing for
9 the Branson and Warsaw districts?

10 A. Yes.

11 Q. Does this conclude your rebuttal testimony?

12 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of)
Missouri Inc.'s Filing of Revised Tariffs To)
Increase its Annual Revenues For Natural Gas)
Service)

Case No. GR-2014-0086

AFFIDAVIT OF AMANDA C. MCMELLEN

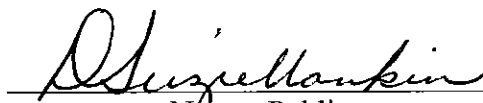
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Amanda C. McMellen

Subscribed and sworn to before me this 11th day of July, 2014.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2018
Commission Number: 12412070


Notary Public