

Exhibit No.:
Issue: Customer Service
Witness: Deborah Ann Bernsen
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2004-0209
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DEBORAH ANN BERNSEN

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
May 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

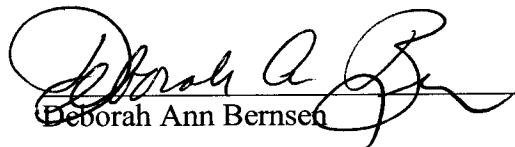
In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate)
Increase for Natural Gas Service)

Case No. GR-2004-0209

AFFIDAVIT OF DEBORAH ANN BERNSEN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Deborah Ann Bernsen, being of lawful age, on her oath states: that she has participated in the preparation of the following rebuttal testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the following rebuttal testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Deborah Ann Bernsen

Subscribed and sworn to before me this 21st day of May 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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DEBORAH ANN BERNSEN**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **DEBORAH ANN BERNSEN**

4 **MISSOURI GAS ENERGY**

5 **CASE NO. GR-2004-0209**

6 Q. Please state your name and business address.

7 A. My name is Deborah Ann Bernsen. My business address is P.O. Box 360,
8 Jefferson City, Missouri 65102.

9 Q. By whom are you employed and in what capacity?

10 A. I am employed as a Management Analyst for the Missouri Public Service
11 Commission (Commission).

12 Q. Are you the same Deborah Ann Bernsen that has previously filed direct
13 testimony in this case?

14 A. Yes.

15 Q. What is the purpose of your rebuttal testimony?

16 A. The purpose of my rebuttal testimony is to address the direct testimony of
17 Missouri Gas Energy (MGE or Company) witness James Oglesby regarding his
18 recommendation that the Commission adopt an upward rate of return adjustment to MGE
19 on account of alleged management efficiency. I will also address the direct testimony of
20 MGE witness Carlton A. Ricketts regarding the Company's customer service
21 performance.

1 Q. Does the Staff support the concept of using adjustments to the rate of
2 return or the return on equity to reward a utility company for what it may allege is “high
3 quality customer service” or management efficiency?

4 A. No. There are several reasons the Staff does not agree with Mr. Oglesby
5 on the need for an upward adjustment to the rate of return for MGE in this proceeding.
6 The Staff does not believe that such adjustments are appropriate on the grounds that these
7 types of adjustments do not effectively recognize performance. There are a number of
8 problems inherent with the use of rate of return adjustments of this nature and these
9 problems will be discussed later in this testimony.

10 In addition, the Staff does take issue with the Company’s assertions that its
11 current performance represents a high level of quality service and management
12 efficiency.

13 Q. What are some of the reasons you alluded to earlier why the Staff does not
14 support the utilization of an adjustment to rate of return or return on equity?

15 A. First, and most importantly, the Staff believes that the Company has a
16 responsibility for providing safe and adequate service at a reasonable cost to the
17 customer. This is the basic function of company management and meeting this goal does
18 not represent nor should it be thought of as representing a superior effort on
19 management’s part to attempt to achieve the best service possible within resource
20 constraints. Central to the process of managing is the effective and efficient use of
21 resources within an ever changing environment. These efforts should not be considered
22 as beyond the normal functions of management. The customers pay for good quality
23 service within the rates they pay for their utility service. The application of a rate of

1 return adjustment seeks to reward the Company for carrying out the basic functions it has
2 the responsibility to perform.

3 **CALL CENTER PERFORMANCE**

4 Q. Does the Company's recent performance support its assertion of high
5 quality customer service and performance?

6 A. No. If anything, the Company's Call Center performance since
7 November and December of 2003 has deteriorated from the levels shown in Schedules 2
8 and 3 of my direct testimony in this case. These schedules demonstrated that the
9 Company's Call Center performance had suffered for the period of October 2003 through
10 the end of the year. The Abandoned Call Rate (ACR) climbed to a high of 27% in
11 November of 2003. The Average Speed of Answer (ASA) also reached a record high of
12 489 seconds in the same month. To reiterate from my direct testimony, MGE's
13 performance objective for the ACR was 8.5% and the ASA was 75 seconds. As stated on
14 pages 6 through 7 of my direct testimony in this case, the Staff met with the Company to
15 review the potential causes of this deterioration. At that time, the Staff believed that the
16 Company had taken steps that would lead to an improvement in this performance.

17 Q. Did Mr. Ricketts' direct testimony provide any explanation of this decline
18 in service quality at the Call Center?

19 A. No. Mr. Ricketts direct testimony was filed in November 2003 and
20 included a chart on data through December 2002. He stated in his testimony the year-to-
21 date information through October 2003 (the ACR was 5.91% and the ASA was 88
22 seconds) and indicated that they had been negatively affected by the high gas prices

1 experienced to that point in 2003. It was then in November 2003 that the Company
2 experienced its most serious decline in performance.

3 Q. Has the Company noted an improvement in the performance of the Call
4 Center since November and December of 2003?

5 A. No. The ACR and ASA statistics for the first quarter of 2004 were
6 reported to the Staff on May 18, 2004 pursuant to the reporting relationships agreed to in
7 Case No. GM-2000-043. The ACR for the months January, February and March of 2004
8 were respectively 24%, 28% and 26%. The ASA also reflected longer wait times of 351,
9 392, and 390 seconds for the same months. This data is certainly disturbing considering
10 that approximately one-fourth of the calls received by the Call Center during those
11 months were abandoned.

12 Q. Are these numbers significantly higher than in prior years?

13 A. Yes. The Staff has included a graph as Schedule 1 to this rebuttal
14 testimony illustrating the ACR for the first quarter of years 2001 through 2004. The ASA
15 figures for the similar period are illustrated in Schedule 2. The data for the first quarter
16 of 2004 are significantly higher than for the first quarter in the previous three years.

17 Q. Has the Company's Call Center posted high numbers in the past?

18 A. Yes. In early 1996, the Call Center performance indicators reached very
19 high levels. The ACR was 25%, 24%, 39% and 45% for the first four months of the year.
20 The Staff does not have ASA data for the corresponding period. The Company's
21 performance during that time frame was reviewed by the Staff under a docketed
22 Customer Services Investigation Case No. GO-95-177.

1 Q. Is the Staff updating for the first quarter of the year 2004 the numbers of
2 customer complaints relating to MGE received by the Commission's Consumer Services
3 Department?

4 A. Yes. The Staff's updated figures for January, February and March of 2004
5 are 35, 24 and 41.

6 Q. Did Mr. Ricketts' direct testimony note any programs that would lead
7 Staff to define the Company's customer service performance as "outstanding?"

8 A. No. The Staff is familiar with the automated meter reading systems that
9 Mr. Ricketts refers to on page 3 of his direct testimony. In fact, while this is very
10 effective technology, MGE is not alone in its use of it. Many Missouri utility companies
11 utilize such technology.

12 Q. Are there other items that Mr. Ricketts referred to in his testimony that
13 represent superior performance?

14 A. No. Mr. Ricketts also notes the use of performance standards and
15 upgrades to the Call Center Interactive Voice Response system, enhancements to the
16 website, and a work force automation project for the field service personnel. All of these
17 systems are in use by other Missouri utilities.

18 Q. What does the Staff propose to do in light of the decline in performance at
19 the Call Center?

20 A. The Staff intends to work with the Company as it attempts to implement
21 improvements at its Call Center. We anticipate meeting with the Company on a quarterly
22 basis over the period of the next year to monitor the actions taken to improve Call Center
23 performance.

DEFICIENCIES WITH RATE OF RETURN ADJUSTMENTS

Q. You mentioned earlier that the Staff does not believe that rate of return adjustments are an appropriate method to recognize performance. Why is this the case?

A. The Staff does not believe that these adjustments effectively recognize performance or influence company conduct to reach higher levels of performance for several reasons. The application of a methodology such as this requires analysis of the potential and actual effect that such an adjustment may cause. There has been no measurement of whether the actual performance of utilities is affected and, if it is, what is the nature of the relationship between awarding adjustments to the rate of return and the Company's performance.

In addition, there is no criteria established defining what constitutes "outstanding" or "exceptional" customer service. The definition of service of an exceptionally well-managed company should be established in advance of any attempt to determine whether an upward adjustment in rate of return actually produces superior effort or performance.

Q. Does the Staff believe that comparisons with other companies' call center performance indicators represent an effective manner with which to make assessments as to the level of performance of an individual company?

A. No. The Staff has consistently maintained that each company possesses unique characteristics and circumstances that make its operations different. For example, call centers of different utilities do not necessarily measure the level of abandoned call rates in a consistent manner. Utilities' basic philosophy and approach on how to be responsive to their customers varies. Recognizing these differences, the Staff has attempted to evaluate each company's call center performance by reviewing its individual operating procedures and performance over time against itself.

HISTORY OF RATE OF RETURN ADJUSTMENTS

Q. Has the Commission utilized adjustments to utilities' rate of return on account of management efficiency in the past?

A. Yes. The Commission utilized both upward and downward adjustments to the rate of return and the return on equity in several cases in the early 1980s. The first case where an adjustment was applied was in Case Nos. ER-82-39 and WR-82-50, Missouri Public Service Company. The Commission reduced that utility's rate of return on water rate base from 10.47% to 9.47% due to what it perceived as inefficiency and a lack of interest in operational improvements.

In Case No. ER-83-42, the Commission granted The Empire District Electric Company a forty basis point upward adjustment to its return on equity. The Report and Order in this proceeding cited a number of issues the Commission believed prompted this adjustment, including excellent customer relations, cooperation in implementing recommendations of Staff audits and a low embedded cost of long-term debt and cost of preferred stock.

In Case No. ER-83-49, Kansas City Power and Light Company, the Commission again granted a forty basis point upward adjustment to the return on equity. The Company presented a number of diverse cost savings and income increasing programs. The Commission in its Report and Order stated that it appeared from the evidence in the Case that the Company had engaged in substantial efforts designed at improving its management efficiency.

Q. Did the Commission subsequently determine that such upward adjustments were inappropriate?

1 A. Yes. In the April 23, 1986, Report and Order in Case Nos. ER-85-128,
2 EO-85-185 and EO-85-224, Kansas City Power & Light Company, the Commission
3 noted that it had reevaluated this practice and determined that it was not necessary nor
4 appropriate to upwardly adjust the return on equity on account of management efficiency.
5 The Order went on to state that adequate encouragement of management efficiency is
6 given through the recovery of all prudently incurred costs.

7 Q. Did the Commission provide any direction in lieu of using these
8 adjustments to recognize good or poor utility management efficiency?

9 A. Yes. In the June 20, 1989, Report and Order in Case No. TC-89-14,
10 Southwestern Bell Telephone Company (SWB) , pages 70 – 72, the Commission stated:

11 The Commission has determined that it is not appropriate to adjust the rate of
12 return SWB will be authorized to earn for management decisions. Now the Commission
13 has determined that where it has made adjustments to ROE in other cases, these type of
14 adjustments can rarely be supported by sufficient evidence to warrant a decision. The
15 difficulty of deciding how much value a certain management decision has in terms of
16 ROE makes the determination almost impossible. The evidence in this case provides no
17 real guide to the Commission on how to value the various allegations of inefficient
18 management. The more appropriate method for making adjustments to a public utility's
19 revenue requirement is where specific dollar adjustments can be addressed, not by
20 adjusting the ROE.

21 The Commission does go on to state on page 72 of the Order, "As a regulated
22 company, SWB has an obligation to ratepayers to reduce prices where appropriate as well
23 as to provide quality service."

1 Q. Has MGE requested an adjustment to rate of return or return on equity in
2 prior cases?

3 A. Yes. The Company requested an adjustment to rate of return in Case
4 No. GR-2001-292 in the direct testimony of Mr. Steven W. Cattron, then President of
5 MGE. The language used in Mr. Oglesby's direct testimony in Case No. GR-2004-0209
6 is almost identical to that included in the direct testimony of Mr. Cattron in Case
7 No. GR-2001-292 pertaining to the request that the Commission reward the Company
8 with an upward rate of return adjustment.

9 Q. What was the result in Case No. GR-2001-292?

10 A. The parties in the case reached a Stipulation And Agreement, which was
11 approved by the Commission on July 5, 2001. There was no reference to any type of
12 adjustment made to the rate of return due to the level of service being provided by the
13 Company.

14 Q. Has the Staff ever suggested that the Commission consider a rate of return
15 adjustment for this Company?

16 A. Yes. The direct testimony filed in Case No. GR-96-285 by Staff witness
17 Janet K. Hoerschgen identified a multitude of problems in the customer service area.
18 Ms. Hoerschgen's testimony recommended that the Commission consider a list of seven
19 specific actions in which to address the Company's continued problems in complying
20 with Commission rules and other customer service deficiencies. She included a
21 suggestion that the Commission may also consider the quality of customer service when
22 determining the appropriate return on equity.

1 Q. Did the Commission make an adjustment to return on equity in Case
2 No. GR-96-285?

3 A. Yes. The Commission ordered use of the low end of the range of
4 acceptable return on equity figures provided by the Staff in that proceeding. The
5 Commission stated that it had concerns over whether the Company was providing an
6 adequate level of service quality to customers.

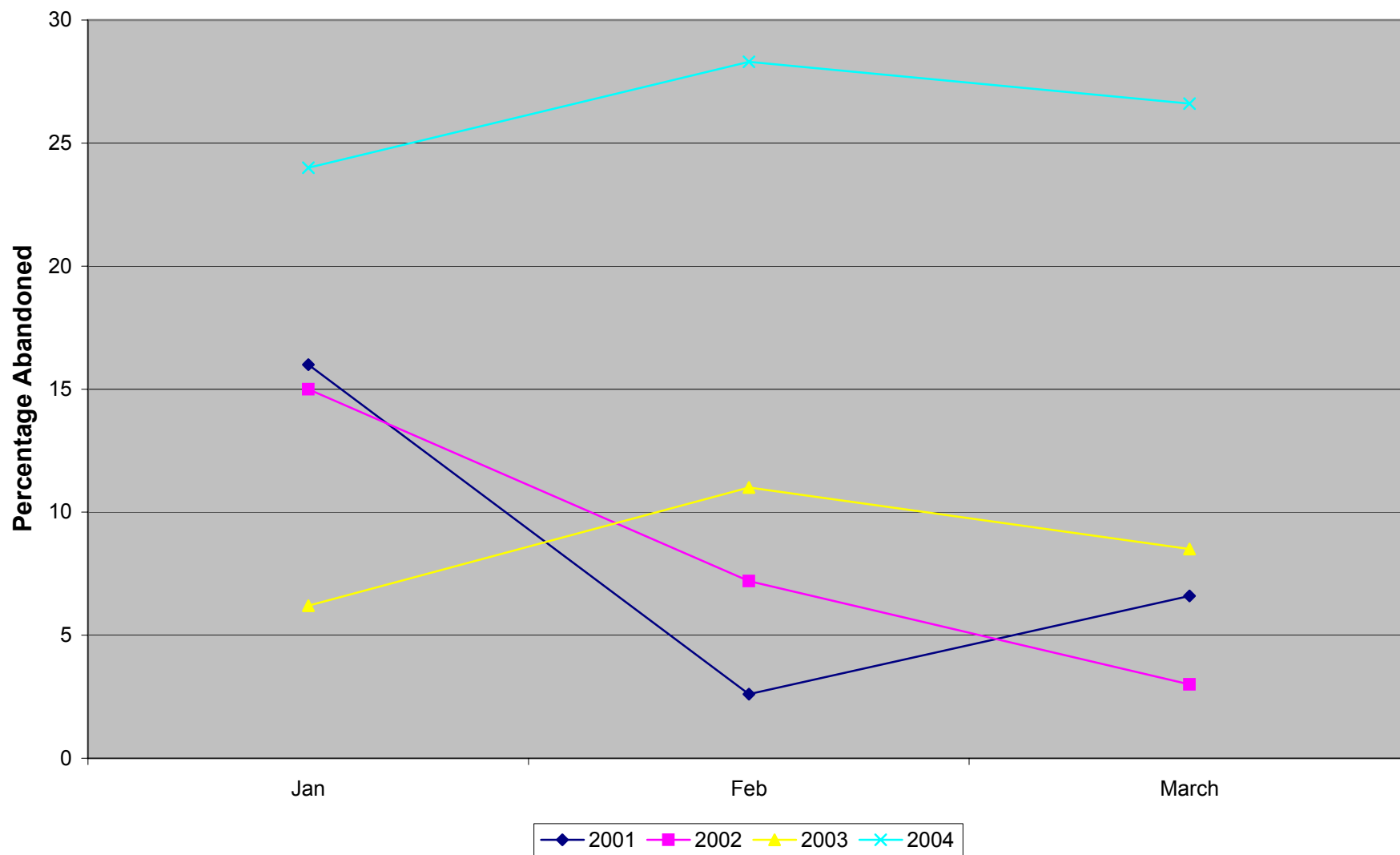
7 Q. Please summarize your rebuttal testimony.

8 A. The Staff does not support the concept of a using an adjustment to the rate
9 of return or return on equity because of alleged quality customer service or management
10 efficiency. In addition, even if the Staff did believe such adjustments were an appropriate
11 mechanism, the Company's current performance in customer service does not represent
12 high quality customer service deserving of such recognition.

13 Q. Does this conclude your rebuttal testimony?

14 A. Yes, it does.

Abandoned Call Rates



Average Speed of Answer

