Exhibit No.:	________________
Issue(s):	Class Cost of Service/ Rate Design
Witness/Type of Exhibit:	Meisenheimer/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2006-0387

SURREBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

November 13, 2006

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's Tariff Revision Designed to Consolidate Rates and Implement a General Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	**Case No. GR-2006-0387**

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist 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 13 and Schedules 1-7.

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.

Barbara A. Meisenheimer

Barbara A. Meisenheimer

Subscribed and sworn to me this 13th day of November 2006.

KATHLEEN HARRISON
Notary Public - Notary Seal
State of Missouri - County of Cole
My Commission Expires Jan. 31, 2010
Commission #06399239

Kathleen Harrison

Kathleen Harrison
Notary Public

My Commission expires January 31, 2010.

SURREBUTTAL TESTIMONY
OF
BARBARA A. MEISENHEIMER

ATMOS ENERGY CORPORATION

(RATE DESIGN)

CASE NO. GR-2006-0387

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

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel (OPC or Public Counsel), P. O. Box 2230, Jefferson City, Missouri 65102. I am also employed as an adjunct Economics and Statistics Instructor for William Woods University.

Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?

A. Yes. I filed direct testimony and rebuttal testimony on the issues of class cost of service and rate design.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In this testimony I will respond to the rebuttal testimony of Staff witnesses Steve Rackers, Anne Ross and Tom Imhoff and Company witness Gary Smith.

Q. WHAT IS THE STAFF'S POSITION ON THE REVENUE REQUIREMENT?

A. The Staff updated its calculation of revenue requirement in rebuttal testimony. Staff witness Rackers explains in his rebuttal testimony (p. 1-2) that, the Staff continues to believe the Company is recovering an excess of approximately $1.2 million in earnings on a total company basis.

Q. PLEASE COMMENT ON THE STAFF'S POSITION THAT A ZERO REVENUE REQUIRMENT INCREASE WILL RESULT IN JUST AND REASONABLE RATES AND THAT DESPITE ITS IIDENTIFICATION OF $1.2 MILLION IN EXCESS REVENUE, THE STAFF STATES THAT IT DOES NOT INTEND TO FILE AN OVERCHARGE CASE.

A. Public Counsel is very concerned about the Staff's position which appears to concede 1.2 million dollars despite maintaining its belief that the Company is over-earning by this amount. The Staff's position is even more troubling given the Staff's rate design proposal in which the Staff proposes to eliminate virtually all weather related risk but proposes no offsetting reduction in the rate of return. Public Counsel encourages the Commission to reject the Staff's rate design and to reduce rates by the amount of any overings it finds in this case.

Q. PLEASE COMMENT ON THE PROPOSAL BY STAFF WITNESS IMHOFF THAT NO SHIFTS BETWEEN RATE CLASSES OCCUR AT A ZERO REVENUE REQUIREMENT INCREASE.

A. On page 3 of his rebuttal testimony, Mr. Imhoff states:

> Q. Does Staff have any comments regarding the direct testimony of OPC witness Barbara Meisenheimer?
>
> A. Yes. Over half of the difference between Staff's CCOS and OPC witness Meisenheimer's CCOS is related to the mains allocator. However, since the rebuttal testimony of Staff witness Steve Rackers indicates that a zero increase in revenue requirement is appropriate, I recommend that there be no shifts between classes in this case as proposed by Atmos.
>
> Q. Are there other reasons for no shifts between the rate classes?

> A. Yes. The proposed consolidation of districts and rate design changes would have rate impacts within the classes even without shifts in class revenue responsibilities. The additional rate shifts between the classes would result in further impacts, and therefore, a zero increase in revenue requirement would support no class revenue shifts.

From Mr. Imhoff's testimony it appears that Staff recommends consolidation, but proposes that the recovery from each consolidated rate class be limited to the sum of the current recovery from the district rate classes.

As stated in my rebuttal testimony, Public Counsel strongly opposes consolidation and even more strongly opposes the Staff's proposed delivery charge. To isolate the consolidation let's set aside the issues of the delivery charge recovery mechanism for a moment. Public Counsel could agree with Mr. Imhoff's proposal if the Commission allows the Company to consolidate and approves a zero total Company revenue requirement increase. If the Commission adopts Public Counsel's recommendation to reject consolidation at this time, the retention of the current class proportions of revenue would still be appropriate. In direct testimony, I raised concerns regarding the lack of comprehensive data on which to base consolidation or district specific class shifts. Staff witness Dan Beck raises more concerns regarding allocation methods that impact district class revenues. By maintaining the current class revenue proportions, the Commission need not address class shifts in this proceeding and can wait until sufficient data is available to reasonably support any proposed class shifts.

Q. HAVE YOU ANALYZED THE RESIDENTIAL CUSTOMER IMPACTS OF CONSOLIDATION ASSUMING A ZERO REVENUE INCREASE?

A. Yes. Using the Staff reported customer count and Company reported customer charges and volumetric rates, I calculated the difference in the average bill under current rates versus the average bill assuming consolidation. Under consolidation, the average bill ranges from 29% less to 67% more depending on the district. There is no reason to substantially impact customers simply to reduce some perceived, company administrative burden.

Q. THE COMPANY POINTS OUT THAT YOUR MAINS ALLOCATION METHOD WAS PREVIOUSLY REJECTED BY THIS COMMISSION. WAS IT YOUR INTENTION TO RAISE THE SAME ISSUES RELATED TO THE MAINS ALLOCATOR?

A. No. Although I continue to believe that the RSUM method is reasonable, I do not intend to rehash an issue that Commission rejected in the last Laclede case, so although Mr. Imhoff's proposal for a zero revenue increase retains current class revenue proportions would make the need for class cost of service studies moot.

I revised my class cost of service studies to utilize the Staff's method for allocating mains. The results of my revised studies are illustrated in Schedules BAM SUR 1-7.

The mains allocators used in my studies and those used by Staff are differences in the Residential and SGS peaks and an adjustment to the number of days used to compute the large customer peaks. In direct testimony, I used Staff's

Residential and SGS peaks on its original regression analysis. The Staff later used a different method for calculating Residential and SGS peaks. Staff's change in method has little effect on the mains allocator.

The second difference between OPC and Staff relates to the number of days used to calculate the large customer peaks. The Staff usually uses 20 instead of 30 days to calculate the peaks, but, according to Staff witness Dan Beck's testimony; this change in the number of days was not intentional. I used more conservative 23 days rather than the Staff's traditional 20 days, this makes my allocators less favorable to Residential and SGS if the Staff had used 20 days. See Table 1 for a summary of the differences in the mains between Staff's unadjusted mains allocators and those that would result if the Staff's allocators were adjusted for 23 instead of 30 days. Table 1 also illustrates differences between the Staff's consolidated districts and the existing districts and the differences in use of Special Contracts as a unique class.

Table 1.

Staff West Central	RES	SGS	LGS	LVS	Contract
Unadjusted	64.24%	24.45%	11.31%	0.00%	NA
Adjusted for # days	62.08%	23.63%	14.29%	0.00%	NA
Adjusted for # days w Sp Contract	62.08%	23.63%	14.29%	0.00%	0.00%
OPC Butler Adjusted w Sp Contract	60.76%	23.48%	15.76%	0.00%	0.00%
OPC Greeley Adjusted w Sp Contract	74.91%	25.09%	0.00%	0.00%	0.00%
Staff Southeast	RES	SGS	LGS	LVS	Contract
Unadjusted	49.78%	22.26%	2.20%	25.76%	NA
Adjusted for # days	45.81%	20.49%	2.65%	31.05%	NA
Adjusted for # days w Sp Contract	45.61%	20.40%	3.06%	14.09%	16.85%
OPC SEMO Adjusted w Sp Contract	45.57%	20.60%	2.65%	14.21%	16.97%
OPC Neelyville Adjusted w Sp Contract	94.69%	5.31%	0.00%	0.00%	0.00%
Staff Northeast	RES	SGS	LGS	LVS	Contract
Unadjusted	53.68%	30.62%	4.38%	11.32%	NA
Adjusted for # days	51.23%	29.22%	5.46%	14.09%	NA
Adjusted for # days w Sp Contract	51.23%	29.22%	5.46%	8.53%	5.57%
OPC Kirksville Adjusted w Sp Contract	45.80%	30.48%	7.64%	16.08%	0.00%
OPC Palmyra Adjusted w Sp Contract	50.81%	30.43%	0.00%	18.76%	0.00%
OPC UCG Adjusted w Sp Contract	54.18%	28.28%	5.15%	3.17%	9.23%

Q. DID YOU MAKE ANY OTHER CHANGES TO YOUR STUDIES?

A. Yes. I corrected a cell error that affected Other Revenues for UCG and also adjusted the SGS revenues for Greeley based on additional discussions with Staff.

Q. IN STAFF WITNESS ROSS'S REBUTTAL TESTIMONY (P. 2) SHE STATES THAT IT IS REASONABLE TO CONCLUDE THAT THE COST TO SERVE SIMILARLY SITUATED CUSTOMERS IN CONTIGUOUS DISTRICTS IS APPROXIMATELY THE SAME. DO YOU AGREE WITH THIS CONCLUSION?

A. No. Ms. Ross stated that while costs support may be informative it is unnecessary because the costs are substantially the same. I believe that if the Staff had prepared cost studies for each of the districts instead of consolidating them into three, it would have found significant differences in the portion of mains allocated to classes.

Contrary to the implication in Staff witness Ross's testimony ,mains costs constitute a significant share of costs, and,the share per customer varies significantly by district. In particular, Ms. Ross argues in her testimony that the Company does not purchase things like meters and mains in the exact quantity needed to serve one district. However, she fails to take into account that the cost of meters and mains as well as other plant costs and associated expenses that a Company can be recovered in a rate case, depend on the original investment, the depreciation rates, the values previously depreciated and adjustments. Current rates were set to recover those embedded costs on a district specific basis. Ms Ross has not submitted evidence that demonstrates that the embedded district costs are the same. For example, she has not submitted evidence that the Company has replaced a substantial amount of mains at equal costs per customer in Butler and Rich Hume. Her conclusion ignores factors that affect the allocation of costs to classes in a district. For example, density is one relevant factor' generally, the lower the density, the higher the cost allocated to each customer. Ms Ross simply assumes away the real differences in embedded costs and factors that affect cost allocations.

Q. ON PAGE 3, OF STAFF WITNESS ROSS'S REBUTTAL TESTIMONY SHE SEEMS CONFUSED BY YOUR REFERENCE TO THE LACK OF ACTUAL METER COST DATA BY CUSTOMER TYPE. SHE THEN ATTEMPTS TO DISCREDIT YOUR POSITION THAT THE CUSTOMER CHARGE SHOULD NOT CHANGE WITHOUT CONSIDERATION OF SUCH DATA. IN THIS ATTEMPT SHE REFERENCES A COMPANY DATA REQUEST

RESPONSE PROVIDED BY THE COMPANY THAT SHE CLAIMS INDICATES THE COST OF METERS, REGULATORS AND SERVICE LINES, IS THE SAME FOR ALL DISTRICTS. PLEASE RESPOND TO HER STATEMENT.

A. Any confusion about the need for such data can be clarified by reviewing Staff witness Dan Beck's direct testimony. He indicates that similar information by customer type would be useful in determining the appropriate costs. The importance of identifying costs by customer type is that costs are allocated based on the classes' relative share of costs. Underestimating one class's share of costs leads to over allocation to other classes.

My rebuttal testimony references Mr. Beck's testimony where he discusses deficiencies in the Company data,' apparently he had the same concern regarding the accuracy of the cost study results. Although he recommended that the Company's allocators for service lines be used in the cost studies, he recommended caution about the relative accuracy of the class cost of service since service lines accounts for approximately 25% of the cost-of-service. He also recommends that Atmos perform a typical service cost study based on a reasonable sample size of customers from each customer class. , His rate design direct testimony (page 4, line 20) he discusses concerns with the Company's regulator and meter allocators. His initial review indicated that the Company's allocators for meters and regulators produced reasonable allocations to the residential and Small General Service classes and they can be used in the class cost of service studies. But he acknowledged that the relative accuracy of the class cost of service be recognized since they account for approximately 15% of the cost-of-service. Here again, he recommends that Atmos perform a typical service cost study that is based on a reasonable sample size of customers from each customer class.

Ms. Ross references a data request answer but she did not provide the DR response number. My review of DR responses led me to Staff DR No. 0110 response which refers to a file containing the Company's meter cost analysis. But the contains a study that estimates the typical cost of investment, installation and overheads associated with a Residential installation. It does not purport to represent the embedded cost by district.

Q. **HAVE YOU PERFORMED AN ANALYSIS IN THIS CASE THAT COMPARES LOW-INCOME HOUSEHOLD USE TO AVERAGE USE PER CUSTOMER?**

A. Yes. For each district, I compared the average LIHEAP customer use to the average customer use and found them to be very similar in every district.

Q. **STAFF WITNESS ROSS LISTS 6 REASONS SHE OPPOSES YOUR RATE DESIGN RECOMMENDATIONS. (REBUTTAL, P. 6) PLEASE RESPOND TO THE FIRST.**

A. For her first reason, she claims that retaining the current rate design forces residential customers greater than average usage to pay more than the cost required to serve them, while smaller customers underpay their cost-of-service. Ms. Ross has not provided calculations based on embedded costs or district specific customer information to support this assertion. With the exceptions of the service line and meter costs, the majority of an LDC's plant investments are best characterized as joint and common costs that are not attributable to any particular customer and must be allocated based on some reasonable mechanism.

Ms. Ross apparently believes that the sole value of service provided by the Company is access to natural gas. Typical rate designs composed of a customer charge and volumetric charge are supportable based on the value of service is both in access to gas as well as in use of gas. In my opinion, recovery through a customer charge and volumetric rate is reasonable and fair from both economic and policy perspectives. Historically, the Commission has found that it is appropriate for those who use more to pay more. Public Counsel encourages the Commission to retain the status quo.

Q. PLEASE RESPOND TO HER SECOND REASON FOR OPPOSITION THAT THE EXISTING RATE DESIGN DISCRIMINATES BETWEEN IDENTICAL RESIDENTIAL CUSTOMERS IN CONTIGUOUS DISTRICTS BY CHARGING DIFFERENT NON-GAS MARGIN RATES.

A. The existing residential rates vary. The Commission found that the differences between residential rates in the different districts are just and reasonable based on cost and other non-cost based factors it considered when the rates were implemented. Since the Staff did not prepare district specific cost studies, I can not illustrate the significant differences between contiguous districts that I believe a Staff study would show. However, from Staff's accounting data, I can show an example of the significant differences in per customer bill mains investment by contiguous district. The results are illustrated in Table 2.

Table 2.			
	Palmyra	**UCG**	**Kirksville**
Distribution Mains Investment	$1,027,705	$14,257,517	$2,694,466
Distribution Mains Reserve	$409,964	$5,755,538	$837,403
Net Plant -Distribution Mains	$617,741	$8,501,979	$1,857,063
Sales Customer Bills	16961	150638	71564
Net Distribution Mains Plant per	$36.42	$56.44	$25.95

Table 2 shows that based on embedded costs there may be significant differences between districts. Ms. Ross did not submit evidence that it is appropriate to aggregate districts with such dissimilar investment. Further, she did not submit evidence that current rates are not appropriate based on embedded costs. In reviewing the revenues from the sales classes included in Table 2, I found some general consistency in the revenue per bill versus the net distribution mains plant per bill. Kirksville's revenue per bill was lowest, as is its dollars of net distribution mains, followed in both net distribution mains plant and revenue by Palmyra and finally in both cases by UCG.

Q. PLEASE RESPOND TO HER THIRD POSITION THAT THE EXISTING RATE DESIGN CREATES UNNECESSARY VOLATILITY IN CUSTOMER BILLS BY COLLECTING A LARGER PORTION OF CUSTOMERS' COST-OF-SERVICE IN THE WINTER.

A. While I agree that the current rate structure increases the possibility of higher recovery of non gas costs in colder than normal winters, I do not consider creating an inescapable fixed delivery charge to be a better option. As I explained in rebuttal testimony, the delivery charge proposal could nearly double the non gas recovery on some low use customers' bills who do not have the ability to avoid the increase by curbing use.

Q. PLEASE RESPOND TO HER FOURTH CLAIM THAT THE EXISTING RATE DESIGN PROVIDES NO INCENTIVE FOR UTILITIES TO AGGRESSIVELY PROMOTE CUSTOMER EFFICIENCY AND CONSERVATION SINCE THAT IS CONTRARY TO ITS SHAREHOLDERS' INTERESTS.

A. I address this issue in my rebuttal testimony. There is no assurance that the delivery charge proposal instead of the current rate structure will secure an LDC's support of conservation or align its interests with those of its customers without further concessions. The Staff has not proposed a specific program to promote conservation; and instead, Staff appears willing to rely on the Company to come forward with conservation proposals in the future. That reliance is misplaced since the Company has not done so. The delivery charge proposal shifts additional risk to rate payers based on a hope of promoting conservation. In previous cases, the Staff has supported concrete proposals to promote conservation without the large concessions it now seems willing to accept. Public Counsel states to the Commission that an inescapable delivery charge mechanism and the concession of $1.2 million in conceded and foregone rate reductions are too high for consumers to pay.

Q. PLEASE RESPOND TO HER FIFTH CLAIM THAT THE EXISTING RATE DESIGN SENDS INCORRECT PRICE SIGNALS TO RESIDENTIAL CUSTOMERS.

A. My responses to Ms. Ross's first and second claim address this claim on cost considerations. Ms. Ross sees paying more when you use more as a distortion of price signals, but is unconcerned by the "all-you-can-eat–buffet" price signal sent by the Staff's delivery charge proposal. The non gas portion of the bill is small compared to the commodity portion of the bill, but I see merit in sending a correct price signal through the non gas portion of the bill at issue in this case.

Q. PLEASE RESPOND TO HER SIXTH CLAIM THAT THE EXISTING RATE DESIGN DOES NOTHING TO ADDRESS SENATE BILL 179.

A. In my opinion, taking no action in response to Senate Bill 179 in this case is preferable to taking the wrong action. For example, in the "straw-man" rule posted on the Commission Chair's webpage, there is a provision that would allow the Commission to consider reductions in return based on any reduction in risk. The Staff did not make a proposal to reduce the return even though it proposed a weather mitigation rate design even more attractive to the Company than the Company's own request. The Staff's delivery charge proposal is the wrong action. Public Counsel urges the rejection the delivery charge proposal.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.