

Exhibit No.: _____
Issue(s): Excess Capacity Adjustment/
Revenue Imputation
Witness/Type of Exhibit: Meisenheimer/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2014-0086

SURREBUTTAL TESTIMONY

OF

BARBARA MEISENHEIMER

Submitted on Behalf of
the Office of the Public Counsel

SUMMIT NATURAL GAS

Case No. GR-2014-0086

Denotes Highly Confidential Information that has been Redacted

August 8, 2014

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**SURREBUTTAL TESTIMONY
OF
BARBARA A. MEISENHEIMER**

SUMMIT NATURAL GAS

CASE NO. GR-2014-0086

1 **I. INTRODUCTION**

2 **Q. Please state your name, title, and business address.**

3 A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
4 P.O. Box 2230, Jefferson City, Missouri 65102.

5 **Q. What is the purpose of your testimony?**

6 A. My surrebuttal testimony responds to the rebuttal testimony of the Staff of the
7 Missouri Public Service Commission (Staff) witness Amanda McMellen
8 regarding excess capacity adjustments or, alternatively, revenue imputations as
9 methods to assign the risk associated with the Company's undersubscribed
10 expansions.

11 **Q. Have you testified previously in this case?**

12 A. Yes. I filed rebuttal testimony on July 11, 2014.

1 **II. CORRECTIONS AND UPDATES**

2 **Q. In rebuttal testimony you presented tables which compared the number of**
3 **customers and volumes based on the Company's historic feasibility study**
4 **projections to the current customers and volumes for each division. Have**
5 **you revised the studies underlying those comparisons?**

6 A. Yes. I made 4 substantive changes to my studies results. I corrected the sums for
7 Gallatin division to reflect that some Transport customers and volumes were not
8 included in the column sums. I corrected the Rogersville sums to eliminate a
9 double counting of the Lebanon Large General Service class. Based on an inquiry
10 from the Company, I adjusted the Rogersville sum to reflect 3rd Quarter 2010
11 projections instead of full Calendar Year 2010 customers and volumes for the
12 Lebanon certification. I also corrected the Commercial Service class volumes for
13 the Warsaw division. In addition to these changes, I have also corrected the
14 customer class labels in my tables, to match the customer class names used by the
15 Company.

16 **Q. Have you updated your studies?**

17 A. Yes. The Staff and Company have agreed to a set of billing units. These billing
18 units are used to determine the level of current revenues generated at existing
19 rates. I have updated my calculations to reflect the agreed upon billing units.

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Q. Please provide the updated results of your studies.

2

A. Summaries of the results of my studies are provided below:

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1 **Q. Do the changes to your studies affect your general conclusions regarding the**
2 **Company's performance in meeting the projected levels of customers and**
3 **volumes?**

4 A. No. The results continue to demonstrate that the Company has performed
5 substantially below the three year projections reflected in the feasibility studies
6 for each division.

1 **III. CAPACITY ADJUSTMENT OR ALTERNATIVE REVENUE IMPUTATION**

2 **Q. Please respond to the Staff’s position on capacity adjustments to address the**
3 **Commission-ordered condition that the Company bears all risk associated**
4 **with the Company’s expansion projects.**

5 A. Staff witness Amanda McMellen suggests that the risk associated with the
6 Company’s expansion might be addressed by implementing “excess capacity”
7 adjustments to rate base or by imputing a level of revenues equivalent to the
8 projected level of customers originally assumed by the utility. She goes on to
9 describe that Staff is currently working with SNG to develop and quantify such
10 “excess capacity” adjustments as a possible alternative to SNG’s rate proposal in
11 its direct filing for the Branson and Warsaw districts.

12 **Q. Do you agree that adjustments should be made for the Branson and Warsaw**
13 **districts?**

14 A. Yes. However, it is not clear how an adjustment only to the cost of the main line
15 fully addresses excess capacity that might exist elsewhere in the system. For
16 example, an excess capacity adjustment that reduces the mains cost to be
17 recovered in a division does not also reduce the cost of land associated with
18 mains. A reduction in the cost of land fairly reflects that the cost of land, like the
19 cost of mains, would have been spread over and recovered from a larger number
20 of customers had the Company met its projected subscription levels.

1 **Q. Should the Staff and the Company also address potential excess capacity**
2 **adjustments to the Gallatin or Rogersville district?**

3 A. Yes. As is true for the Branson and Warsaw divisions, the Company has not met
4 its projections for the Gallatin and Rogersville divisions. It would be appropriate
5 to consider an excess capacity adjustment for those districts as well.

6 **Q. Staff witness Amanda McMellen described the potential alternative of**
7 **imputing a level of revenues equivalent to the projected level of customers**
8 **originally assumed by the utility. How might such a revenue imputation be**
9 **performed?**

10 A. A revenue imputation could be calculated as the revenues generated at current
11 base rates using the projected customers and volumes minus the revenues at
12 current base rates using the current customers and volumes.

13 **Q. Have you calculated the level of imputed revenues that would result from**
14 **comparing the revenue generated using the projected customers and volumes**
15 **to the revenues generated at current base rates using the current customers**
16 **and volumes?**

17 A. Yes. The results are shown by division in Schedule 1-HC.

1 **Q. What level of revenue imputations result from your studies?**

2 A. The results of my studies indicate that based on the three year projected customers
3 and volumes, as much as \$380,937 in revenue might be imputed for the Gallatin
4 district, as much as \$3,289,264 in revenue might be imputed for the Warsaw
5 district, as much as \$5,345,309 in revenue might be imputed for the Rogersville
6 district, and as much as \$3,389,037 in revenue might be imputed for the Branson
7 district.

8 **Q. Would there be reasonable offsets to the level of imputed revenues?**

9 A. Yes. For example, in the rebuttal testimony of Company witness Tyson Porter,
10 the Company raises concerns over incorporating growth factors that increase the
11 annual number of customer bills for which there is no corresponding investment
12 reflected. Since my revenue imputation is related to projected verses actual
13 customers, it would be reasonable to identify and account for as an offset, those
14 costs directly related to adding an additional customer to the system. For
15 example, generally as new customers are connected to a system, the Company
16 must place additional plant at the customer premises. The plant related costs
17 would include a meter, meter installation, a regulator and service line. On these
18 investments, the Company would be allowed an opportunity to recover in rates a
19 return on the investment and depreciation expense related to the use of the plant.

1 **Q. Have you prepared an example of how an offset for the return and**
2 **depreciation expense might be calculated?**

3 A. Yes. Using the Staff’s proposed depreciation rate of 2% annually on Account
4 380-Services, Account 381-Meters, Account 382-Meter Installations and Account
5 383-House Regulators, Staff’s proposed overall rate of return of 7.12% and the
6 Company’s average weighted replacement cost for a service line, meter, meter
7 installation and regulator provided in response to Public Counsel Data Request
8 #18, I calculated the total offset associated with serving the projected number of
9 customers rather than the current number of customers. The offset to the revenue
10 imputation, by division, would be \$36,927 for the Gallatin district, \$271,243 for
11 the Warsaw district, \$57,339 for the Rogersville district and \$456,809 for the
12 Branson district. These amounts offset only a fraction of the revenue imputation,
13 offsetting between a low of 1.1% of the revenue imputation for Rogersville and a
14 high of 13.5% of the revenue imputation for Branson.

15 **Q. Might there be other reasonable offsets to the level of imputed revenues?**

16 A. Yes. The meter, meter installation, regulator and service line are generally the
17 largest costs that bear a direct relationship to the number of customers connected
18 to the system, however, it would also be reasonable to consider additional
19 adjustments to the imputation to reflect taxes and incremental capital costs and
20 expenses. If prior to granting the Company a rate increase the Commission agrees
21 that it would be reasonable to consider a revenue imputation to ensure that the

1 Company is bearing the risk of its expansions, Public Counsel would be willing to
2 work with the Company and Staff to identify and quantify appropriate offsets to a
3 revenue imputation.

4 **Q. Is it still your position that the Commission should reject the Company's**
5 **request for division rate increases?**

6 A. Yes. To do otherwise is unfair to consumers. As I described in direct testimony,
7 the Commission should reject the Company's proposal to raise rates based on the
8 Company's failure to demonstrate compliance with its past commitments and
9 Commission directives to insulate customers from the risks associated with
10 service area expansions. Whether through more comprehensive adjustments to
11 reflect excess capacity or through revenue imputations adjusted for additional
12 incremental costs, the Company should quantify and reconcile the impact of its
13 below projected subscription prior to receiving rate increases.

14 **Q. Does this conclude your testimony?**

15 A. Yes.

Schedule 1
has been deemed
“Highly Confidential”
in its entirety.