Exhibit No.:	
Issues:	Rate Design
Witness:	Anne Ross
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Rebuttal Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	October 31, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
October 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 ANNE ROSS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Anne Ross, 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 13 pages of Rebuttal Testimony 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 to the best of her knowledge and belief.

Anne Ross

Anne Ross

Subscribed and sworn to before me this 26th day of October, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer

Notary Public

My commission expires 9-21-10

Table of Contents

REBUTTAL TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Executive Summary 1

OPC Proposal to Keep Current Atmos Districts Separate 1

OPC Proposal to Leave Residential Customer Charges at Current Levels 2

OPC Residential and Small General Service Rate Design Proposal 4

Changes in the Natural Gas Market Over Past Ten Years 4

Criticisms of OPC Rate Design Proposal 6

Rate Structure Forces Higher Use Customers to Subsidize Smaller Customers 6

Keeping District Rate Differential Leads to Differences in Similarly Situated Residential Customers Bills 8

OPC Rate Structure Creates Unnecessary Volatility in Residential Customers' Bills . 9

Rate Design Punishes Utility Participation in Conservation Initiatives 10

Rate Structure Sends Distorted Cost Signals to Customers 11

Rate Design Does not Address Requirements Related to Senate Bill 179 12

Recommendation Regarding OPC Residential Rate Design 12

Atmos Residential Rate Design Proposal 12

REBUTTAL TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name for the record.

A. My name is Anne Ross.

Q. Are you the same Anne Ross who previously filed Direct testimony in this case?

A. Yes.

Executive Summary

Q. What is the purpose of your testimony?

A. I will comment on the proposal made by Office of Public Counsel witness Barbara A. Meisenheimer to delay consolidation of Atmos' seven districts into three districts. I will discuss OPC's rate design proposals. I will also comment on one of the rate design proposals of Atmos Energy Corporation (Atmos or Company) witness Patricia J. Childers.

OPC Proposal to Keep Current Atmos Districts Separate

Q. What are your comments about Ms. Meisenheimer's recommendation that "the Commission should reject the Company's proposal and any other proposals to realign base rates among classes within a district to blend district rates without an adequate cost based showing that such changes are warranted. Issues of class shifts within a district or potential district consolidations should be addressed in a separate rate design case in which the

Company should develop and present comprehensive cost support and customer impact analysis." (Meisenheimer, p. 3., ls. 8-14)

A. While having "comprehensive cost support...analyses" as proposed by Ms. Meisenheimer would be informative, I believe that it is reasonable to conclude that the cost to serve similarly situated customers in contiguous districts is approximately the same. While the Atmos districts *used to be* owned by three separate companies, they are now one company, and have been for a number of years. The Company does not purchase equipment like meters or mains in the exact quantity needed to serve one district, does not have totally different people performing its customer service activities, and does not incur different corporate overhead expenses according to whether it is serving a Residential customer in Butler or one in Rich Hill. While there might be some difference in costs due to the vintage of the distribution equipment in different districts at a point in time, at another point in time the cost relationship could be completely reversed despite the fact that the basic equipment required to serve a customer and the services provided did not change. In summary, I do not believe that it is necessary to wait for detailed information to be gathered to perform detailed cost studies on Atmos' seven districts in order to conclude that combining these districts into three geographical service territories is reasonable, and Staff supports the Company's proposal to do so.

OPC Proposal to Leave Residential Customer Charges at Current Levels

Q. What are your comments on OPC's proposal that the Residential customer charge be left at its current value(s) due to the "lack of district specific information such as the actual cost of meters by customer type?" (Meisenheimer, direct, p. 3, ls. 16-17)

A. I am not sure what Ms. Meisenheimer means by "customer type", since she is discussing the Residential class customer charge. The customers in this class are more homogenous than customers in any other of the Company's rate classes, and I have not seen any evidence presented that would indicate that Residential customer characteristics vary to any significant degree. In response to a Staff data request, the Company indicated that the cost of meters, regulators and service lines, is the same for all districts.

Q. What are your comments on Ms. Meisenheimer's reluctance to increase the customer charge due to the lack of "district specific actual service cost by customer type?" (Meisenheimer, direct, p. 3, l. 17)

A. As far as the "district specific actual service cost by customer type," I have the same question as to what Ms. Meisenheimer means by "customer type." Assuming that by "service cost" she is referring to the expenses associated with billing and customer service, I do not see any reason why the costs would vary significantly between the Company's current districts. When a Residential customer calls the Atmos customer service number, the call is initially answered by a person in one of three out-of-state call centers. The call will be handled at that level, if possible; if not, it is routed to one of Atmos' seven call centers in Missouri. These call centers serve all of the customers in the surrounding area, and there is no distinction due to the Company that served the customer 10 years ago when these customers were served by one of three different LDCs. For example, there is no specific call center for former Greeley gas customers, or for the former United Cities Gas customers in Neelyville – their questions and complaints are handled by the same people as those for Butler and SEMO, respectively.

OPC Residential and Small General Service Rate Design Proposal

Q. What are your comments regarding Ms. Meisenheimer's rate design proposal to continue the current Residential and Small General Service (SGS) rate structure consisting of a customer charge and volumetric charge?

A. I believe that this rate structure is inappropriate in today's natural gas regulatory environment; that OPC's Residential and SGS rate design proposal should be rejected; and that the Commission should adopt Staff's Delivery charge for the Residential and SGS classes.

Changes in the Natural Gas Market Over Past Ten Years

Q. What do you mean by "today's natural gas regulatory environment?"

A. As recently as 10 years ago, natural gas was touted as being a clean, cheap fuel. Storage capacity for natural gas was believed to be adequate, as was natural gas production. Electric utilities were consistently building combustion turbine and combined cycle plants that used natural gas, rather than base load units that used coal, and many Industrial customers used natural gas instead of electricity whenever possible.

At the same time, the problem of affordability was gaining recognition. When the actual cost of natural gas was low, the customers' non-gas, or margin, cost was a significant portion of the customer's total bill, and it was the only part of a Residential customer's bill that could be influenced by State regulators. It was believed that customers would take steps to avoid high usage if a large part of the non-gas cost-of-service was collected through a volumetric rate, so residential customer charges were set at a low level, with a volumetric charge collecting the remainder of the Residential class' cost-of-service.

This rate design closely tied LDC's revenues to the amount of gas delivered to customers. Understandably, LDCs encouraged households to use natural gas-fired equipment for their space- and water-heating needs. Although some promotional practices were restricted by regulators, other promotional practices that encouraged customer use were allowed in tariffs.

Finally, ten years ago, the technology needed to make an efficient furnace or water heater was often prohibitively expensive. With natural gas prices so low, the time it took for payback of highly efficient furnace or water heater investments was relatively long.

Approximately five years ago, natural gas prices increased dramatically, and did not return to their previous levels. Residential customer bills doubled, and worse An Emergency Cold Weather Rule was enacted in Missouri. The non-gas portion of a customer's bill went from being around 60% of the total bill to around 20%-25%. Studies found that the usage of low-income customers was not under their control to any great extent, and a study performed by a former OPC Chief Public Economist found that low-income customers were often high users, mainly due to the inefficient housing in which they lived[1]. Programs to help customers pay their energy bills became popular, but few succeeded in permanently changing a customer's ability to pay their utility bill. Efficiency technology developed to the point that it became affordable to many customers, especially when the new level of gas prices was taken into account.

One thing that didn't change, at least in Missouri, was the rate design. Revenues are still collected from Residential customers in the form of a customer charge and a commodity charge. Since the rate design hasn't changed, a utility's opportunity to earn a profit still directly depends on the amount of gas delivered to customers. The exception to this is

[1] Missouri Gas Energy, Case No. GR-2001-292, rebuttal testimony of Philip B. Thompson

Laclede Gas Company's Residential rate design, which allows them to collect their distribution costs over the first 65 therms of gas usage each month.

Finally, another significant recent change is the passage of Senate Bill 179, which allows regulated utilities to recover revenue losses caused by weather or customer conservation. It is reasonable to assume that this bill is an indication that utilities have concerns about their opportunities to earn their Commission-ordered rate of return due to the effects of weather and of lower customer usage.

Criticisms of OPC Rate Design Proposal

Q. What are your general conclusions about the Residential rate design proposed by OPC in this case?

A. I believe that the OPC Residential rate structure:

1. forces Residential customers whose usage is greater than the average to pay more than the cost required to serve them, while allowing smaller customers to underpay their cost-of-service;
2. discriminates between identical Residential customers in contiguous districts by charging different non-gas margin rates;
3. creates unnecessary volatility in customer bills by collecting a larger portion of customers' cost-of-service in the winter;
4. provides no incentive for utilities' to aggressively promote customer efficiency and conservation to their customers; in fact, a utility doing so would be acting contrary to its shareholder interests;
5. sends incorrect price signals to Residential customers; and
6. does nothing to address Senate Bill 179.

Rate Structure Forces Higher Use Customers to Subsidize Smaller Customers

Q. What is your first criticism of OPCs Rate Design Proposal?

A. I believe that this rate structure perpetuates two inequities for customers in the Residential class.

Q. What is the first type of inequity?

A. A cost recovery mechanism that is highly dependent on usage creates a difference in the amount of revenue collected from different sized customers within the Residential class, and Staff does not believe that this difference is cost-justified. This type of revenue collection mechanism unfairly penalizes customers using more than the average normalized usage level upon which rates were set in a previous rate proceeding. A household using more than the average level pays more than the cost required to serve it, while a household using less pays less than the cost. Put simply, the larger Residential users are subsidizing the smaller users. Staff does not see any cost basis on which to charge similarly situated customers different contributions to the cost of service, and believes that this is unduly discriminatory and unfair.

Q. Why do you mean when you talk about "large" and "small" Residential customers?

A. When we talk about "large" and "small" Residential customers, we are speaking in relative terms. The difference between large and small Residential customers is measured in hundreds of Ccfs, while the difference between large and small Small General Service customers can be thousands or tens of thousands of Ccfs.

Q. Why doesn't a company install, for example, a meter that is sized to accommodate a customer's exact demand and usage, so that a customer who only intends to cook with natural gas has smaller equipment and can be served at less cost than a Residential customer who plans to use natural gas for cooking and space heating?

A. There are two reasons. First, meters are produced to meet *ranges* of customer usage levels, not individual customers' usage levels. A customer using 600 Ccf per year will be served by the same meter as a customer using 50 Ccf per year. Second, even if equipment

could be sized to exactly meet a customer's usage at the time when the customer signed on for natural gas service, the Company will typically install a meter that will meet not only the customer's current usage level, but could handle increased usage that might occur in the future. A customer may intend to only use gas for cooking today, but in ten years might decide to put in a natural gas furnace. It would be very expensive to change out the equipment – replace the meter and regulator, dig out the service line, etc - every time a customer made a decision to change the way in which they used natural gas, and utility companies avoid this by installing a standard size.

Keeping District Rate Differential Leads to Differences in Similarly Situated Residential Customers Bills

Q. What is the second source of inequity between similarly situated customers caused by the Residential rate design advocated by OPC?

A. The rate design proposed by OPC is unfair to customers in contiguous districts. I calculated the non-gas portion of a Residential customer's bill using the non-gas rates in effect today, and an annual usage of 720 Ccfs, and got the following results for Atmos' current districts:

Current District	Customer Charge	Volumetric Rate	Annual Non-gas Bill @ 720 Ccf
Kirksville	$7.00	$0.07500	$138
Palmyra	$9.05	$0.07495	$163
Hannibal/Canton/Bowling Green	$7.25	$0.25280	$269

Greeley	$5.00	$0.31920	$290
Butler	$7.00	$0.17954	$213
SEMO	$7.00	$0.12529	$174
Neelyville	$7.25	$0.25280	$269

As you can see, the customers in neighboring towns could be paying up to twice as much for the non-gas portion of their bill despite the fact that they are being served by the same LDC. I have not seen, and cannot imagine, any type of justification for this level of cost differential.

OPC Rate Structure Creates Unnecessary Volatility in Residential Customers' Bills

Q. How does the Residential rate design proposed by OPC affect the level of customer bills?

A. One effect of a customer charge/volumetric rate design is that most Residential customers currently have non-gas bills that are higher in the winter than they would be under Staff's proposed Delivery Charge rate design. Winter is also the time of year when many Residential customers are space-heating, and facing high usage and gas costs. Given the level of gas prices we are seeing, customers can ill afford a rate design which makes their bill more volatile than is necessary.

Q. If a customer wishes to eliminate the variability from their bill, can't they participate in Atmos' Budget Payment plan?

A. Yes. If a consumer wishes to eliminate all of the variability in their bill, there is a mechanism in place to do that, and it can be used regardless of the rate design decided

upon by the Commission. Atmos' Budget Payment plan allows customers to pay a level monthly amount intended to cover both gas and non-gas costs, based on an expected annual bill.

The majority of Residential customers, though, do not participate in Atmos' Budget Payment plan. Staff believes that some of these customers depend on receiving lower bills in the summer, when they are paying higher electric bills, or they may have expenses such as income taxes that they pay in those months when bills are lower. For whatever reason, they choose a seasonal bill pattern. A fixed monthly non-gas bill will not take that choice from them - it will merely reduce the peaks and valleys by a few dollars each month.

Rate Design Punishes Utility Participation in Conservation Initiatives

Q. What effect does OPC's rate design have on a utility's willingness to help customers lower their total bill by promoting conservation measures?

A. This type of rate design provides absolutely no incentive for an LDC to promote and assist its customers in efficiency measures, since it is acting contrary to its shareholders' interests by doing so. It is important to remove this disincentive, because conservation and weatherization measures are key to producing a sustainable change in a customer's ability to pay their utility bill. With gas in the $0.80 - $1.00 per Ccf range, a small decrease in usage due to efficiency will make a noticeable difference in a customer's bill, and the utility is the entity best situated to assist customers with these measures. It is possible that this action could lower expenses such as bad debt or collection expenses, and the benefits accrue not only to the customer, but to all of the other customers on the Atmos system.

Q. What types of actions does the Staff believe that Atmos could take to promote efficiency/conservation of natural gas?

A. The Staff would encourage Atmos to initiate a program for all residential customers that identifies improvements to a residence that will reduce energy consumption. The Staff would suggest that the Company charge $25 for each of these evaluations and allow a customer to request an examination only once every two years.

The Staff would also support the Company initiating a program which would weatherize homes for low income customers. The largest part of a ratepayer's bill is the volumetric charge for the actual price of natural gas. The price of natural gas by itself produces a hardship on many of the Company's low income consumers. By initiating a program which weatherizes a certain number of homes a year, low income customers may be more likely to experience gas bills they can afford. Based on programs that have been initiated by other Missouri utilities, the Staff suggests that the Company spend $78,000 annually to weatherize at least 30 homes a year.

Rate Structure Sends Distorted Cost Signals to Customers

Q. What price signal does OPC's proposed rate structure send to consumers to use in their decision-making?

A. By collecting only a portion of the utility's fixed cost in a customer charge, the price signal sent to consumers is distorted.

Q. What problem can this incorrect price signal cause in regard to consumer decision-making?

A. An artificially low customer charge rate design will attract low-usage customers from whom less revenue will be collected than it costs to serve them. A customer requesting gas service to use only for cooking will pay a bill that does not cover the cost of the distribution equipment and utility expenses required to provide service. The costs which

are not covered by this customer will be passed on to other customers, many of whom are already overpaying their cost-of-service. The provision of incorrect information about the real costs to serve them, and any uneconomic decisions made based on that information, will provide a detriment to many of the other Residential customers. It is important that customers know the true cost of serving them so they have the opportunity to make the correct economic choice.

Rate Design Does not Address Requirements Related to Senate Bill 179

Q. Does OPC's rate design proposal do anything to address the provisions of Senate Bill 179?

A. No, it does not. While the Staff's proposed Delivery Charge would provide a rate structure that would make a surcharge that is contemplated in Senate Bill 179 unnecessary, that is not true with OPC's Residential rate structure. With OPC's Residential rate structure, the rate design structure that was in place when Senate Bill 179 was approved by the legislature and signed by the governor would still be in place and the remedies in Senate Bill 179 would likely be sought by LDCs.

Recommendation Regarding OPC Residential Rate Design

Q. What is your recommendation regarding OPC's Residential rate design?

A. I recommend that the Commission reject OPC's rate structure consisting of a customer charge and volumetric rate, and adopt Staff's proposed Delivery Charge rate design.

Atmos Residential Rate Design Proposal

Q. Do you have any comments on Atmos' proposed Residential rate design?

A. Yes. One of Atmos' rate design proposals calls for a $9 system-wide Residential customer charge, with the rest to be collected through a volumetric rate. This

proposal suffers from the same weaknesses as the OPC rate design, so all of my comments on that apply to the Company's rate design. If the Commission does not adopt Staff's rate design, Staff proposes that the Commission order a Residential customer charge of at least $9 to limit the amount of margin revenue collected from the Residential Class through a commodity charge.

Q. Does this conclude your rebuttal testimony?

A. Yes.