

Exhibit No.:
Issues: Policy, Quality of Service
Witness: Brian T. Brooks
Sponsoring Party: Missouri Propane Gas Association
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2014-0086
Date Testimony Prepared: July 9, 2014

**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)

Case No. GR-2014-0086

**REBUTTAL TESTIMONY OF
BRIAN T. BROOKS
ON BEHALF OF THE
MISSOURI PROPANE GAS ASSOCIATION
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1 **I. INTRODUCTION**

2 **Q 1: Please state your name, occupation and business address.**

3 A: My name is Brian T. Brooks. I am the Hearth Products Manager for Brooks Gas
4 Company. My business address is 209 S. Clay, Marshfield, MO 65706.

5 **Q 2: Please describe your experience and qualifications.**

6 A: I am the fourth generation of my family to work in the propane business. I have a
7 B.S. degree in Finance from Metropolitan State University of Denver. I have worked
8 at Brooks Gas Company for six and a half years and currently manage all aspects of
9 our hearth and BBQ retail division. In addition, I assist in the daily customer service
10 related operations of the propane business. I regularly develop new marketing
11 strategies and provide management with information relating to retaining and
12 growing not only our existing customer base, but new customers as well. I am
13 familiar with all aspects of the propane business.

14 I am actively involved in the Missouri Propane Gas Association as a Board Member
15 representing District 6, serving as a Board Member since the spring of 2014. I am
16 also a founding member of the National Hearth Patio and Patio and BBQ
17 Association's Young Guns Committee.

18 **Q 3: On whose behalf are you appearing in this proceeding?**

19 A: I am appearing on behalf of the Missouri Propane Gas Association ("MPGA").

20 **II. PURPOSE AND SUMMARY OF TESTIMONY**

21 **Q 4: What is the purpose of your testimony in this proceeding?**

22 A: The purpose of my testimony is to respond to the Applicant's witnesses and some of
23 the witnesses who testified at the local public hearings. In particular, I address issues

1 relating to policy and certain business practices of Summit Natural Gas of Missouri,
2 Inc. (“SNG”) that make it difficult for propane providers to compete on a fair and
3 level playing field. These include:

4 (1) Conversion costs, improper conversions of customer appliances, and other
5 business practices;

6 (2) Rates set below cost-of-service to unfairly drive customer conversions; and

7 (3) Support for SNG’s proposal to end its Free Conversion Program.

8 The MPGA does not ask for or expect special treatment; however, it is asking this
9 Commission to ensure that SNG adheres to fair business practices and competes for
10 customers on a fair and level playing field.

11 **III. CONVERSION COSTS**

12 **Q 5: What are conversion costs?**

13 A: Conversion costs are the costs incurred to convert a customer from propane to natural
14 gas, or from natural gas to propane. Typically, these costs include labor, orifice kits,
15 gas valves, and/or new appliances.

16 **Q 6: What does it typically cost a customer to convert from propane to natural gas?**

17 A: The current out of pocket cost for a customer to convert to Natural Gas is minimal;
18 however, this does not mean that there are not significant costs to start service. SNG
19 currently pays a subcontractor \$650 to run the service line to the customer, set the
20 meter, and convert up to three appliances.¹ Because this amount is subsidized by

¹ SNG’s Response to MPGA Data Request 1.6, attached as Exhibit 1 hereto.

1 SNG, the customer is never informed of the true cost of converting to natural gas.
2 Customers would be more likely to consider the implications of converting from
3 propane if they were responsible and aware of the true cost of converting. Instead,
4 the cost is hidden in SNG's rates, effectively making all customers pay to subsidize
5 the conversion costs for new customers.

6 **Q 7: Is it important for customers to know the true conversion costs when they are**
7 **considering switching from propane to natural gas?**

8 A: Yes, it is very important.

9 **Q 8: Why is it important?**

10 A: Conversions from propane to natural gas at no or low cost to customers could trap those
11 customers who could not easily reconvert back to propane once natural gas prices go up.
12 Because SNG subsidizes conversions, and only informs customers in the fine print of
13 their contract, many are unaware that there would be a substantial cost to convert back to
14 propane. Customers would be trapped because the natural gas rates were understated and
15 the true costs would be higher in future rate cases. As it sits now, customers wanting to
16 switch back to propane frequently experience shock and disbelief when presented with an
17 estimate to convert back. If anything, the Commission should require SNG to provide
18 customers with a cost estimate of reasonably known expenses to convert back if they are
19 unhappy with their natural gas service—much like a HUD-1 form for mortgage
20 settlements.

1 **Q 9: On page 17, lines 16-17 of SNG witness James M. Anderson's testimony, he states:**
2 **"All of the Company's customers have the option to switch back to a competing**
3 **fuel." Is this true?**

4 A: Technically, yes. However, it is not economically feasible for a majority of the
5 customers wanting to do so. For example, at the Warsaw Local Public Hearing, Mr.
6 Douglas Fredrick, owner of a chicken farm operation, testified about switching back
7 from natural gas to propane: "...I could go and put a 30,000 gallon tank in..."² If
8 Mr. Fredrick is no longer in possession of his storage tank, which his testimony
9 would lead one to believe, the cost of a 30,000 gallon tank would run between
10 \$60,000 to \$90,000, depending on age and condition. Add in the cost of gas lines and
11 conversion materials, it could easily exceed \$100,000. As for residential customers, I
12 have attached Exhibit 2 that better outlines typical costs for a residential customer to
13 convert back to propane.

14 **Q 10: Are you aware of any other conversion issues?**

15 A: Yes. There have been instances of SNG improperly converting vent-free appliances.
16 I can recount one from my personal experience. See Exhibit 3 attached. In addition,
17 in the summer of 2012, I had a brief informal conversation with the President of
18 SNG, Dave Moody. When I asked Mr. Moody about SNG and their practice of
19 converting vent-free appliances, Mr. Moody told me that they used proper pilots,
20 orifices and followed manufacture guidelines. I respectfully suggested that he review
21 the practice and that most vent-free appliance companies did not allow conversion of
22 their products.

² Transcript of Warsaw Local Public Hearing, page 13, lines 2-8.

1 Most homeowners are not aware that conversions are not allowed per code and
2 manufacturer's instructions. See Exhibit 4 attached. Improper conversion can lead to
3 equipment malfunction, injury, and possible fatalities. SNG should be required to
4 convert only appliances that are approved and listed to be converted by, but not
5 limited to, national codes, certification agencies, and manufacturers.

6 **Q11: Are you aware of any other business practices that are anti-competitive?**

7 A: Yes. Item 10 in SNG's customer contracts states: "For safety purposes, applicant
8 agrees not to use propane inside of any structure using natural gas." See Exhibit 5
9 attached. MPGA is not aware of any safety issues that arise from using both types of fuel
10 inside the same building. Most installations where both types of fuel are used would
11 dictate that the propane is servicing a single appliance. Further, having propane on the
12 premises would not pose a threat to SNG's equipment or service lines. MPGA believes
13 this is anti-competitive because it specifically prohibits customers from making a choice
14 concerning the fuel type used.

15 SMNG's Tariff Sheet No. 55 effective, April 15, 1995, does not address this issue, and
16 Sheet No. 55 effective, December 1, 2000 does not address this issue. Sheet No. 55 with
17 an effective date of July 24, 2003 is the only instance where this is addressed. See Exhibit
18 6 attached. If the use of different fuels is a legitimate safety issue, it is inconceivable that
19 it took SNG and its predecessors almost twenty (20) years to address the issue.

20 Moreover, the proposed tariff, P.S.C. MO No. 3, filed for this rate case, does not address
21 the use of other fuels. Because of this, MPGA believes that line 10 should be removed
22 from SNG's customer contract because it is in direct conflict with their proposed tariff
23 and unnecessary from a safety standpoint.

1 **IV. RATES SET BELOW COST-OF-SERVICE TO DRIVE CUSTOMER CONVERSIONS**

2 **Q 12: SNG witness Michelle Moorman stated on page 9, lines 17-20 of her direct testimony**
3 **with respect to the rate increase in Branson, they are “...avoiding assigning the full**
4 **cost of the system to early moving customers.” What does that mean?**

5 A: Because SNG currently is not charging an appropriate rate to their customers in the
6 Branson areas, the large rate increase request is making customers experience rate
7 shock and a feeling of being thrown under the bus. Branson’s Mayor Raeanne
8 Presley testified at the Branson Local Public Hearing she felt customers were not
9 given “adequate notification” that the true costs of service would not be recovered
10 through the introductory teaser rates, and that only through significant rate increases
11 would SNG be able to recover its costs.³ Further, SNG and its predecessors have
12 established that it is underpricing its product in order to drive customer conversions.
13 SNG’s own expert witness, Kent Taylor, has testified in his Direct Testimony at page
14 13, lines 11-13, that “As can be inferred from an inspection of the full revenue
15 requirement shown in Schedule KDT-4, Exhibit 3, the required rate increase is
16 considered excessive by SNG’s management.” By not using the revenue
17 requirements established by Mr. Taylor, SNG will have a shortfall in Branson of \$4.5
18 million and \$800,000 in Warsaw.⁴ If SNG is proposing a revenue shortfall now, one
19 can logically infer that future substantial rate increases will be necessary—not for
20 equity return for investors, but to maintain and ensure the safety of the equipment and
21 the reliability of providing service. If SNG had from the first day of service in
22 Branson charged the appropriate amount to recover their costs of service, people such

³ Transcript of Branson Local Public Hearing, page 7, lines 3-10.

⁴ Taylor Direct, Schedule KDT-4, Exhibit 4, page 1.

1 as Mayor Presley would have a clearer understanding of what they were signing up
2 for. SNG, by admitting that it is not generating sufficient revenue to cover its costs in
3 Branson and Warsaw, cannot reasonably assure customers in other service areas that
4 they are not subsidizing expansion and maintenance of equipment in Branson and
5 Warsaw.

6 **Q 13: Why is this important to MPGA?**

7 A: It is important to MPGA because its members must compete for customers with SNG.
8 Market forces determine what propane companies can charge for providing propane
9 service. If the Commission sets rates that are artificially low and not based on cost-
10 of-service, it unfairly skews the market. From MPGA's standpoint, competition is
11 welcome, but MPGA's members would like a fair and level playing field.

12 **V. MPGA SUPPORTS SNG'S PROPOSAL TO END ITS FREE CONVERSION PROGRAM**

13 **Q14: On page 14, lines 1-11 of her direct testimony, SNG witness Martha Wankum**
14 **proposes to amend the Free Conversion Program, instead offering the service to**
15 **new customers for a charge. Do you agree with her proposal?**

16 A: Yes. This program has been in place for 10 years. The program made sense when
17 natural gas was not at an economic advantage over competing fuels, but that has not
18 been the case for several years due to the low price natural gas has enjoyed. Under
19 current circumstances, not charging for conversion costs would provide SNG with an
20 unfair advantage over the small propane businesses that SNG competes with daily.

21 **Q 15: Does this complete your testimony?**

22 A: Yes it does.

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Summit Natural Gas of Missouri Inc.'s) File No. GR-2014-0086
Filing of Revised Tariffs to Increase Its)
Annual Revenues for Natural Gas Service)

AFFIDAVIT OF BRIAN T. BROOKS

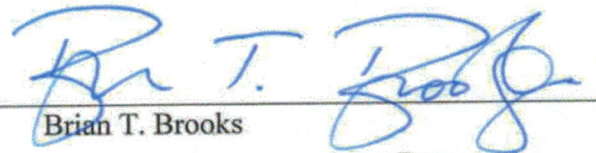
STATE OF MISSOURI)
) ss
COUNTY OF WEBSTER)

Brian T. Brooks, being first duly sworn on his oath, states:

1. My name is Brian T. Brooks. I am The Hearth Products Manager and Assistant Office Manager for Brooks Gas Company. My business address is 209 S. Clay, Marshfield, MO 65706.

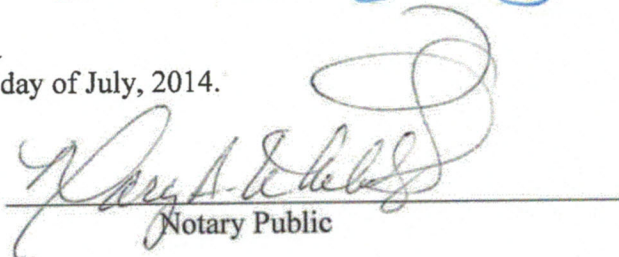
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of the Missouri Propane Gas Association, consisting of 9 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



Brian T. Brooks

Subscribed and sworn to before me this 9th day of July, 2014.



Notary Public

My commission expires: 9/23/2014

DARCY A. WHITEHURST
Notary Public - Notary Seal
STATE OF MISSOURI
Webster County
My Commission Expires Sept. 23, 2014
Commission #10449908