

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Advertising Expense

Bolin/Rebuttal

Public Counsel

GR-99-315

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

Submitted on Behalf of the Office of the Public Counsel

Laclede Gas Company

Case No. GR-99-315

FILED

AUG 5 1999

Missouri Public
Service Commission

August 5, 1999

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

In the matter of Laclede Gas Company's
tariff to revise natural gas rate schedules.

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Case No. GR-99-315

AFFIDAVIT OF KIMBERLY K. BOLIN

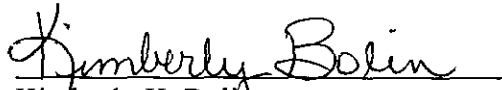
STATE OF MISSOURI)

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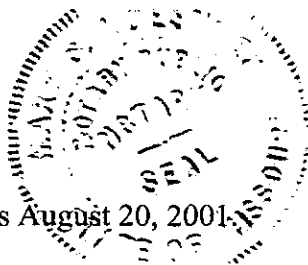
COUNTY OF COLE)


Kimberly K. Bolin, of lawful age and being first duly sworn, deposes and states:

1. My name is Kimberly K. Bolin. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 7 and Schedules KKB-6 and KKB-7.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Kimberly K. Bolin

Subscribed and sworn to me this 5th day of August, 1999.




Mary S. Koestner, Notary Public

My Commission expires August 20, 2001.

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

LACLEDE GAS COMPANY

CASE NO. GR-99-315

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 **A. Kimberly K. Bolin, P.O. Box 7800, Jefferson City, Missouri 65102.**

3 **Q. ARE YOU THE SAME KIMBERLY K. BOLIN WHO HAS FILED DIRECT**
4 **TESTIMONY IN THIS CASE?**

5 **A. Yes.**

6 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 **A. To response to the direct testimony of Laclede Gas Company (Laclede or Company) witness**
8 **Richard N. Hargraves concerning advertising expense.**

9 **Q. MR. HARGRAVES STATES IN HIS DIRECT TESTIMONY ON PAGE 4, LINES**
10 **5 THROUGH 11; " IN CASE NO TC-89-14, THE COMMISSION OVERRULED**
11 **STAFF'S ATTEMPT TO APPLY THE CLASSIFICATION STANDARD TO**
12 **SOUTHWESTERN BELL'S ADVERTISING EXPENSES, DECLARING SUCH A**
13 **STANDARD TO BE INAPPROPRIATE IN A COMPETITIVE ENVIRONMENT AND**
14 **STATING ITS DESIRE TO DEVELOP APPROPRIATE STANDARDS FOR**
15 **ADVERTISING EXPENSES IN A COMPETITIVE ENVIRONMENT." WAS THS**
16 **COMMISSION ADDRESSING THE USE OF THE KCPL STANDARD FOR ALL**

1 TYPES OF UTILITIES OR WAS THE COMMISSION ADDRESSING THE
2 APPLICATION OF THE STANDARD IN THE TELECOMMUNICATIONS
3 INDUSTRY?

4 A. The Commission's order specially addresses promotional advertising expenses for the competitive
5 telecommunications industry. The Commission states on page 44 of the Report and Order;

6 "In spite of the fact that this Commission has, in the last two litigated
7 Southwestern Bell Telephone Company cases, acknowledged that competition is a
8 factor to be considered in advertising expense, the Staff and PC propose to apply
9 the standard previously adopted for electric companies. There are significant
10 differences. An electric company sells only one product. Telephone companies,
11 however, sell a multitude of services and products and are subject to increasingly
12 competitive pressures since divestiture." (Emphasis added)

13
14 Q. **SINCE THE SOUTHWESTERN BELL TELEPHONE COMPANY CASE TC-89-14,**
15 HAS THE COMMISSION RULED THAT PROMOTIONAL ADVERTISING SHOULD
16 NOT BE ALLOWED IN THE COST OF SERVICE FOR ANOTHER GAS
17 UTILITY IN MISSOURI?

18 A. Yes, in January 1997 the Commission disallowed promotional advertising in Missouri Gas Energy
19 Case No. GR-96-285. On page 31 of the Report and Order the Commission states;

20 "The Commission finds that the \$5,035.57 amount should not be allowed in rates
21 because these expenses are incurred to encourage use of gas over electricity or to
22 promote MGE's corporate image. The Commission has to consider the energy
23 market in making these decisions. The Commission will not encourage gas and
24 electric companies to compete by passing those costs on to ratepayers. Since these
25 companies are still subject to rate base/rate of return regulation in Missouri, it does
26 not make sense to pass these types of expenses through to ratepayers.

1 Shareholders, not ratepayers, must bear the expense of advertisements designed to
2 increase sales of energy resources." (Emphasis added)

3
4 **Q. SINCE JANUARY 1997 HAS THERE BEEN ANY SIGNIFICANT OCCURANCES**
5 **THAT HAVE CHANGED THE GAS UTILITY INDUSTRY?**

6 A. No. For the most part gas and electric companies are still subject to rate base/rate of return
7 regulation in Missouri. It still does not make sense to pass promotional advertising expenses
8 through to ratepayers as requested by Laclede.

9 **Q. ON PAGE 4, LINES 11 THROUGH 14 OF MR. HARGRAVES DIRECT**
10 **TESTIMONY HE STATES: " AND, IN CASE NO. ER-95-411 INVOLVING**
11 **UNION ELECTRIC (NOW AMERENUE), THE ONLY ADVERTISING EXPENSE**
12 **THAT WAS DISALLOWED WAS \$250,000 OF GOODWILL ADVERTISING."**
13 **WAS THIS AMOUNT A RESULT OF A NEGOTIATED SETTLEMENT?**

14 A. Yes. In Case No. ER-95-411, the parties to the case determined a reconciliation procedure to be
15 used to determine what items should be included on the earnings report provided by the Company
16 every year. The Company agreed to make an income statement adjustment of \$250,000 to
17 eliminate goodwill advertising for the Company's yearly earnings report. In the Report and Order ,
18 page 19 of the attached stipulation and agreement states:

19 "This Stipulation and Agreement represents a negotiated settlement. Except as
20 specified herein, the signatories to this Stipulation and Agreement shall not be
21 prejudiced, bound by, or in any way affected by the terms of this Stipulation and
22 Agreement; (a) in any future proceeding; (b) in any proceeding currently pending
23 under a separate docket; and/or (c) in this proceeding should the Commission

1 decide not to approve this Stipulation and Agreement in the instant proceeding, or
2 in any way condition its approval of same."
3

4 **Q. MR. HARGRAVES CLAIMS IN HIS DIRECT TESTIMONY THAT LACLEDE'S**
5 **PROMOTIONAL ADVERTISING PROVIDES THE CONSUMER WITH IMPORTANT**
6 **INFORMATION. PLEASE PROVIDE EXAMPLES OF THE INFORMATION THAT**
7 **IS PROVIDED IN THE ADS YOU FOUND TO BE PROMOTIONAL.**

8 **A.** The following are examples of the information contained in Laclede's promotional advertising:

9 Natural gas water heaters heat water faster and cost less to operate than electric
10 water heaters.

11 Natural gas stoves cook food with greater control than electric stoves.

12 Natural gas furnaces cost less to operate than their electric counterparts.

13 Natural gas furnaces provide comfortable heat and give you hotter air than their
14 electric counterparts.

15 Natural gas furnaces are warranted to last twice as long as a heat pump.
16

17 **Q. IS THE ABOVE INFORMATION STATEMENTS THAT ENCOURAGE THE USE OF**
18 **NATURAL GAS OVER THE USE OF ELECTICITY?**

19 **A.** Yes, all of these statements encourage the use of natural gas over the use of electricity.

20 **Q. CAN CONSUMERS OBTAIN THIS INFORMATION FROM SOURCES OTHER THAN**
21 **LACLEDE'S PROMOTIONAL ADVERTISING?**

1 A. Yes, sources other than Laclede's promotional advertising provide the consumer with the type of
2 information discussed in a previous answer. For example, an EnergyGuide label is required to be
3 displayed on new appliances such as stoves, A/C units, furnaces, or water heaters. This provides
4 the customer a quantification of the actual annual operating costs of the appliance. General
5 statements in Laclede's ads, such as those previously discussed, do not provide useful information
6 and are presented in a manner that I can best describe as a recitation of someone's opinion. For
7 example, the statement "Natural gas furnaces provide comfortable heat and give you hotter air than
8 their electric counterparts," is an opinion that many people believe. The phrase comfortable heat is
9 a matter of personal preference. Other factors that could influence that preference could include
10 noise, air drafts, and perception of safety.

11 In OPC Data Request No. 1063, the Company provided a new users study. Only 4 out of 103
12 customers interviewed cited Laclede's advertising as a source that led he/she to choose gas heat.
13 The rest of the customers interviewed cited other sources, such as past experience with gas,
14 friends/other homeowners, past experience with other fuels, contractors/builders/heating
15 technicians and consumer reports as what led he/she to choose gas heat.

16 **Q. DO PROMOTIONAL ADS PROVIDE THE COMPANY'S EXISTING CUSTOMERS**
17 **WITH USEFUL INFORMATION?**

18 A. No. Promotional ads provide useful information to only those who are deciding whether to use
19 natural gas, electricity or other fuels. Promotional advertising is not necessary for Laclede to
20 provide safe and reasonable gas service to its customers, therefore it should not be included in the

1 cost of service recovered from ratepayers. Promotional advertising is designed to increase sales,
2 thus it should be an expense the shareholders bear.

3 **Q. WHAT INFORMATION IS PROVIDED IN SAFETY AND GENERAL**
4 **ADVERTISING?**

5 A. General advertising provides the consumer with information on how to enroll for budget billing and
6 how to enroll for Laclede's Notification Plan for the handicapped and elderly. Safety advertising
7 gives the customer tips on what to do if the customer should smell gas, the telephone number to call
8 if the customer smells gas, the telephone number to call before the customer digs, reminders to
9 check the furnace and flue and carbon monoxide detection information. General and safety
10 advertising provide the current ratepayers with useful and needed information.

11 **Q. SHOULD INSTITUTIONAL ADVERTISING EXPENSE BE ALLOWED IN THE**
12 **COST OF SERVICE?**

13 A. No. Institutional advertising is only used to enhance the corporate image of the Company.
14 Institutional advertising provides no benefits to the ratepayers and is not necessary for the Company
15 to provide safe and reasonable gas service. The following are examples of statements made in
16 Laclede's institutional advertising:

17 Public service is our daily business.

18 Channel 9's broadcast of The NewsHour has been locally supported for more than
19 10 years by Laclede Gas.

1 **Q. DO YOU HAVE CORRECTIONS TO MAKE TO YOUR ADVERTISING EXPENSE**
2 **ADJUSTMENT DISCUSSED IN YOUR DIRECT TESTIMONY?**

3 A. Yes, I have two corrections to make to my advertising adjustment. The first correction can be
4 found on attached Schedule KKB-6. I had mistakenly listed an ad as promotional when it is a
5 general ad. This ad is listed in bold on Schedule KKB-6. I have removed the costs of this ad from
6 my adjustment. My second correction can be found on attached Schedule KKB-7 for the
7 adjustment under Account 930.10 - Other expense items. My original number was \$312,786. It
8 should be \$51,424, making the total disallowed advertising adjustment, \$475,082. My original
9 advertising adjustment was \$574,169.

10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes.

Rebuttal Testimony of
Kimberly K. Bolin
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<u>Type</u>	<u>Description</u>	<u>Classification</u>
Print	Budget Billing	General
Print	Elderly & Handicapped	General
Print	C.O. Home Safety Kit	Below the line
Print	Holiday Appliance Sale	Below the line
Print	Sign of An All-Gas Home	Promotional
Print	"Ernest" Safety Tips	Safety
Print	Gas Lights/Gas Grill Sale	Below the line
Print	State Water Heater	Below the line
Print	Serving This Public (People)	Institutional
Print	Grill Parts	Below the line
Print	"Ernest" - Job Safety	Safety
Print	Public Service is Our Daily Business	General
Print	Weber Grills	Below the line
Print	Serving This Public is Our Daily Business (pic)	Institutional
Print	Gas Grills on Sale Now	Below the line
Print	Dr. Martin Luther Kine, Jr. Tribute	Institutional
Print	Ruud Water Heater	Below the line
Print	Black History Month	Institutional
Print	Follow Your Nose (Safety)	Safety
Print	Log Sale	Below the line
Print	St. Louis Builds with Natural Gas	Promotional
Print	St. Louis Cooks with Natural Gas	Promotional
Print	Vent-Free Gas Logs & Space Heaters	Below the line
Print	A.O. Smith Water Heater	Below the line
Print	Gas Furnace Check-Up	Promotional
Print	"Ernest" Furnace Inspection	Promotional
Print	"Ernest" - Service ... One Tool	Promotional
Print	Gas Range Repair	Promotional
Print	Gas Dryer Repair	Promotional
Print	Gas Light Repair	Promotional
Print	Gas Grill Repair	Promotional
Print	Appliances for All-Gas Home	Promotional
Print	Water Heater Special with CO Detector	Promotional
Print	Water Heater Repair	Promotional
Print	Night Hawk CO Detector	Promotional
Print	C.O. Detector	Promotional
Radio	Shooort	Promotional
Radio	Classroom	Promotional
Radio	Radio Station	Promotional
Radio	Service (Football)	Promotional
Radio	Dream Team	Promotional
Radio	Football - Game Plan	Promotional
Radio	Expert I	Promotional
Radio	Expert II	Promotional
TV	The Squeeze	General
TV	Yo-Yo	General
TV	Teddy Bear	General
TV	Standing on Head	General
TV	911	General
TV	Our Daily Business	Institutional
TV	Bringing You Energy	Institutional

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<u>Account</u>	<u>Amount</u> <u>Disallowed</u>
Acct. 909	\$ 159,378
Acct. 913.3	\$ 2,898
Acct. 930.10	\$ 312,807
Total	\$ 475,082

Account 930.10

Expense related to promotional & institutional ads:	\$ 261,383
Other expense items:	\$ 51,424
Total	\$ 312,807