Exhibit No.: _____
Issue(s): Rate Design/Misc. Charges/
Rate Design Proposal-Risk Reduction
Witness/Type of Exhibit: Meisenheimer/Rebuttal
Sponsoring Party: Public Counsel
Case No.: GR-2006-0387

REBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

October 31, 2006

REBUTTAL TESTIMONY

OF

BARBARA MEISENHEIMER

CASE NO. GR-2006-0387

ATMOS ENERGY CORPORATION

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

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

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-Columbia (UMC) and have completed the comprehensive exams for a Ph.D. in Economics from the same institution. My two fields of study are Quantitative Economics and Industrial Organization. My outside field of study is Statistics. I have taught Economics courses for the following institutions: University of Missouri-Columbia, William Woods University, and Lincoln University. I have taught courses at both the undergraduate and graduate level.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. My rebuttal testimony addresses the following issues;

1. The Staff proposes drastic rate design changes and rate area consolidation in this case that will substantially increase the rates for many residential and small business customers despite proposing an overall decrease in total revenue requirement. The rate design proposal would collect all non-gas revenue in a flat fixed "delivery charge" eliminating the current rate structure that recovers a portion of non-gas costs in a fixed customer charge and the remainder of costs in volumetric rates. For good reasons, a delivery charge rate structure was rejected by Staff's Senior Economist Dr. Michael Proctor

just a few years ago. Dr. Proctor argued that such a rate structure would be detrimental to low use customers. He was absolutely correct. Based on an evaluation of actual customer specific sample data, I have found that a low use residential customer may pay almost three times as much in non-gas revenue under the Staff proposal while a high use customer may pay only about 60% of what they do under the current structure. Additionally, the Staff's proposed demand charges are directly linked to the Staff's proposed revenue requirement in this case. If the Commission were to approve the Company's proposed revenue increase, the Staff's residential delivery charge would need to be 5% to 20% higher depending on the district.

2. The Staff proposes to deny necessary winter heating to seasonal residential and small business customers unless those customers pay the Company the same non-gas revenue as customers receiving year-round service. For most of its service territory the Company already has a provision to recover lost customer charges from seasonal customers. The Staff's proposal would eliminate a customer's ability to avoid current non-gas volumetric based charges by forgoing service in the summer.

3. The Staff seeks to divide the small general service class at 2,000 Ccf per year and impose its inescapable delivery charge on the low use businesses while allowing high use businesses to maintain a traditional rate structure. Staff proposes that SGS customers using 2,000 Ccf or less will pay the same delivery charge as residential customers. Those customers using more than 2,000 Ccf will retain the current rate structure of a fixed customer charge and volumetric rates. The Staff's proposed split of the small general service class at 2,000 Ccf will result in substantial discontinuity of recovery within the class. Based on an evaluation of small general service class data, I have found that depending on the Commission approved revenue requirement the Staff's proposal will result in customers using 2,001 Ccf paying roughly two to three times as much in non-gas rates as a customer using 2,000 Ccf.

4. The Company proposes a weather mitigation rate design that would correct for any past revenue lost from customer conservation or warmer than normal weather on a going forward basis by way of a variable adder to the non-gas volumetric rate. To the customer attempting to lower his/her bill through conservation measures, the Company's proposal would be more aptly labeled a <u>conservation</u> mitigation rate design.

5. Both the Company and Staff rate design proposals insulate the Company from virtually all weather risk while proposing no meaningful protection for

customers from upward volatility of gas commodity prices that constitute the lion's share of a customer's bill. Further, these "weather proof" rate design proposals are not accompanied by symmetric proposals to lower the Company's rate of return to reflect the elimination of risk.

6. The Company failed to perform any district specific cost studies in order to evaluate the cost differences between the existing structures and proposed structures. In fact, the Company was unable to produce copies of the cost studies performed in the most recent rate cases for any of its districts and claims that district specific cost studies are not important in setting rates.

7. The Company proposes to reduce its administrative burden by consolidating districts and realigning non-gas base rates with little or no cost justification and without due consideration for the rate impacts on customers. The Staff proposes similar consolidation.

8. The Company proposes to reduce its administrative burden by consolidating PGA rates outside of the normal PGA process with little or no cost justification and without due consideration for the rate impacts on customers. The Staff proposes similar consolidation.

9. The Company seeks to remove the cap on Uncollectibles by shifting recovery to the PGA and risk to consumers.

10. The Company proposes to reduce its administrative burden by creating statewide miscellaneous charges that in many cases vary substantially from the existing district rates for those services. The Staff proposes similar consolidation of miscellaneous charges but lower rates.

11. The Company proposes to implement an economic development rider that would force residential and small business customers to subsidize industry discounts once such discounts are incorporated into rates.

12. The Company proposes to implement a Research and Development surcharge that would force residential and small business customers to subsidize research that should be treated as a Company investment.

13. The Company proposes to eliminate the minimum line extension currently recovered in rates, opting instead to potentially charge every new residential and small business customer an up front fee for main extensions.

The Staff generally supports the proposal with modifications.

14. The Company proposes to replace the current penalty structure with a fee and payment schedule for imbalances caused by a transport customer taking more or less gas from the system than the transport customer contracted for from its upstream suppliers. The Staff generally supports the proposal.

15. The Company proposes to allow third parties to create pools that would allow pool members to offset imbalances, thereby avoiding fees for imbalances. The Staff supports this proposal.

16. The Company proposes to revise the current calculation of line loss recovered as a component of transport rates. The result will place a larger burden for line loss recovery on residential and small business customers.

17. The Company seeks to recover discounts granted to special contract customers from residential and small business customers even though residential and small business customers had no input into negotiating the discounts.

My testimony will also explain why these changes are neither necessary nor desirable. The Staff's review of earnings indicates that the Company is successfully recovering its cost. Even if the Commission determines that a moderate increase is appropriate, this Company has managed to maintain and expand its operations in Missouri based on the current rate structures for years without a rate case. There is no compelling evidence that the traditional rate structure and earnings review process can not sustain the Company's future operations. My testimony will demonstrate that the Staff and Company rate design proposals will impose unnecessary and detrimental impacts on residential and small business customers. Such changes should not be forced on consumers absent full consideration of those impacts and any underlying cost justification.

Public Counsel is not opposed to considering district consolidation or alternative rate designs that balance the interests of customers with those of the Company. However, the Company has failed to generate sufficient data upon which to base significant deviations from the current rate structures previously deemed just and reasonable by the Commission. In my direct testimony I proposed establishing a separate investigation into rate design issues and implementing any district increase or decrease approved in this case as an equal percentage change on all existing rate elements except the customer charge. I continue to believe this to be a fairer and more reasonable outcome than those proposed by either the Company or the Staff.

Q. HAVE YOU REVISED THE CLASS COST OF SERVICE STUDIES FILED IN YOUR DIRECT TESTIMONY?

A. Yes. I have incorporated revised special contract revenues provided to me by the Staff. I have also corrected computation errors in my spreadsheets that affect the allocation of manufactured gas production related O&M expenses for the United Cities Gas-/Hannibal/Canton/Bowling Green area and the Depreciation and Amortization expense allocations for the Southeast Missouri (SEMO) district and the United Cities Gas-/Hannibal/Canton/Bowling Green areas. The only change that had a significant impact on my study results was updating the special contract revenues.

Q. PLEASE SUMMARIZE THE STAFF'S BASE RATE DESIGN PROPOSALS.

A. Staff witness Anne Ross proposes that Atmos's residential customers pay a fixed delivery charge designed to recover all district specific non-gas costs. (Ross Direct, Page 9, Line 13-14) Staff proposes district specific delivery charges for each of the Staff's consolidated districts based on the Staff's proposed revenue requirement. The delivery charge for each district would be calculated by dividing the annual residential class rate revenues by the number of bills. The effect would be that the Company would collect from each residential customer exactly the same non-gas revenue regardless of consumption. The delivery charge for the Northeast service territory consisting of the Kirksville, Palmyra, Hannibal, Canton and Bowling Green areas would be $21.79. The delivery charge for the Midwest territory consisting of the Butler and Greeley service areas would be $19.43. The delivery charge for the Southeast territory consisting of the SEMO service area and Neelyville would be $14.77.

Staff proposes to split the small business class into a small and a medium general service class. Small general service customers using 2,000 Ccf or less annually will pay the same delivery charge as outlined above for residential customers. Those business customers using more than 2,000 Ccf but less than 75,000 Ccf annually will be classified as medium general service and retain the current rate structure of a fixed customer charge and volumetric rates. Sales customers using more than 75,000 Ccf annually will be classified as large general service and retain the current rate structure of a fixed customer charge and volumetric rates.

In addition to the delivery charge, Staff witness Michael Ensrud presents Staff's proposal for recouping all non-gas revenues associated with seasonal disconnects. Under this proposal a reconnecting residential or small business customer would be required to pay all delivery charges for the months the customer was disconnected. This would result in seasonal customers paying the Company the same non-gas revenue as customers receiving year-round service.

Q. WHAT DISTRICT CONSOLIDATIONS ARE PROPOSED IN THIS CASE?

A. Currently the Atmos service area is comprised of 6 districts for purposes of setting non-gas rates. These include Butler, Greeley, Kirksville, Southeast Missouri (SEMO) and the old Unites Cities Gas (UCG) properties including UCG-Palmyra, UCG-Hannibal/Canton/ Bowling Green/Neelyville. The Company and Staff propose to consolidate its districts for purposes of setting non-gas rates into 3 districts, a Northeast, Southeast and Western district. The Northeast service territory would include the areas of Kirksville, Palmyra, and UCG Hannibal/Canton/Bowling Green. The Western territory would include the Butler and Greeley service areas. The Southeast territory would include the SEMO and Neelyville service areas.

Q. DO YOU HAVE CONCERNS WITH CONSOLIDATING DISTRICTS FOR PURPOSES OF SETTING NON-GAS RATES?

A. Yes. As I explained in my direct testimony, the Company failed to perform district specific class cost of service studies and failed to provide sufficient information to evaluate the

reasonableness of changing the relative class revenue responsibility either within or across districts. In response to my data request the Company claimed that district specific cost studies were not needed as a basis for setting rates since it was not proposing major changes in class recovery.

The Staff performed district specific cost studies for its three proposed consolidated geographic areas but was forced to rely on statewide information in developing district cost allocators. In some cases the Staff appears less than confident in the results. Daniel Beck, the Staff's Supervisor of the Engineering Analysis Section, Energy Department, Utility Operations Division, explains that deficiencies in the Company provided class service and meter allocations should be recognized as a factor in the accuracy of the class cost of service studies. At pages 4, beginning at Line 11, of Mr. Beck's direct rate design testimony he describes his recommendation related to deficiencies with the service allocators:

> **Q. BASED ON THAT REVIEW, WHAT DO YOU RECOMMEND REGARDING SERVICE LINE ALLOCATORS?**
>
> A. I recommend that the Company's allocators for service lines be used but the **relative accuracy of the Class Cost-of-Service be recognized since service lines accounts for approximately 25% of the cost-of-service. I also recommend that Atmos perform a typical service cost study that is based on a reasonable sample size of customers from each customer class**. Since the Staff is proposing an additional class of customers and some consolidation of the current rates, any study for its next rate case should include all classes that result from the current case. (Emphasis Added)

At pages 4, beginning at Line 20, of Mr. Beck's direct rate design testimony he discusses concerns with the regulator and meter allocators developed by the Company:

> **Q. HOW WERE THE COSTS ASSOCIATED WITH METERS AND REGULATORS ALLOCATED?**
>
> A. Meters and regulators were allocated by using the allocators developed by the Company in this case. The Company's analysis was reviewed and compared to Staff's allocators in previous cases. Based on that review, I determined that the Company's allocators for meters and regulators produced reasonable allocations to the residential and Small General Service classes. **However, as with services, meters and regulators can vary greatly for large customers. Therefore, I recommend that the Company's allocators for meters and regulators be used but the relative accuracy of the Class Cost-of-Service be recognized since services accounts for approximately 15% of the cost-of-service. I also recommend that Atmos perform a typical service cost study that is based on a reasonable sample size of customers from each customer class.** (Emphasis Added)

While he states that the residential and small general service class allocators produce what appear to be reasonable results, allocators assign total cost to each class based on proportions and incorrectly estimating the large customer proportional cost could allocate too much or to little to other classes such as residential and small general services.

Mr. Beck also explained that the Staff did not use its typical method for developing class peaks. It is my understanding from his testimony that the Staff spread the large customer use over more days per month thereby creating an estimate that is conservative in terms of favoring large customers over other classes. At pages 5, beginning at Line 9, of his direct rate design testimony he describes the development of class peak demand allocators:

Q. HOW WERE PEAK DEMANDS CALCULATED?

A. To develop various allocators for use in Staff's Class Cost-of-Service Study, monthly peak demands were required. For the Residential (RES) and Small General Service (SGS) Classes, Staff developed monthly peak Heating Degrees (HDD) by averaging the coldest day of the month for each of the 30 years in the historical data base. These monthly peak HDDs were then combined with the per customer usage coefficients that were determined by the Staff's weather normalization process to determine peak customer usage for the RES and SGS classes.

For the larger customers, I used the monthly sales developed by Staff witness Anne Ross as the basis for calculating monthly peak demands. **Typically, the Staff develops a peak day monthly demand by taking into account the fact that there are approximately 20 working days in a month. However, in this case, the Staff used the conservative assumption that the large customers' peak day usage is simply their monthly usage divided by the number of days in a month.** (Emphasis Added)

The allocations of services, regulators, meters and mains based on peak demand constitute a large portion of costs. Although Mr. Beck recommends consideration of the accuracy of the Staff cost studies, the Staff rate design appears not to account for these potential inaccuracies.

Q. WHAT ARE YOUR PRIMARY CONCERNS WITH THE STAFF'S RESIDENTIAL RATE PROPOSAL?

A. I have a number of concerns with the Staff's residential rate proposal.

Q. PLEASE DISCUSS YOUR FIRST CONCERN.

A. The Staff proposed delivery charge will substantially increase the non-gas rates paid by many residential customers despite the Staff's position that the Company is over earning.

The Staff Accounting Schedules sponsored by Staff witness Steve Rackers indicates that based on the Staff's range for rate of return of 7.13% - 7.47%, the Company is over earning between approximately $1.18 million and $1.48 million. In light of the Staff's position on the Company's earnings, I see no compelling reason to be overly concerned with its ability to earn an adequate return.

Q. HAVE YOU PERFORMED AN ANALYSIS TO EVALUATE THE IMPACT OF THE STAFF'S RATE DESIGN PROPOSAL ON RESIDENTIAL CUSTOMERS?

A. Yes. In Staff Data Request No. 158.1 Staff witness Ross obtained a sample of district specific actual residential customer use data. The data includes monthly volumes for customers categorized by ranges of annual use. The ranges for each district include annual use of up to 200 Ccf, 201-500 Ccf, 501-750 Ccf, 751-1,000 Ccf and over 1,000 Ccf. Based on a two year period drawn from this data set, I evaluated the customers' expenditures on non-gas costs under the current rate structure compared to expenditures on non-gas costs they would pay under the Staff's delivery charge proposal. The complete results are illustrated in Schedule BAM REB 8. I found that the lowest use customers were all harmed and would pay between 52% to 173% more under the Staff's proposed delivery charge mechanism depending on the district they reside in. This result reflects results from the SEMO, Butler, Greeley, Kirksville, UCG-Palmyra and UCG Hannibal/Canton/Bowling Green districts. The impact on the highest use customers is mixed. In SEMO, Butler and the UCG Hannibal/Canton/Bowling Green district, the high use customers included in the study

would pay between 17% and 59% less while in Palmyra and Kirksville the highest use customers would pay between 43% and 62% more. The mixed results for high use customers in Palmyra and Kirksville are not attributable to the structure of the delivery charge but arise from the Staff's proposed district consolidation. Kirksville and Palmyra currently have the lowest residential volumetric rates while the UCG Hannibal/Canton/Bowling Green area has the second highest of all the Company's districts. By consolidating Palmyra and Kirksville with the UCG Hannibal/Canton/Bowling Green properties, Palmyra and Kirksville ratepayers will be required to cover proportionally higher costs. The study results for customers falling between the highest use and lowest use categories are as I would expect. Lower levels of use correlate with higher payments under the Staff's delivery charge proposal.

Q. HAS THE STAFF PREVIOUSLY REJECTED PROPOSALS TO RECOVER ALL NON-GAS COSTS THROUGH A FIXED CHARGE DUE TO CONCERNS REGARDING THE POTENTIAL DETRIMENT TO LOW USE CUSTOMERS?

A. The detrimental impact on low use customers was foreseen by Staff witness Dr. Michael Proctor in his Surrebuttal in Laclede Gas Case No. GR-2002-356. In testimony responding to Laclede's proposed weather mitigation rate design proposal, Dr. Proctor explained: "While the Staff favors using rate design as a weather mitigation measure, because of the detrimental impact on small users, the **Staff was not willing to recommend recovering all of the non-gas costs in** either **the customer charge**, first block rate or a combination of

these rate components…." Although the Staff has spruced its proposal up with a new name; "delivery charge", the effect is the same, it is a mechanism designed to collect all non-gas costs through a customer charge. This rate structure was previously rejected by Staff due to a perception that the structure might have a detrimental impact on low use customers. Ms. Ross had access to the same data I did from which I concluded the delivery charge would be detrimental to low use customers. I assume she reviewed the information since she requested it from the Company. Despite access to this information, the Staff fails to explain its complete turn-about in policy and why the detrimental impact to small users identified by Dr. Proctor is no longer a concern to Staff. The delivery charge proposal should be rejected.

Q. WHAT IS YOUR NEXT CONCERN WITH THE STAFF'S DELIVERY CHARGE PROPOSAL?

A. The proposal would collect all non-gas revenue in a flat fixed "delivery charge" eliminating the current non-gas rate structure under which customers who use more pay more. At page 15, line 10, Staff witness Ross acknowledges that customers may feel that such a structure is unfair but then dismisses potential customer concerns with the rate structure by arguing that customers are used to rate structures like the delivery charge for other services they buy such as cable television, phone service and trash service.

Q. PLEASE RESPOND TO WITNESS ROSS'S CLAIM THAT CUSTOMERS ARE USED TO A DELIVERY CHARGE LIKE PAYMENT STRUCTURE FOR CABLE TV, PHONE SERVICE AND TRASH SERVICE.

A. This is both an over simplistic notion and inaccurate. Cable television and phone service are more like the traditional rate structure for gas services than they are like the all you can eat buffet of the proposed delivery charge. Cable television and phone service include both fixed and a variable rate components. Even trash pick-up in certain cases costs more for greater use. Cable television and satellite television rates are set so that as I demand either more services "over the pipe" or "a larger pipe" I pay more. I can only subscribe to basic satellite or basic cable for a fixed minimum charge. In order to receive a greater variety of channels, pay-per-view movies or high speed internet I pay additional incremental charges…The more services and capacity I demand, the more I pay. One might argue that in these cases, I am demanding more services akin to the gas commodity but again, this type of argument over simplifies the payment structure. Cable and Satellite companies are both retail service providers and access providers. In addition to charging you a monthly fee for a minimum bundle of broadcasting, they also receive compensation from other service companies that offer you additional programming for an incremental charge. A portion of a customer payment of these incremental charges for additional programming flows back to the underlying access provider. This is also true with respect to phone service. For example, my telephone provider offers basic service that costs about $20 per month including fees and taxes. The same phone line is used to provide DSL, vertical and custom calling features and long distance service. Using my local company's long-distance or subscribing to custom calling features increases my monthly charges. If I use a different provider for long distance service a portion of the payment made directly to that provider flows back to my local phone

company in the form of access rates that are generally charged as per minute rates to alternative providers using my local company's service lines. In the case of DSL it is even clearer that the more I use, the more I pay. Demand for higher speed access in the phone world is akin to demanding more capacity in the gas world. My local telephone company provides DSL over existing phone lines. To subscribe to access at 256 kbps costs $24.95, access at 1.5 Mbps costs $39.95 per month and access at 3.0 Mbps costs $49.95. The faster access I demand the more I pay. Even the rate for trash service may not be as simple as Ms. Ross believes. I live in a city where a minimum trash service is provided as a utility service through the City. However, this minimum service includes only once a week pick-ups and occasional collection of large items such as discarded appliances. I recently had the shingles on my roof replaced. When I contacted the City office to arrange for collection of the old shingles I found that I had to pay at least an extra $100 for use of a dumpster and hauling to the local dump. The larger the dumpster I would need and the longer it was needed, the higher the cost. Likewise, if I need a discarded appliance hauled away anytime other than during the regularly scheduled collections I must pay an additional $20. Even in the case of trash service, when I use more than the basic service, I pay more.

Q. WHAT IS YOUR NEXT CONCERN WITH THE STAFF'S DELIVERY CHARGE PROPOSAL?

A. Staff's proposed demand charges are directly linked to the Staff's proposed revenue requirement in this case. If the Commission were to approve a higher revenue requirement,

the Staff proposed, residential delivery charges could increase up to 20% depending on the district and revenue level approved.

Q. HAVE YOU EVALUATED THE CHANGES IN THE STAFF'S DELIVERY CHARGE UNDER HIGHER REVENUE REQUIREMENT SCENARIOS?

A. Yes. Schedule BAM REB 9 illustrates the residential delivery charge that would result from setting rates to recover various levels of revenue requirement. For each district the delivery charge per district is shown by district for 4 different levels. The first is the delivery charge at the Company's proposed revenues for the district. The second is the delivery charge at the current revenues for the district. The third and fourth show the delivery charge at the Staff's proposed revenues for the district at the high end and mid point of the Staff's range for rate of return. As illustrated in the Schedule BAM REB 9, if the Commission were to approve a delivery charge structure and the Company's district specific residential revenues, the delivery charge for the Northeast district, which is already the highest, would be over 20% higher than what the Staff has characterized in testimony. This would further exacerbate the impact on the low use customers in Kirksville and Palmyra that I discussed earlier in my testimony.

Q. WHAT IS YOUR NEXT CONCERN REGARDING THE PROPOSED DELIVERY CHARGE?

A. The Staff has made no recommendation to lower the Company's return to reflect lower risk.

Q. HAS OPC OFFERED ADDITIONAL TESTIMONY ON THIS ISSUE?

A. Yes. OPC witness Russell Trippensee recommends an appropriate reduction in the rate of return in the event that the Commission approves either the Company's proposed weather mitigation rate design or the Staff's delivery charge proposal.

Q. IN CASE GR-2002-356 WHERE A WEATHER MITIGATING RATE DESIGN WAS APPROVED, WAS REDUCED RISK CONSIDERED IN ESTABLISHING THE REVENUE REQUIREMENT?

A. Yes. In settling the Laclede rate case in which Laclede secured an experimental weather mitigation rate design the parties specifically considered reduced level of risk resulting from the rate design is crafting a settlement. As was explained in the Stipulation; "It is also understood that the impact of such weather mitigation rate design on the Company's risk has been given consideration in the settlement of the issues in this case."

Q. WHAT IS THE STAFF'S STATED JUSTIFICATION FOR ITS DELIVERY CHARGE PROPOSAL?

A. Ms. Ross lists what she refers to as two "significant current issues" affecting the natural gas distribution market that the Staff believes the delivery charge will address. The first she claims is that it will remove disincentives for utilities to encourage and assist customers in making conservation and efficiency investments. She goes on to argue that the second issue the delivery charge will address is to reduce the effects of weather on utility revenues and customer bills and to provide utilities the "opportunity to earn their Commission-ordered non-gas revenue requirement – no more, and no less – in a rapidly changing environment." (Ross Page 9, Line 21- Page 10, Line 6)

Q. DOES PUBLIC COUNSEL BELIEVE THAT EITHER OF THE ABOVE ARGUMENTS IS VALID?

A. No.

Q. PLEASE RESPOND TO THE CLAIM THAT A DELIVERY CHARGE WILL REMOVE DISINCENTIVES FOR UTILITIES TO ENCOURAGE AND ASSIST CUSTOMERS IN MAKING CONSERVATION AND EFFICIENCY INVESTMENTS.

A. The first point I would like to make is that the Staff's delivery charge proposal creates a trade off between dollars the customer could save under the current structure and those he might save associated with unspecified activities of the Company in the future. Today, a customer can reduce the **non-gas volumetric** and **commodity** portions of his bill by reducing consumption. He can also avoid **customer charges** by forgoing service if he resides in the old United Cities service areas.[1] The Staff's delivery charge proposal coupled

[1] The Company has the ability to recover customer charges even for months a customer was disconnected for most of its service area. The old United Cities Gas properties are the only areas where a seasonal customer can avoid paying summer customer charges by disconnecting.

with its proposal to allow the Company to recoup all revenue from seasonal disconnects would eliminate any ability for a customer to reduce either **non-gas volumetric** or **customer charges** even for customers in the United Cities area. Without requiring specific Company actions that will result in actual customer savings, the customer's incentive to conserve actually diminishes under the Staff's proposal.

It is also not clear that any incentive created by granting a Company "guaranteed" recovery of non-gas costs will spur it to eagerly or even willingly pursue and promote customer conservation that results in savings on the commodity portion of customers' bills. Instead, a Company would likely still have disincentives to encourage conservation and efficiency unless it was also granted recovery of all conservation related costs as well as compensation for any net loss in purchased gas cost. While it is an interesting academic debate as to whether guaranteed recovery does or does not create some incentive for a Company to promote conservation and efficiency, in this case, proposals to enhance the Company's ability to secure revenues have not tipped the scale in favor of conservation and efficiency because they are not accompanied by tangible proposals to benefit consumers. For example, in this case, Atmos requests a weather mitigation rate design that coupled with the ability to collect summer season customer charges in all areas but the old United Cities properties, will enhance its ability to recovery non-gas costs. Atmos has not, however, proposed any conservation or efficiency programs in this case. Likewise, the Staff proposes assured recovery of non-gas costs but has proposed no conservation or efficiency programs.

The Company and Staff proposals are one-sided benefiting the Company through guaranteed recovery and inaction. They should be rejected.

One incentive to the Company associated with the delivery charge proposal is that it would still have an incentive to grow customer base and promote additional uses for gas services in order to generate return on additional investments. Encouraging more potential customers to use gas or existing customers to use more gas appliances will not lower commodity prices in the natural gas market.

Q. PLEASE RESPOND TO THE CLAIM THAT A DELIVERY CHARGE WILL REDUCE THE EFFECTS OF WEATHER ON UTILITY REVENUES AND WILL PROVIDE UTILITIES THE OPPORTUNITY TO EARN THEIR "COMMISSION-ORDERED NON-GAS REVENUE REQUIREMENT – NO MORE, AND NO LESS – IN A RAPIDLY CHANGING ENVIRONMENT."

A. Contrary to witness Ross's apparent logic, the Commission's ordered non-gas revenue requirement is not a fixed or guaranteed level of revenue that a Company is entitled to recovery each year. Instead, the level of revenue requirement approved by the Commission is a target level of costs including expenses, taxes and return on investment that an efficiently run company, barring unforeseen events has the opportunity to recover under long term average weather conditions. The Commission approved revenue requirement accounts for and is intricately related to potential weather variations that may affect costs and revenues from year to year. The process of normalizing demand determinates to account for weather and establishing a rate of return sufficient to attract investment despite the risk of weather

variations are probably the two most obvious elements linking weather variations to revenue requirement. After the revenue requirement is determined, rates are set at a level anticipated to recover the target level of costs. However, the ratemaking process only reflects the anticipated cost and revenues at a snap shot in time. It does not guarantee or limit levels of either future costs or revenues and is not designed or intended to provide uniform recovery each year. Once rates are set, by efficiency or luck a Company has an opportunity to earn a return above that incorporated in the revenue requirement. Likewise by inefficiency or luck a Company faces the potential to earn a return below that incorporated in the revenue requirement. This process mimics a competitive business environment by creating incentives for the Company to minimize costs.

Neither the Company's weather mitigation rate design nor the Staff's delivery charge proposal is consistent with the purposes of utility regulation. Utility regulation does not create an "entitlement" for the utility to earn a Commission determined return that fully compensates the utility for its cost of service. If that were the case, there would be no reason to determine an appropriate level of a risk adjusted return that should be included in a utility's rates. Instead, utility regulation is intended to mimic the outcomes and market environment that is faced by competitive firms. The use of utility regulation to simulate a competitive environment and encourage the benefits that would accrue if the industry were suitable for a competitive structure has been referred to as the competitive market paradigm.

This paradigm was described by Dr. James Bonbright on page 93 of *Principles of Public Utility Rates* in the following manner:

> Regulation, it is said, is a substitute for competition. Hence its objective should be to compel a regulated enterprise, despite its possession of complete or partial monopoly, to charge rates approximating those which it would charge if free from regulation but subject to market forces of competition. In short, regulation should be not only a substitute for competition, but a closely imitative substitute.

While viewed by investors as undesirable, earnings uncertainty serves an important role in the efficient operation of competitive markets by providing inherent protections for consumers. Earnings uncertainty motivates competitive business entities to minimize costs and to strive for customer satisfaction. Eliminating earnings uncertainty in a regulated environment would have a similar detrimental affect on consumers as would eliminating earnings uncertainty in an unregulated market. However, in a competitive environment, consumers retain the ability to reduce or forgo purchases in response to excessive prices or poor service.

In recognition and in consideration of the service it provides as a natural monopoly, a local gas distribution company is granted an additional concession not ordinarily available in a competitive business environment. It is allowed to request a rate review to, when justified, realign revenue to costs. This concession together with other concessions made by the PSC and other governmental entities more than adequately addresses issues of potential under earnings. For example, direct pass through of costs such as those flowed through the PGA,

have substantially shifted weather related risks to consumers. It is undesirable and unnecessary to shift all earnings risk to consumers.

Q. CAN YOU CITE ANY ANALYSIS BY A RECOGNIZED UTILITY INDUSTRY EXPERT THAT SUPPORTS YOUR BELIEF THAT UTILITY COMMISSIONS GENERALLY SET RATES AT A LEVEL WHICH ALLOWS UTILITIES THE OPPORTUNITY (AS OPPOSED TO A GUARANTEE) TO ATTAIN THEIR AUTHORIZED RETURN?

A. Yes, the following quote from page 202 of A. J. G. Priest's *Principles of Public Utility Regulation* supports this widely recognized regulatory principle:

> ...the utility's return allowance might be compared with a fishing or hunting license with a limit on the catch. Such a license does not guarantee that the holder will catch anything at all; it simply makes the catch legal (up to a specified limit) provided the holder is successful in his own efforts.

Q. PLEASE RESPOND TO THE CLAIM THAT A DELIVERY CHARGE WILL REDUCE THE EFFECTS OF WEATHER ON CUSTOMERS BILLS.

A. I agree that that a delivery charge will reduce the affect of weather on customers' bills but I disagree that mandatory imposition of such an affect as would occur under the Staff's delivery charge proposal is desirable. There are alternatives to the Staff's delivery charge scheme that can reduce undesirable effects of weather on customers' bills while preserving an individual customer's ability to control the charges they pay. Voluntary level payment plans can assist customers in budgeting for high costs associated with cold weather while retaining the ability to save by reducing or forgoing consumption when they choose to do so

and by benefiting from reduced costs during periods of above normal temperatures. Under the Staff's delivery charge proposal customers will be even more captive to a monopoly utility than they are today. They will have no ability to reduce the none gas portion of the bill. Further, low use customers will likely pay substantially more whether or not they want or need the same level of service as high use customers. If they disconnect, when they return that will be forced to pay not only the Company's lost revenue from customer charges but also revenues currently recovered in volumetric charges. The traditional concept of those who use more should pay more will be eliminated with respect to non-gas cost. The Staff's delivery charge is not customer friendly and should be rejected.

Q. DO YOU HAVE ANY FINAL CONCERN WITH THE STAFF'S DELIVERY CHARGE PROPOSAL?

A. Yes, I am concerned that Atmos' customers have not been appropriately notified that this drastic departure from traditional rulemaking is being proposed in this case. Implementing Ms. Ross' delivery charge will blindside customers and will have prevented customers from offering comments on the charges they may face. At the very least, the Commission should solicit additional comments regarding Staff's proposal from the public.

Q. WHAT ARE YOUR PRIMARY CONCERNS WITH THE STAFF'S SMALL GENERAL SERVICE RATE PROPOSAL?

A. The Staff seeks to divide the small general service class at 2,000 Ccf per year. Customers at or below 2,000 Ccf would pay the same district delivery charge as is charged to residential consumers. Customers using more than 2,000 Ccf per year will retain the traditional rate

structure. I have a number of concerns with this rate design proposal. Foremost, the proposal will result in harmful impacts to low use customers and will result in rate discontinuity. The Staff has not adequately explained why small general service customers should pay a delivery charge but medium and large general service customers should not.

Q. PLEASE DISCUSS YOUR FIRST CONCERN.

A. The Staff's proposed split of the small general service class will be detrimental to low use small general service customers and will result in substantial discontinuity of recovery within the class. Based on an evaluation of small general service class data, I found that depending on the Commission approved revenue requirement, the Staff's proposal will result in customers using 2,001 Ccf paying roughly two to three times as much in non-gas rates as a customer using 2,000 Ccf.

Q. PLEASE DESCRIBE THE EVALUATION YOU PERFORMED ON THE SMALL GENERAL SERVICE CLASS DATA.

A. Using the summary data discussed on page 16 beginning at line 14 of witness Ross's direct rate design testimony, for various levels of the combined SGS class revenues I determined the proportion of those revenues that would be collected from customers using up to 2,000 Ccf and the remaining proportion that would need to be collected from customers within the class that use more than 2,000 Ccf. Of the remaining revenues, I calculated the portion that would be collected in the customer charge paid by customers with use of more than 2,000 Ccf. I then used the upper bound for each usage group to develop an estimate of the

volumetric charge. Finally, I calculated the monthly non-gas cost to a customer using 2,001 Ccf and compared it to the monthly delivery charge that would apply to a customer using 2,000 Ccf.

Q. PLEASE DESCRIBE THE RESULTS OF YOUR STUDY.

A. Schedule BAM REB 10 illustrates, step-by-step, the process I used to develop my comparison and the results. For each district the applicable delivery charge for 2,000 Ccf use and the traditional rate structure charges for 2,001 Ccf are compared at 4 different levels. The first comparison shows the delivery charge the traditional rate structure charges at the Company's proposed revenues for the district. The second shows the delivery charge and the traditional rate structure charges at current revenues for the district. The third and fourth show the delivery charge and the traditional rate structure charges at Staff's proposed revenues for the district at the high end and mid point of the Staff's range for rate of return. As illustrated in the Schedule BAM REB 10, if the Commission were to approve a delivery charge structure for SGS customers with up to 2,000 Ccf annual use and the Company's district specific SGS revenues then customers using 2,001 Ccf would pay roughly two to three as much.

Q. IN SUPPORT OF THE PROPOSED DELIVERY CHARGE WITNESS ROSS REFERENCES A NARUC RESOLUTION THAT IDENTIFIES COMPANIES IN OTHER STATES THAT HAVE ENERGY EFFICIENT TARIFFS AND DECOUPLING TARIFFS THAT NARUC CITES AS POTENTIALLY

PROMOTING ENERGY EFFICIENCY AND ENERGY CONSERVATION AND SLOWING THE RATE OF DEMAND GROWTH OF NATURAL GAS, ESPECIALLY IN THE SHORT TERM. HOW DO THE RATE DESIGNS IN THE STATES MENTIONED COMPARE TO THE STAFF'S RATE DESIGN PROPOSAL IN THIS CASE?

A. I reviewed information for each company listed in the resolution; Northwest Natural Gas in Oregon, Baltimore Gas & Electric, Washington Gas in Maryland, Southwest Gas in California, Piedmont Natural Gas in North Carolina, States Power in North Dakota, Atlanta Gas Light in Georgia and Oklahoma Natural Gas. Only one has opted for a delivery charge mechanism like that proposed by the Staff that would collect all non-gas costs through a uniform fixed rate. In that case the parties stipulated to present the North Dakota Commission with two options. The first option included a traditional customer charge, volumetric rate and a higher overall revenue requirement. The second option included a delivery charge and lower overall revenue requirement.

Q. WOULD YOUR CHARACTERIZATION DIFFER FROM COMPANY WITNESS GARY SMITH'S CHARACTERIZATION THAT THE CUSTOMER CHARGE IS "FIXED" FOR ATLANTA GAS LIGHT IN GEORGIA?

A. Yes. Based on a description of the calculation of the customer charge available on the Atlanta Gas Light website, it is my understanding that the customer charge is constructed of a flat rate element and an element based on the demand characteristics of a particular household. While residential customers pay for all non-gas charges in a flat rate, it is not a

common fixed rate paid by all customers as would occur under the Staff's delivery charge proposal.

Q. DOES IT APPEAR THAT THE COMPANY'S PROPOSED WEATHER NORMALIZATION ADJUSTMENT (WNA) WILL ADJUST FOR CHANGES IN CONSUMPTION DUE TO BOTH WEATHER VARIATIONS AND CONSERVATION?

A. Yes, it does. The Company proposes to annually adjust the heat sensitive factor which appears to be set in a manner that would reset the WNA rate factor per Ccf to recover all sales revenues deviations from those established in the last rate case. This would result in any short term customer savings resulting in conservation being factored in as an upward adjustment to the weather sensitivity factor for the following year.

Q. DO YOU ANTICIPATE THAT CUSTOMERS WOULD BE CONFUSED BY A RATE THAT APPEARS TO CHANGE EACH BILLING CYCLE DEPENDING ON THE ACTUAL HEATING DEGREE DAYS VARIATION FROM NORMAL HEATING DEGREE DAYS?

A. Yes. Customers will likely be resistant to a rate that appears to increase in warmer than normal weather.

Q. DO YOU ANTICIPATE THAT IF THE COMPANY'S ALTERNATIVE PROPOSAL TO ADJUST VOLUMES WAS IMPLEMENTED THAT CUSTOMERS WOULD BE CONFUSED BY WHAT WOULD APPEAR TO BE A DIFFERENCE IN BILLED VOLUMES COMPARED TO THOSE A CUSTOMER READING THEIR OWN METER WOULD CALCULATE ?

A. Yes. Customers would likely be confused about the difference.

Q. THE COMPANY PROPOSES A STATEWIDE CUSTOMER CHARGE SET AT $9. DO YOU AGREE WITH THESE RECOMMENDATIONS?

A. No. In the event that the Commission agrees with Staff that the Company is over earning, there is no reason to create increase any rate. The customer charge currently varies from a low of $5 in Greeley to a high of $9.05 in Palmyra. Adjusting the customer charge and volumetric rates will create winners and losers within each district. Based on the same customer specific information used for Schedule BAM REB Schedule 8 I have calculated the impacts on those same customers of changing the current customer charge to the $9 statewide rate proposed by the Company. The impact ranges from almost no increase in Palmyra to a 34% increase on the low use Greeley customer. The Company has failed to quantify the impacts on individual customers although they are substantial.

Q. IS THIS THE FIRST CASE WHERE THE COMMISSION HAS BEEN ASKED TO APPROVE A WEATHER MITIGATION ADJUSTMENT?

A. No. Missouri Gas Energy (MGE) asked this Commission to approve a WMC in Case No. GT-95-429 and its request was denied. Laclede operates under a weather mitigation rate design resulting from a Stipulation & Agreement.

Q. WHY DID THE COMMISSION DENY MGE'S REQUEST FOR A WEATHER NORMALIZATION CLAUSE?

A. The Commission found that "the weather normalization clause tariff, as proposed, is unjust, unreasonable, and contrary to the law and should be rejected." (Order at p. 5)

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE COMPANY'S PROPOSED WEATHER MITIGATION ADJUSTMENT (WMA).

A. The WMA adjusts the rate that will apply to customers in future rate periods based on how much the margin revenues collected in the past have varied from the amount that would have been collected if the weather was "normal" as measured by heating degree days (HDDs). This adjustment of future rates to account for past revenue variations due to abnormal weather is made by adjusting the revenues collected from the volumetric charge.

Q. CAN YOU PROVIDE AN ANALOGY OF HOW SUCH A CHARGE MIGHT BE IMPLEMENTED BY A BUSINESS OUTSIDE OF THE UTILITY AREA?

Yes. Suppose that a concert promoter previously organizes an outdoor Jazz concert where the total costs (including a return for her entrepreneurial skills) were expected to be $100,000. The promoter estimates that she would sell 10,000 tickets at $10 each and recover all of her expenses so long as weather is normal and her concert attendance was not adversely impacted by excessive heat or rain. The promoter also knew that on past days when it reached 105 degrees as a result of the abnormal weather, attendance was only 5,000 people and the promoter was only able to recover $50,000 of her total costs of $100,000. And when it reached 100 degrees attendance was 7,500 people and the promoter was only able to recover $75,000 of her total costs of $100,000.

Now assume that the concert promoter has a franchise to be the only concert promoter in St. Louis and as part of this franchise, the promoter has a WMA that permits the promoter to charge variable prices depending on the weather during the next outdoor Jazz concert. The promoter would develop variable rate schedule to recoup its total cost under each weather scenario and customers would not know the price of the ticket until the weather on the day of the concert was known.

Q. WOULD THE PROPOSED WEATHER NORMALIZATION ADJUSTMENT RESULT IN AN EFFECTIVE CHANGE IN THE RATES THAT ARE CHARGED DURING BILLING PERIODS WHEN THE WEATHER IS NOT PRECISELY NORMAL?

A. Yes, such effective changes in rates would occur in nearly every winter billing period for nearly every residential and small general service customer.

Q. EARLIER IN THIS TESTIMONY, YOU DISCUSSED THE COMMISSION'S DENIAL OF MGE'S REQUEST FOR A WEATHER NORMALIZATION CLAUSE IN CASE NO. GT-95-249. DID THE COMMISSION FIND THAT MGE'S PROPOSAL IN THAT CASE WOULD RESULT IN AN EFFECTIVE CHANGE IN RATES?

A. Yes, the Commission stated in its order:

> The Commission further finds that approval of the WNC tariff would result in a de facto change in MGE's rates. Under the weather normalization clause a customer would pay for more gas than he actually used in an unusually warm month. In that month, the customer would have paid an effective per unit rate for his usage greater than MGE's current tariffed rate.

> In an unusually cold month, the customer would have paid a lower unit rate for his actual usage than MGE's current tariffed rate**.** (ORDER AT P. 4)

Q. WOULD THE RESULT OF THE COMPANY'S PROPOSAL BE TO CREATE FLUCTUATING EFFECTIVE RATES?

A. Yes.

Q. HAVE OTHERS FOUND THAT WEATHER NORALIZATION CLAUSES LEAD INDIRECTLY TO AN ADJUSTMENT IN THE RATE THAT WOULD APPLY ABSENT THE CLAUSE?

A. Yes, a December 1994 issue of a newsletter entitled *A.G.A. Financial Analysis*, published by the American Gas Association refers to WNCs as "rate adjustment mechanisms." This reference was included in a paragraph under the heading "UPDATE ON WEATHER NORMALIZATION CLAUSES" on page one (see Schedule RK-1) of the December 1994 issue of *A.G.A. Financial Analysis.* This same paragraph explains that WNCs are "an example of a regulatory mechanism known as an adjustment clause" and that these adjustment clauses are "[d]esigned to allow rates to fluctuate in response to certain specific criteria..."

Q. PLEASE SUMMARIZE THE REASONS WHY PUBLIC COUNSEL OPPOSES ATMOS' WEATHER MITIGATION ADJUSTMENT PROPOSAL.

A. This proposal would:

1) Virtually eliminate Atmos' weather risk, but it would not provide significant benefits to Atmos' customers.

2) Not be consistent with the purposes of regulation.

3) Essentially charge customers in future periods for gas that was not consumed in prior periods.

4) Dilute the price signal that now exists between the quantity of gas consumed and the amount charged for this consumption.

5) Increase the complexity of the rate structure and make it more difficult for customers to determine the basis for the charges on their monthly bills.

6) Remove some of the risk of being in the gas utility business without giving sufficient recognition to this reduced risk in the determination of the appropriate rate of return that should be used when rates are set.

7) Create rates that discriminate between customers in different divisions of Atmos' service territory and between customers within the different divisions of Atmos' service territory.

Q. PLEASE DISCUSS THE FOURTH REASON LISTED ABOVE. WILL THE WNA DILUTE SIGNALS FOR CONSUMERS TO CONSERVE?

A. Yes. Since the WNA will make it virtually impossible for customers to know the margin rate that they are effectively being charged prior to consumption, it will be more difficult for consumers to make both long-run and short-run choices regarding the amount of gas that they will consume. The long run decisions that consumers make about the size and level of

energy efficiency of the structure that they will inhabit and the efficiency level of gas furnaces and other gas-fueled appliances will not be based on readily available prices for utility service. Likewise, the lack of readily available prices for utility service will make it more difficult to make decisions regarding short-run decisions like where to set the furnace thermostat.

Q. WILL THE WNA MAKE BILLS HARDER FOR CUSTOMERS TO CALCULATE?

A. Yes. Currently, it is fairly simple for a residential customer to calculate the charges that will apply for the margin portion of their bill. The customer only needs to know the customer charge and the block rates that apply for the current season. Public Counsel sometimes gets inquiries from customers about how to calculate the margin rates that appear on their monthly bills and we post these rates for all of the Missouri investor owned gas utilities on our web site (http://www.mo-opc.org/gas/gasbill.htm) in order to help customers understand how their monthly bills are calculated. If the WNA is approved, customers could calculate the margin charges that would appear on their monthly bill only if they also knew the actual and normal heating degree days.

Q. PLEASE DESCRIBE THE COMPANY PROPOSAL TO CONSOLIDATE THE PGA.

A. The Company currently has 6 net PGA rates; Butler, Greeley, Kirksville, SEMO, UCG-Neelyville and UCG-Hannibal/ Palmyra/Bowling Green. For residential customers, the PGA rate net of ACA adjustments varies from a low of .7279 of for UCG-Neelyville to a high of

1.2775 for Greeley. The Company proposes to consolidate statewide resulting in a single uniform rate.

Q. WHAT IS THE STAFF'S PROPOSAL?

A. The Staff proposes to consolidate the existing rates into 3 rates generally based on the underlying pipeline serving each area.

Q. DO YOU AGREE WITH EITHER OF THESE PROPOSALS?

A. No. Although I find the Staff's proposal is more reasonable than the Company's there is no compelling reason to alter the PGA structure simply to reduce administrative burden on the Company. The rates vary significantly. The Neelyville rate is only about 65% of the rate in SEMO. Blending the rates will affect customers. Gas cost represent 73%-82% of a customer's bill so even minor changes in the net PGA rate can have significant affects on consumers. There is no compelling reason to alter the existing PGA structure.

Q. WHAT CHANGES DOES THE COMPANY PROPOSE TO THE RECOVERY OF UNCOLLECTIBLE EXPENSES?

A. The Company seeks to remove the cap on Uncollectibles by shifting recovery to the PGA. This would free the Company from more risk by allowing automatic recovery though the PGA. This is another unnecessary concession that would shift greater risk of bill volatility to consumers. Mr. Trippensee also discusses Public Counsel's objections in his rebuttal testimony.

Q. WHAT HAVE THE COMPANY AND STAFF PROPOSED WITH RESPECT TO MISCELLANEOUS SERVICE CHARGES?

A. The Company requests that a statewide rate replace the district specific charges for a number of miscellaneous services. Company witness Ellis discusses these charges in pages 4-6 of his direct testimony. He proposes an activation (Connection, Reconnection) charge of $30 for service during business hours and $60 after hours, a transfer charge $25 for service during business hours and $55 after hours, an insufficient funds charge of $30. The Staff proposes alternative rates but generally agrees with allowing a single statewide rate for these services.

Q. WHAT IS YOUR POSITION ON ADJUSTMENTS TO THESE RATE PROPOSALS?

A. As with other rates under review in this case, these rates vary substantially by district. Connection, Reconnection and Insufficient Funds charges may have a greater impact on lower income customers' ability to receive service. There is no compelling reason to alter or raise the existing rates.

Q. ARE THERE BENEFITS TO KEEPING THE CONNECTION FEE AT A MORE AFFORDABLE LEVEL THAN THE RATE PROPOSED BY THE COMPANY?

A. Yes. I believe there are significant benefits to maintaining a more affordable connection charge. The connection charge facilitates new customers using the system potentially for many years into the future. This in turn produces an ongoing revenue stream for the Company and potentially offsets fixed system costs that might have otherwise been

recovered from fewer customers. While a lower connection charge seems an obvious benefit to the new customer in terms of the dollar savings, I would like the Commission to also consider another factor in weighing the benefit to a newly subscribing customer. If a customer is moving into a home or apartment it is likely that the customer may be facing connection charges and potentially up-front deposit requirements for other utility services such as electric service and telephone service. For low and moderate income customers the initial cost to starting up multiple services may pose at best a hardship and at worst an insurmountable barrier to establishing independent residency. Customers most likely to be adversely affected by higher connection fees are single parent households, young couples without an established credit history, widowed individuals living on fixed incomes and low-income disabled consumers. It is interesting to note that the Federal Communications Commission (FCC) after considering the affordability to low-income consumers and system benefits associated with increased subscription authorized federal funding of a 50% discount of up to $30 toward service connection fees for basic local telephone subscription for low-income consumers.[2]

Unless a connection charge can be shown to be priced below incremental cost, there is little support for the notion that existing customers are made significantly worse off by retaining a lower connection charge for new customers.

[2] This program is known as the Federal Link Up Program.

Q. ARE THERE SIMILAR BENEFITS TO KEEPING THE RECONNECTION FEE AT MORE AFFORDABLE LEVELS THAN THE RATE PROPOSED BY THE COMPANY?

A. Yes. Many of the same consumer groups financially vulnerable to increased connection fees are also financially vulnerable to increased reconnection fees. In addition, where the reconnection fee at the proposed level may pose an insurmountable obstacle for a customer to reinstate service, I find it reasonable to assume the Company would face an increased risk of writing off uncollected bill accounts. Ultimately, this write off would flow through to the remaining customer base.

Given that the Company through the ratemaking process is allowed the opportunity earn a normal rate of return, I see no compelling reason to allow targeted recovery through increased connection fees that may pose a significant detriment to financially vulnerable customers.

Q. IF THE COMMISSION DOES ALLOW THE COMPANY TO IMPLEMENT UNIFORM STATEWIDE RATES FOR THESE SERVICES, WOULD YOU OBJECT TO THE RATES PROPOSED BY MR. ENSRUD?

A. No.

Q. DO YOU HAVE CONCERNS WITH THE COMPANY'S PROPOSAL TO ALTER THE LINE EXTENSION POLICY?

A. Yes. The Company proposes to eliminate the minimum line extension currently recovered in rates. Instead every new residential and small business customer may be subjected to a feasibility review resulting in an up front fee for main extensions. The Staff supports the proposal if a refund provision is incorporated.

Q. DO YOU SUPPORT THE PROPOSAL?

A. No. A reasonable fee-free line extension is both a reasonable obligation to impose on a public utility and an investment in future earnings for the utility.

Q. DO YOU HAVE CONCERNS WITH THE COMPANY'S PROPOSALS RELATED TO LARGE CUSTOMER'S?

A. Yes. The Company proposes to replace the current penalty structure with a fee and payment schedule for imbalances caused by a transport customers taking more or less gas from the system than the transport customer contracted for from its upstream suppliers. Further, it would allow third parties to create pools that would allow pool members to offset imbalances. In all districts but Greeley the Company appears to have protections or penalties in place to restrict imbalances. The Company's proposal would allow transport customers to treat gas secured for serving firm sales customers as a bank from which they can borrow or repayas they choose. Why a reasonable payment for gas withdrawn it is important to ensure that they can not avoid fees for imbalances.

Q. DO YOU SUPPORT THE COMPANY'S PROPOSAL ON LINE LOSS?

A. The Company proposes to revise the current calculation of line loss recovered as a component of transport rates. The result will place a larger burden for line loss recovery on residential and small business customers. The Staff generally supports a 2% proposal with modifications geared at corrective action. I support the corrective action proposed by Staff. It seems reasonable that residential and small business should be held harmless from excessive line loss in the event that an investigation reveals actual line loss instead of faulty read equipment.

Q. DO YOU SUPPORT THE EDR RIDER OR R&D RIDER PROPOSED BY THE COMPANY?

A. Research and Development surcharge that would force residential and small business customers to subsidize research that should be treated as a Company investment. Public Counsel could support an economic development rider funded by shareholders.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.