

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Advertising Expense

Bolin/Surrebuttal

Public Counsel

GR-99-315

## **SURREBUTTAL 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 19 1999

Missouri Public  
Service Commission

August 19, 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. )

**Case No. GR-99-315**

**AFFIDAVIT OF KIMBERLY K. BOLIN**


STATE OF MISSOURI )  
 ) SS  
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 surrebuttal testimony consisting of pages 1 through 6 and Schedule KKB-8.
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 19th day of August, 1999.

  
Mary S. Koestner, Notary Public

My Commission expires August 20, 2009.

**SURREBUTTAL 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 AND**  
4 **REBUTTAL TESTIMONY IN THIS CASE?**

5 A. Yes.

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

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

9 **Q. ON PAGE 2 OF MR. HARGRAVES REBUTTAL TESTIMONY HE STATES " A**  
10 **PRINT ADVERTISEMENT ENTITLED " PUBLIC SERVICE IS OUR DAILY**  
11 **BUSINESS" WAS CATEGORIZED AS " INSTITUTIONAL" BY STAFF AND**  
12 **AS " PROMOTIONAL" BY PUBLIC COUNSEL." DID YOU STATE IN**  
13 **YOUR REBUTTAL TESTIMONY THAT YOU HAD MISTAKENLY LISTED THIS**  
14 **AD AS PROMOTIONAL?**

15 A. Yes. I corrected my mistake in my rebuttal testimony. I have categorized this ad as a general ad  
16 and I have removed the expense for the ad from my adjustment.

1 Q. MR. HARGRAVES CONTENDS ON PAGE 2 OF HIS REBUTTAL TESTIMONY  
2 THAT THE TELEVISION COMMERCIALS "BRINGING YOU ENERGY" AND  
3 "OUR DAILY BUSINESS" ARE PROMOTIONAL. IS THIS CORRECT?

4 A. No. These ads are clearly institutional advertising. The "primary message" of both ads is Laclede  
5 supports Channel 9's broadcast of The Newshour. The "primary message" purpose is the  
6 promotion of Laclede's corporate image. Institutional advertising is defined as advertising used to  
7 improve the company's public image. Promotional advertising is used to encourage or promote the  
8 use of the particular commodity the utility is selling.

9 Q. ONE OF THE MAIN REASONS THAT THE COMPANY BELIEVES THE USE OF  
10 THE KCPL STANDARD IS INAPPROPRIATE IS THAT COMPANY BELIEVES  
11 IT IS AN EXPENSIVE, TIME CONSUMING, AD-BY-AD ANALYSIS. DOES  
12 PUBLIC COUNSEL SHARE THE SAME BELIEF?

13 A. The purpose of ratemaking regulation is to provide just and reasonable rates. An examination of  
14 expenditures to determine if the expenditures are necessary, prudent, and at a reasonable level must  
15 be conducted. This requires analysis, not a simple percentage of revenues or a flat amount that the  
16 Company unilaterally feels is a reasonable amount to spend.

17 The ad-by-ad review of the advertising expense is no more or less time-consuming than any other  
18 ratemaking issue. For example, for this rate case I reviewed Dues and Donations expense. There  
19 were approximately 140 organizations that the Company paid dues to or gave donations to. I had to  
20 examine each invoice and determine if the Company should be allowed to recover each expense  
21 based upon four criteria. There were 51 ads to review for this rate case, less than one-half the

1 amount of organizations that I had to list and examine the supporting documentation for the Dues  
2 and Donations expense issue.

3 **Q. IN HIS REBUTTAL TESTIMONY ON PAGE 4 MR. HARGRAVES STATES;**  
4 **" THERE CAN BE LITTLE DOUBT THAT BOTH REGULATED AND NON-**  
5 **REGULATED COMPANIES GARNER BENEFITS FROM PROMOTIONAL**  
6 **ADVERTISING." HE THEN USES ANHEUSER-BUSCH AND IBM AS**  
7 **EXAMPLES OF NON-REGULATED COMPANIES THAT SPEND MILLIONS**  
8 **ADVERTISING EACH YEAR. PLEASE EXPLAIN WHY USING THESE TWO**  
9 **COMPANIES AS SIMILAR COMPANIES TO LACLEDE GAS COMPANY IS**  
10 **WRONG.**

11 **A.** Natural gas is a public service that provides a basic need (heat) to survive. The purchase of  
12 Anheuser-Busch or IBM products can be described as discretionary purchases. Natural gas service  
13 providers do not have to convince customers they **need** heat like a beer or a computer producer  
14 does.

15 Anheuser-Busch and IBM have many competitors from which a customer can choose a variety of  
16 products. Laclede does not have a competing gas company to contend with. Customers who want  
17 natural gas service in Laclede's service territory do not have the ability to choose another natural  
18 gas service provider, unlike possible customers of Anheuser-Busch and IBM.

19 **Q. MR. HARGRAVES ATTACHED A COPY OF WHAT THE COMPANY CLAIMS IS A**  
20 **COST/BENEFIT ANALYSIS AS SCHEDULE 2 IN HIS REBUTTAL**

**TESTIMONY. PLEASE EXPLAIN WHY PUBLIC COUNSEL HAS REJECTED  
THIS ANALYSIS.**

A. This analysis is based on estimates and assumptions and has many inaccurate and misleading statements. Also, Public Counsel recommends rejection of this analysis because the Company has not proved that Laclede's promotional advertising is the main information source or factor that leads a customer to choose natural gas over alternative fuels. Attached, as Schedule KKB-8 is a copy of the tabular analysis of the Company's new user study, which proves sources other than advertising influence customers to choose natural gas.

Company's estimated loss of revenue is based upon the assumptions that the Company will lose one-half of its estimated customer growth and one percent of the Company's current heating customers if Laclede discontinues its promotional advertising. Public Counsel has several unanswered data requests into the Company concerning how the Company decided to use these assumptions.

**Q. IN YOUR PREVIOUS ANSWER YOU MENTIONED THAT LACLEDE'S  
COST/BENEFIT ANALYSIS CONTAINED INACCURATE AND MISLEADING  
STATEMENTS. PLEASE EXPLAIN.**

A. Laclede's cost/benefit analysis contains two statements that are simply untrue. The first statement is:

Laclede is informing individual ratepayers of important information they need to compare competing claims and thereby make an informed energy decision. Some of this information regards the environmental and other advantages of natural gas.  
Some of this information regards the difficulties associated with the use of

heat pumps in the St. Louis area. (Emphasis added) (Hargraves Rebuttal, Schedule 2, page 2)

No where in any of the advertising I reviewed did Laclede provide any information regarding the difficulties associated with the use of heat pumps in the St. Louis area.

The second statement is:

The program also informs the customer of the environmental, convenience and efficiency advantages of natural gas energy as well as the negative operational aspects of the electric heat pump – all of which information, were it not for Laclede, would never reach the consumer. (Emphasis added) (Hargraves Rebuttal, Schedule 2, page 3)

As I stated in my rebuttal testimony ( page 5 lines 1 through 15) and as Laclede's survey (attached as Schedule KKB-8, pages 4 and 5) shows, customers can and have obtained information regarding natural gas from other sources, such as contractors, builders, heating technicians, consumer reports, personnel experience and other homeowners.

**Q. IN COMPANY'S SURVEY (SCHEDULE KKB-8) NEW USERS WERE ASKED WHAT LACLEDE'S ADVERTISING WAS ABOUT. WHAT WAS THE MOST COMMON ANSWER?**

A. Forty percent of those questioned remembered Ernest and Vern. While only twenty-six percent of those surveyed remembered the ad saying gas is more economical than electricity, and nineteen percent remembered the ad saying gas is cleaner.

**Q. WHAT PERCENT OF THE NEW USERS SURVEYED DID NOT MAKE THE DECISION TO USE A GAS FURNACE?**

1 A. Six percent of the new gas users were not involved in the decision to use a gas furnace, while only  
2 four percent cited television /media advertising as the source that led the customer to choose natural  
3 gas heat. (Schedule KKB-8, page 4) This means advertising effects less new users of gas than those  
4 new users who simply choose to let someone else make the choice. The four percent influenced by  
5 the advertising represent a very small part of the market as compared to other methods of influence  
6 such as past experience with gas (thirty-four percent) and friends/other homeowners (twenty  
7 percent).

8 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

9 A. Yes.



Surrebuttal Testimony  
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PART IV  
TABULAR ANALYSIS

Surrebuttal Testimony  
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NEW USERS STUDY

GROUP

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
MAIN EXTENSION	35	35	0	0
	34.0	100.0	0.0	0.0
NEW CONSTRUCTION	32	0	32	0
	31.1	0.0	100.0	0.0
HEAT PUMP	36	0	0	36
	35.0	0.0	0.0	100.0

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NEW USERS STUDY

Q.3 WHY DID YOU CHOOSE A GAS FURNACE INSTEAD OF AN ELECTRIC FURNACE OR HEAT PUMP?

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
GAS IS LESS COSTLY/ MORE ECONOMICAL	56 54.4	22 62.9	16 50.0	18 50.0
PAST EXPERIENCE WITH GAS	21 20.4	6 17.1	7 21.9	8 22.2
GAS IS MORE EFFICIENT	18 17.5	2 5.7	6 18.8	10 27.8
TRIED HEAT PUMP - WAS NOT SATISFIED	7 6.8	3 8.6	1 3.1	3 8.3
GAS CAME WITH THE HOUSE	5 4.9	0 0.0	3 9.4	2 5.6
GAS IS WARMER HEAT	4 3.9	1 2.9	0 0.0	3 8.3
HEAT PUMP NOT COST EFFECTIVE/PRACTICAL	4 3.9	3 8.6	0 0.0	1 2.8
GAS HAS A QUICKER RESPONSE	2 1.9	0 0.0	1 3.1	1 2.8
WANTED TO GET RID OF THE PROPANE TANK	2 1.9	2 5.7	0 0.0	0 0.0
ELECTRIC POWER CAN GO OFF	2 1.9	1 2.9	1 3.1	0 0.0
HEAT PUMP - AIR IS TOO COLD	2 1.9	1 2.9	0 0.0	1 2.8
NO REASON, JUST PREFER GAS	8 7.8	4 11.4	4 12.5	0 0.0
OTHER	5 4.9	1 2.9	2 6.3	2 5.6

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NEW USERS STUDY

Q.4 WHAT SOURCES DID YOU USE FOR INFORMATION THAT LED YOU  
TO CHOOSE GAS HEAT?

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
PAST EXPERIENCE WITH GAS	35 34.0	9 25.7	14 43.8	12 33.3
FRIENDS/OTHER HOMEOWNERS	21 20.4	12 34.3	3 9.4	6 16.7
PRICE COMPARISONS	14 13.6	5 14.3	4 12.5	5 13.9
PAST EXPERIENCE WITH OTHER FUELS	12 11.7	5 14.3	3 9.4	4 11.1
PAST EXPERIENCE (GENERAL)	9 8.7	0 0.0	4 12.5	5 13.9
CONTRACTORS/BUILDERS /HEATING TECHNICIANS	9 8.7	6 17.1	0 0.0	3 8.3
CONSUMER REPORTS/ OTHER PERIODICALS	8 7.8	1 2.9	4 12.5	3 8.3
DIDN'T MAKE THE DECISION ON FURNACE	6 5.8	0 0.0	2 6.3	4 11.1
BROCHURES FROM THE GAS COMPANY	4 3.9	2 5.7	1 3.1	1 2.8
TV/MEDIA ADVERTISING	4 3.9	1 2.9	2 6.3	1 2.8
DISPLAY HOMES/ HOME SHOWS	3 2.9	0 0.0	0 0.0	3 8.3
SALESPERSONS AT THE GAS COMPANY	2 1.9	1 2.9	1 3.1	0 0.0
BUSINESS SOURCES/ FURNACE COMPANIES	2 1.9	2 5.7	0 0.0	0 0.0

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NEW USERS STUDY

Q.4 WHAT SOURCES DID YOU USE FOR INFORMATION THAT LED YOU  
TO CHOOSE GAS HEAT?  
(continued)

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
READ ABOUT IT (NO SOURCE SPECIFIED)	1 1.0	1 2.9	0 0.0	0 0.0
NONE/MYSELF/ JUST DECIDED	11 10.7	5 14.3	3 9.4	3 8.3
NO ANSWER	1 1.0	0 0.0	0 0.0	1 2.8

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NEW USERS STUDY

Q.5 DO YOU RECALL SEEING OR HEARING ANY ADVERTISING ABOUT  
NATURAL GAS BEFORE CHOOSING GAS HEAT?

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
YES	57 55.3	17 48.6	16 50.0	24 66.7
NO	44 42.7	16 45.7	16 50.0	12 33.3
DON'T KNOW	2 1.9	2 5.7	0 0.0	0 0.0

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NEW USERS STUDY

Q.6 WHAT WAS THE ADVERTISING ABOUT?

	GROUP			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	57	17	16	24
ERNEST/VERN (GENERAL)	23 40.4	9 52.9	5 31.3	9 37.5
GAS IS LESS COSTLY/ MORE ECONOMICAL	15 26.3	9 52.9	3 18.8	3 12.5
GAS IS CLEANER	11 19.3	2 11.8	4 25.0	5 20.8
GAS IS MORE EFFICIENT	10 17.5	2 11.8	5 31.3	3 12.5
LACLEDE GAS COMPANY (GENERAL)	7 12.3	0 0.0	1 6.3	6 25.0
GAS HEAT (GENERAL)	3 5.3	0 0.0	0 0.0	3 12.5
HEAT PUMP (GENERAL)	3 5.3	0 0.0	0 0.0	3 12.5
HEAT PUMP IS BEING PUSHED BY ELEC. CO.	2 3.5	1 5.9	1 6.3	0 0.0
ELECTRIC CO. AD/HEAT PUMPS MORE EFFICIENT	2 3.5	0 0.0	1 6.3	1 4.2
OTHER	2 3.5	0 0.0	1 6.3	1 4.2
DON'T KNOW/ DON'T REMEMBER	11 19.3	1 5.9	6 37.5	4 16.7

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NEW USERS STUDY

Q.7A THOSE WHO BELIEVE THE FOLLOWING STATEMENTS.

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
GAS IS CHEAPER THAN ELECTRIC	98 95.1	33 94.3	29 90.6	36 100.0
GAS APPLIANCES LAST LONGER	33 32.0	10 28.6	12 37.5	11 30.6
GAS IS MORE EFFICIENT	81 78.6	23 65.7	24 75.0	34 94.4
HEAT PUMPS WEAR OUT FASTER	43 41.7	15 42.9	13 40.6	15 41.7
GAS HEAT IS HOTTER THAN HEAT PUMP	46 44.7	15 42.9	14 43.8	17 47.2
DON'T BELIEVE ANY OF THE STATEMENTS	1 1.0	0 0.0	1 3.1	0 0.0



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NEW USERS STUDY

Q.7B THOSE WHO BELIEVE THE STATEMENT AND FELT IT WAS IMPORTANT IN THEIR PURCHASE DECISION.

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
GAS IS CHEAPER THAN ELECTRIC	86 83.5	28 80.0	26 81.3	32 88.9
GAS APPLIANCES LAST LONGER	23 22.3	5 14.3	9 28.1	9 25.0
GAS IS MORE EFFICIENT	78 75.7	22 62.9	24 75.0	32 88.9
HEAT PUMPS WEAR OUT FASTER	24 23.3	6 17.1	9 28.1	9 25.0
GAS HEAT IS HOTTER	34 33.0	11 31.4	9 28.1	14 38.9

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NEW USERS STUDY

Q.7C THOSE WHO BELIEVE THE STATEMENT, FELT IT WAS IMPORTANT IN THEIR DECISION AND RECALL ADVERTISING FOR IT.

	G R O U P			
	TOTAL	MAIN EXTENSIONS	NEW CON- STRUCTION	HEAT PUMP
TOTAL	103	35	32	36
GAS IS CHEAPER THAN ELECTRIC	39 38.6	14 40.0	11 35.5	14 40.0
GAS APPLIANCES LAST LONGER	3 3.0	0 0.0	1 3.2	2 5.7
GAS IS MORE EFFICIENT	36 35.6	13 37.1	10 32.3	13 37.1
HEAT PUMPS WEAR OUT FASTER	6 5.9	2 5.7	2 6.5	2 5.7
GAS HEAT IS HOTTER	3 3.0	1 2.9	1 3.2	1 2.9
RECALLED AD FOR AT LEAST 1 IMP. FACTOR	55 54.5	19 54.3	16 51.6	20 57.1