

Exhibit No.:  
Witness: Jennifer K. Sochinski  
Issues: Customer Deposit  
Interest Rate  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Surrebuttal Testimony  
Case No.: GR-97-272

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ACCOUNTING DEPT.  
PUBLIC SERVICE COMMISSION

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**ASSOCIATED NATURAL GAS COMPANY**

**CASE NO. GR-97-272**

**SURREBUTTAL TESTIMONY**

**OF**

**JENNIFER K. SOCHINSKI**

*Jefferson City, Missouri  
September 1997*

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Surrebuttal Testimony of  
Jennifer K. Sochinski

1           A.     According to ANG witness Mr. Gunter, the Company now supports Staff's  
2 position.

3           **Q.     What interest rate amount does OPC believe should be applicable on**  
4 **customer security deposits?**

5           A.     Ms. Bolin states in her rebuttal testimony that OPC supports an interest rate  
6 on customer deposits equal to the pre-tax effective rate of return decided in this rate case, but  
7 that OPC is "willing to accept the use of the prime lending rate plus one percent as the  
8 interest rate to be paid on customer deposits." Based upon the Case Reconciliation filed in  
9 this case on August 26, 1997, OPC is recommending a fixed 12.73% interest rate to be paid  
10 on customer deposits. Under the alternative rate as proposed by OPC, the interest rate  
11 would equal a fixed 9.25% as a result of the prime lending rate on 12/31/96 being 8.25%.

12           In addition, on pages 30-31 of the Hearing Memorandum filed 8/26/97, OPC states:

13           (OPC) does not believe the interest rate should be revised each year to equal  
14 the prime lending rate published in the *Wall Street Journal* for the last  
15 business day of that year. The interest paid on customer deposits is included  
16 in the cost of service as an expense item. If this expense item is changed the  
17 revenue, rate base, and expense relationship will be violated.

18           **Q.     Ms. Sochinski, do you support a fixed interest rate equal to the pre-tax effective**  
19 **rate of return or a fixed rate equal to the prime lending rate plus 1 percentage point?**

20           A.     No, I do not. As stated in my direct and rebuttal testimony, I continue to  
21 support an interest rate on customer deposits equal to 1¼ percentage points below the prime  
22 lending rate (Prime) as reported in *The Wall Street Journal* on the last business day of the  
23 year. Based upon the Prime rate as of 12/31/96, I am proposing a 7.00% interest rate on

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1 customer deposits that could vary on an annual basis if the Prime rate differed from year end  
2 to year end. I do not believe that either a 12.73% or a 9.25% fixed interest rate on customer  
3 deposits, as proposed by OPC, bears a rational relationship to current short-term market  
4 rates.

5 Further, I would not support leaving the interest rate at the current fixed tariffed rate  
6 of 9.00%. The Company's tariffed interest rate changed from 6.00% to 9.00% when Tariff  
7 Sheet No. 23 became effective on 11/11/83. In November, 1983, Prime was 11.00%, while  
8 the previous 6.00% interest rate on customer deposits was effective while Prime was as high  
9 as 16.26% in July 1982. The 9.00% rate remained effective when the Company filed new  
10 tariffs to become effective on 11/11/94 while Prime equaled 8.15%, however this filing was  
11 necessary to update ANG's tariffs to comply with the Commission Regulation 4 CSR 240-13  
12 revision that went into effect on 5/27/94. Neither the Staff nor the Company addressed the  
13 appropriateness of the interest rate on customer deposits at that time. As a note of fact, the  
14 current Tariff Sheet No. 29 became effective on 2/16/95, however the changes to this sheet  
15 were merely cosmetic and once again the appropriateness of the interest rate was neither  
16 addressed nor was evidence presented to the Commission.

17 **Q. Do you believe that the interest rate should bear a rational relationship**  
18 **to current short-term market rates?**

19 Yes, I do. In it's **Report and Order on Remand** in Missouri Public Service's Case  
20 No. ER-93-37, the Commission made the following finding of facts:

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1           Given the Commission's concern that the **interest rate used for customer**  
2           **deposits bear a rational relationship to market rates**, the Commission finds  
3           that it would be appropriate to authorize an interest rate which is equal to one  
4           percent above the prime lending rate as published in *The Wall Street*  
5           *Journal...setting an interest rate substantially above the market rate*  
6           **would send an improper signal to customers as a whole.** (Emphasis  
7           added)

8           In OPC witness Ms. Bolin's rebuttal testimony, she agreed that the customer deposit  
9           interest rate should bear a rational relationship to the appropriate market rates, however, Ms.  
10          Bolin did not indicate what market rates she believed were appropriate. I agree with the  
11          Commission's concern that the interest rate used for customer deposits should bear a rational  
12          relationship to market rates. In my opinion, had the customer not paid ANG a security  
13          deposit, investment options such as savings accounts, insured money market accounts, one  
14          year Certificates of Deposits and other similar short term investments would have been logical  
15          financial products available to customers. Although ANG customers who pay a security  
16          deposit may or may not invest in the short-term investment options listed above, for financial  
17          analysis purposes, I believe it is reasonable to compare these investment options to the  
18          customer deposit interest rate because the following financial factors are similar:

- 19           ①     Risk of investment/deposit  
20           ②     Length of investment/deposit  
21           ③     Principal amount of investment/deposit

22          It is true that when a customer needs to establish natural gas service they must meet either  
23          the tariffed criteria or pay a security deposit, and therefore the customer deposit is not as  
24          optional as investing in short-term financial products. However, although this customer has

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1 not been able to provide a satisfactory payment history from a previous utility or establish an  
2 acceptable credit rating, Staff's proposed customer deposit interest rate is still 1.50-4.00  
3 percentage points higher than the comparable investment options. Therefore, I support a rate  
4 calculation that results in a security deposit interest rate bearing a relationship to the market  
5 rates of these types of short-term investment products.

6 **Q. Do you agree with OPC witness Ms. Bolin that the customer deposit**  
7 **interest rate should not be revised on an annual basis and that "[i]f this expense**  
8 **relationship item is changed the revenue, rate base, and expense relationship will be**  
9 **violated"?**

10 **A.** No. In my opinion, allowing the rate to be revised on an annual basis creates  
11 a rate of interest that best represents the rate of return in the short-term markets. If the Prime  
12 on the last business day of the year differed from the previous year's Prime rate, the interest  
13 rate on customer deposits would also change. However, although the interest rate could  
14 change, it would not change more than once a year. Although the interest rate on customer  
15 deposits might change, the service rates established would not change unless the Commission  
16 ordered a rate change in conjunction with a rate or complaint case. When developing rates,  
17 all expenses analyzed are based upon a fixed test year. By the time the rates are approved and  
18 become effective, it is reasonable to assume that the customer deposit interest expense is not  
19 the only expense item that will have changed. In my opinion, if Prime changes from year end  
20 to year end, it is even more likely that other Company expenses will also change. If the total

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1 change in expenses warrant, the Company can file tariffs to change rates. Likewise, a  
2 complaint case can be filed if OPC or Staff believe the Company is over earning.

3 **Q. Do you believe that your proposed interest rate is low enough to create**  
4 **a concern that the consumer is essentially mandated into subsidizing low interest loans**  
5 **to the utility?**

6 A. No, I do not. In Ms. Bolin's rebuttal testimony she stated the when approving  
7 customer deposit interest rates, the Commission had considered the fact that if a customer is  
8 unable to meet credit criteria that they must pay a security deposit. In Case No. TR-93-268  
9 and as quoted in Ms. Bolin's rebuttal testimony the Commission stated that "[i]t would seem  
10 appropriate to lower the interest rate to a point where the consumer is essentially mandated  
11 into subsidizing low interest loans to the utility." As stated earlier in my testimony, I agree  
12 that if a customer is unable to provide a satisfactory payment history from a previous utility  
13 or establish an acceptable credit rating that the customer must pay a security deposit to  
14 receive natural gas service. As stated in my direct testimony, one of the three criteria that  
15 I utilized when establishing my proposed interest rate was that the rate be high enough to  
16 deter the Company from utilizing customer deposits as a source of cash working capital.  
17 Being that ANG had access to Southwestern Energy Company's short-term debt rate of  
18 5.89% at December 31, 1996, I do not believe that the Company would utilize customer  
19 deposits as cash working capital at a rate of 7.00%. Also, from my review of the Company's  
20 Customer Information System, ANG does establish payment options from 2 to 6 payments  
21 for those customers that are unable to pay the entire deposit and does not usually require

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1 payment of the full deposit as authorized by the Commission. Based upon the Company's  
2 access to Southwestern Energy Company's short-term debt rate and the Company's actual  
3 practices with respect to collecting customer deposits, I do not believe that my proposed  
4 interest rate would essentially mandate that customers subsidize low interest loans to the  
5 utility.

6 **Q. In Ms. Bolin's rebuttal testimony, she stated that she did not believe that**  
7 **ANG customers who are required to pay a security deposit have the discretionary**  
8 **income to invest in the short-term financial products listed on page 8 of your rebuttal**  
9 **testimony. Do you agree?**

10 **A.** I do not know. Ms. Bolin also stated that "[i]t is more likely that these  
11 customers will have to borrow money at higher consumer loan rates to pay the security  
12 deposit." Since the Company's existing tariff language does not require ANG to determine  
13 what discretionary funds a customer has available for investing, I do not have access to this  
14 type of data. However, I do believe that these customers have not been able to provide a  
15 suitable payment history from a previous utility or establish an acceptable credit rating. In my  
16 opinion, in order for a customer to qualify for a consumer loan, the customer would probably  
17 be required to establish an acceptable credit rating as well. Once again, my comparison of the  
18 deposit interest rate to interest rates of short-term investment products was for comparison  
19 purposes based upon similar financial factors.



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1           **Q.     For customers that do not meet the tariffed requirements and must pay**  
2           **a security deposit to receive natural gas utility service, in your opinion, do these**  
3           **customers potentially represent a risk of bad debt to the utility?**

4           **A.     Yes. In my opinion, these customers potentially represent a risk of bad debt**  
5           **to the utility. As stated in the Commission's Report and Order on Remand in Missouri**  
6           **Public Service's Case No. ER-93-37 effective April 15, 1997:**

7           The purpose of customer deposits is to minimize the utility's risk of late  
8           payments and nonpayments, since the utility cannot protect itself by refusing  
9           to serve a high-risk customer, as could a nonregulated industry. Late  
10          payments or nonpayments may increase a utility's collection lag component  
11          of cash working capital or increase its uncollectible accounts, in either case  
12          burdening the ratepayers as a whole.

13          **Q.     Ms. Sochinski, is there anything else you would like to add?**

14          **A.     Yes. Staff has several outstanding data requests addressed to OPC regarding**  
15          **this issue, and we wish to reserve further comments on this issue until such time as the data**  
16          **request responses are received and analyzed.**

17          **Q.     Ms. Sochinski, does this conclude your surrebuttal testimony?**

18          **A.     Yes, it does.**

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Associated Natural Gas  
Company's Tariff Revision Designed to  
Increase Rates for Gas Service to  
Customers in the Missouri Service Area  
of the Company.

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**CASE NO. GR-97-272**

**AFFIDAVIT OF JENNIFER K. SOCHINSKI**

STATE OF MISSOURI )

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ss.

COUNTY OF COLE )

Jennifer K. Sochinski, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form consisting of 8 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

  
JENNIFER K. SOCHINSKI

Subscribed and sworn to before me this 14th day of September, 1997.



Notary Public

**TONI WILLMENO**

**NOTARY PUBLIC STATE OF MISSOURI**

**COUNTY OF CALLAWAY**

**MY COMMISSION EXPIRES JUNE 24 2000**

My Commission Expires: \_\_\_\_\_