

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

In the Matter of)
Summit Natural Gas of Missouri Inc.'s)
Filing of Revised Tariffs to Increase Its)
Annual Revenues for Natural Gas Service)

File No. GR-2014-0086
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POST-HEARING BRIEF
OF THE MISSOURI PROPANE GAS ASSOCIATION

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I. INTRODUCTION

MPGA is a trade association representing members who sell propane or propane appliances and equipment in Missouri. It exists to serve the propane industry by promoting safety education and public awareness of the uses of propane.

The members are small business owners. They have payrolls to meet and bills to pay. Primarily, they exist to provide propane products and services to their customers.

The reason MPGA participated in this case is because propane dealers compete with natural gas companies—like Summit Natural Gas of Missouri (SNGMO)—for customers. In areas that are served by propane and natural gas that means competition for customers for space heating, hot water heating, clothes dryers, and vent free gas logs for the fireplace.

Quite simply, all the propane dealers are asking for from this Commission is a chance to fairly compete on a level playing field. Since so much of the competition is based on price, the propane dealers would like the Commission to set rates based on the true cost of service so that the market will operate fairly, and customers will be free to choose what fuel is best for them based on actual costs.

This brief will address one issue: Revenue Requirement. Other issues in which MPGA was interested were resolved through a series of agreements, and the Missouri Propane Gas Association (MPGA) has no position on some of the other remaining issues. However, MPGA reserves the right to address additional issues in its reply brief.

II. REVENUE REQUIREMENT

A. Introduction:

The appropriate revenue requirement is usually one of the most contested issues in a rate case, and usually one of the issues with the biggest dollar difference between the positions of the

parties. This case is no exception. In addition, the witnesses on the issue are all experts, all do more or less the same kind of analysis, and yet still end up millions of dollars apart.

In its Statement of Position, Staff recommended a total revenue increase of \$5,147,987. SNGMO, in its Statement of Position, recommended a total revenue increase of \$8,228,026. However, even with this increase, SNGMO is not asking for recovery of its full cost of service in Warsaw and Branson. As explained below, this is troublesome to MPGA.

B. The Problem:

Currently, SNGMO's customers, especially in the Branson and Warsaw areas, do not pay rates that cover their true cost of service. The current pricing policy of insulating customers from their true cost of service sends the wrong price signals by masking the real cost of the expansion into these areas. This can result in overbuilding and subsidization of natural gas infrastructure in its competition with potential entrants for expanding markets. The pricing policy is inconsistent with a policy that encourages competition while seeking to provide incentives for the optimal level of construction and customer choice. Under this policy the true costs of the project are not seen by the market or the new customers, leading to inefficient investment and contracting decisions. This in turn can exacerbate adverse environmental impacts, cause reliability and safety problems, and distort competition between competing fuels for new customers.

Branson Mayor Raeanne Presley, in her testimony at the Branson Local Public Hearing, squarely proves the point that the current natural gas pricing policy enjoyed by SNGMO distorts the competitive market between propane and natural gas. She testified:

It appears that much of the requested increase is due to the installation of the distribution system in our area. Before this installation took place, the community was not given adequate notification that the cost of this construction was not built into the current rate structure. It was not clear that the utility expected to recoup these expenses in future years with rate increases. I have learned, since, that this is a common practice, but I must say that it was not made clear to our community, I think neither to our citizens, nor to our

businesses, nor to our city staff ... Many of our existing businesses have just completed the often-expensive transition to natural gas from other heating sources, with the anticipation that they would be saving money. Such a dramatic increase in rates, now that the transition is complete, may have the opposite result. (Transcript, Branson Local Public Hearing, page 7, lines 3-10 and page 8, lines 1-6). (emphasis added).

Another witness at the Branson Local Public Hearing, Gail Meyer, felt that SNGMO engaged in some “salesmanship” in convincing customers to switch from propane to natural gas:

And so what I would tell you is I did my best to look through the information that I had, and obviously it's not all public information. And there's two things that struck me. First of all, when we did the negotiation, they told me how much money they were going to spend on the infrastructure in Branson, and it was between 50 and 52 million dollars. So I'll let you factor that into what actually happened. But they knew that at that time and we actually did the negotiation in February of 2011. That's when we started. So they knew that.

So what really happens is the public gets involved in trying to pay for the business decision of the public utility, and that can be a good decision or that can be a poor decision. In this case, I will tell you it's perplexing... And, so, based on what I've seen so far, what I would recommend to you is -- and also there was a substantial amount of salesmanship. I went back through our information. And, actually, they gave us their -- what they would call their general service rate fees, but there was no notification that those could change. In some cases they wrote down what their cubic feet price would be, related to propane, on my documents. And so there was a substantial amount of salesmanship. (Transcript, Branson Local Public Hearing, pages 15-16)

Ms. Meyer is saying the same thing as Mayor Presley—that customers were told only that they would get low rates if they switched to natural gas. SMGMO knew the expensive cost of building the infrastructure and that it would need to recover those costs in the future, but did not make that clear when they were trying to acquire customers.

This problem is exacerbated by the difficulty for customers who may want to now switch back to propane due to SNGMO's rate increases. While this is technically feasible, witness Ron Hershend at the Branson Local Public hearing testified that such a switch would be at the customer's own expense:

I do want to go on record as saying I understand from the previous meeting, I did ask if folks would be held to a contract or would be allowed to switch back. And I was told that they could switch back to propane if they were on propane previously, but it would be at their expense. (Transcript of Branson Local Public Hearing, page 21). (emphasis added)

The conversion costs to switch back to propane from natural gas can be quite expensive. MPGA witness Brian Brooks, in his rebuttal testimony, discussed the economic difficulty in converting back to propane, and he detailed some of the conversion costs that customers could expect. When asked, “On page 17, lines 16-17 of SNG witness James M. Anderson’s testimony, he states: “All of the Company’s customers have the option to switch back to a competing fuel.” Is this true?” Brooks answers:

Technically, yes. However, it is not economically feasible for a majority of the customers wanting to do so. For example, at the Warsaw Local Public Hearing, Mr. Douglas Fredrick, owner of a chicken farm operation, testified about switching back from natural gas to propane: “...I could go and put a 30,000 gallon tank in...”. (Transcript of Warsaw Local Public Hearing, page 13.) If Mr. Fredrick is no longer in possession of his storage tank, which his testimony would lead one to believe, the cost of a 30,000 gallon tank would run between \$60,000 to \$90,000, depending on age and condition. Add in the cost of gas lines and conversion materials, it could easily exceed \$100,000. (Exhibit 600, Brooks Rebuttal, page 4).

For residential customers, Mr. Brook’s calculated that conversion costs to switch from natural gas back to propane could exceed \$1,500. (Exhibit 600, Brooks Rebuttal, Exhibit 2).

C. SNGMO Witness Johnston’s Position:

In his surrebuttal testimony, SNGMO witness Timothy Johnston makes it clear that SNGMO is not requesting recovery for its full cost of service in the Warsaw and Branson areas due to the recession. He responded to the question, “Is it your belief that the recession beginning in late 2008 was instrumental in retarding system growth?” with the following answer:

Yes. The Branson, Lake of the Ozarks, and Warsaw areas were among the fastest growing regions in Missouri prior to the recession. The main systems for Branson and Warsaw were

sized in part to accommodate projected growth that has not occurred. (Exhibit 6, Johnston Surrebuttal, page 6).

Specifically relating to Warsaw, Mr. Johnston responded to the question, “Why is SNG requesting less than full cost recovery in the Warsaw Division?” with the following:

Warsaw’s existing rate base contains a materially underutilized investment in Distribution Mains, FERC Account 101-376. SNG believes it is inappropriate to burden existing customers with the full cost recovery for that investment. The distribution mains installed were designed to serve a larger population than currently exists in this area, due in large part to the reduction in growth caused by the recession. The manner in which the reduction in recovery was calculated was intended to only assign the existing customers the proportionate cost recovery for the fraction of the capacity of the system which they are using. (Exhibit 6, Johnston Surrebuttal, page 11). (emphasis added)

Also in his surrebuttal testimony, Mr. Johnston responded to the same question about Branson as follows:

Like Warsaw, Branson’s existing rate base contains a materially underutilized investment in Distribution Mains, FERC Account 101-376. As mentioned previously for Warsaw, SNG believes it is inappropriate to burden existing customers with the full cost recovery for that investment. Much of this underutilization is in the 8 inch and 6 inch steel mainline that brings natural gas to the Branson area from the meter station on the Southern Star Central Gas Pipeline located just north and west of the town of Aurora, MO. SNG sized this line to serve the existing natural gas load in Branson and also load from the anticipated future growth in the area. The area around Branson includes over 20,000 platted residential lots in subdivisions that were designed and registered prior to the recession. SNG does not believe it would have been prudent to build this line without building in the capacity to supply these developments; most of the developers had stated their intention to work with the company to provide access to natural gas for these future residents. (Exhibit 6, Johnston Surrebuttal, pages 16-17). (emphasis added)

It is curious that Mr. Johnston blames the recession for SNGMO’s failure to increase its customer base. According to the testimony of Lori Fisher at the Gallatin Local Public Hearing, the economy in that area has been depressed for a long time, even before SNGMO began serving the area:

I guess the thing I want to say is, we are in the midst of some really severe -- and I mean severe -- economic times. When this gentleman said his Social Security went up 4 percent,

mine didn't even go up that much. A 20 dollar raise is not going to make the difference on paying for my gas company that -- for the gas that they are going to be charging me, and I think we all have to make sacrifices at this point, and that's why I think Summit Gas needs to make some, too, and I think their investors can also make some sacrifices also. We're all going to have to make some really severe sacrifices, and it's going to get -- it's not going to get better.

So when you come up with 7 percent, I think that's really high in the midst of the economic downturn that we're in. I'm on a fixed income, like the other people who have testified. I don't know -- I was glad that the other gentleman said the mean income for this area is 20,000. I don't know what the unemployment rate is. I wish I did. I'd like to have those figures. I'd like to have the figures of the amount of people in this area that are on food stamps, which says this is a depressed area.

I'm really sorry, Summit, that you chose a depressed area to enlarge your company in. I feel bad for you. This was -- maybe it was a bad move for Summit, I don't know, but we cannot afford this raise. (Transcript, Gallatin Local Public Hearing, pages 14-15). (emphasis added)

Despite the reasons, it is clear the SNGMO is asking the Commission to continue to allow it to charge customers in the Branson and Warsaw service areas at rates below full cost recovery.

Under cross-examination during the evidentiary hearing, Mr. Johnston admitted that for the company to remain viable, it would have to fully recover its prudently incurred costs through rates at some point in the future:

Q. Now, you would agree with me that, from a long-term standpoint, it wouldn't be viable for a company to charge a rate that is below its revenue requirement or cost of recovery?

A. From a long-term standpoint, that's correct. That's why we've included a mechanism for repatriating the values out of 105 back into utility plant in service over time.

Q. So Summit fully intends at some point to set rates that will fully recover their costs plus a little profit?

A. We intend to -- yes. We intend to come back to the Commission at some point in the future with a case that would include an allowed return on that full investment as the customer count and the volumes for those systems achieve the original objectives.

Q. So really it's just kind of a question of not if but when?

A. Yes.

Q. And how soon, sooner rather than later?

A. Yes.

(Transcript, page 251, lines 23-25, and page 252, lines 1-19). Thus, it is likely that SNGMO will be back before the Commission in the near future to ask for yet another rate increase.

D. MPGA Witness Brooks' Position:

In his rebuttal testimony, MPGA witness Brian Brooks testified that allowing SNGMO to charge below its true cost of service unfairly skews the competitive market between propane and natural gas:

Because SNG currently is not charging an appropriate rate to their customers in the Branson areas, the large rate increase request is making customers experience rate shock and a feeling of being thrown under the bus. Branson's Mayor Raeanne Presley testified at the Branson Local Public Hearing she felt customers were not given "adequate notification" that the true costs of service would not be recovered through the introductory teaser rates, and that only through significant rate increases would SNG be able to recover its costs. (Exhibit 600, Brooks Rebuttal, page 6).

If SNG is proposing a revenue shortfall now, one can logically infer that future substantial rate increases will be necessary—not for equity return for investors, but to maintain and ensure the safety of the equipment and the reliability of providing service. If SNG had from the first day of service in Branson charged the appropriate amount to recover their costs of service, people such as Mayor Presley would have a clearer understanding of what they were signing up for. (Exhibit 600, Brooks Rebuttal, pages 6-7) (emphasis added).

MPGA witness Brooks concludes:

It is important to MPGA because its members must compete for customers with SNG. Market forces determine what propane companies can charge for providing propane service. If the Commission sets rates that are artificially low and not based on cost-of-service, it unfairly skews the market. From MPGA's standpoint, competition is welcome,

but MPGA's members would like a fair and level playing field. (Exhibit 600, Brooks Rebuttal, page 7).

MPGA believes that rates should move to cover the true cost of service sooner rather than later, both for competitive reasons and for safety reasons. In this case, if rates cannot be set at the true cost of service, then the evidence in the record supports the revenue increase requested by SNGMO even though it is still significantly below the true cost of service in the Warsaw and Branson areas.

III. CONCLUSION

The MPGA is not asking for any special favors or consideration, but would ask that the Commission recognize that there is a competitive market between natural gas and propane, and that when rates are set below the cost of service, it unfairly skews that competitive market to the detriment of consumers. MPGA believes that fair competition based on true cost of service and a level playing field best serves consumers by giving them all the accurate pricing information they need to make appropriate choices in who they want to serve them.

WHEREFORE, MPGA respectfully offers this Post-hearing Brief and prays that the Commission conform its decision in this case to the arguments contained herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all parties on the official service list for this case on this 16th day of September, 2014.

A handwritten signature in black ink that reads "Terry M. Jarrett". The signature is written in a cursive style with a horizontal line extending from the top of the "T".

Terry M. Jarrett