Exhibit No.: ____________________
Issues: Revenue Adjustments and Rate Design
Witness: F. Jay Cummings
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

REBUTTAL TESTIMONY OF

F. JAY CUMMINGS

Jefferson City, Missouri

May 22, 2001

REBUTTAL TESTIMONY OF F. JAY CUMMINGS

CASE NO. GR-2001-292

TABLE OF CONTENTS

REBUTTAL TESTIMONY OF F. JAY CUMMINGS

CASE NO. GR-2001-292

May 22, 2001

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is F. Jay Cummings. My business address is 504 Lavaca, Suite 800, Austin, Texas 78701.

Q. DID YOU PROVIDE DIRECT TESTIMONY IN THIS PROCEEDING ON NOVEMBER 7, 2000 AND UPDATED DIRECT TESTIMONY ON JANUARY 31, 2001?

A. Yes, I filed direct testimony and updated direct testimony on behalf of Missouri Gas Energy ("Company").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I will address the parties' settlement pertaining to revenue adjustments and rate design. I will then address class cost of service and revenue allocation in response to the direct testimony of various parties in this proceeding. Next, I address the recommendation of the Missouri Public Service Commission Staff ("Staff") regarding the weatherization program. I then address the recommendation of the Office of Public Counsel ("OPC") pertaining to Company's proposed Customer Service Effectiveness/Gas Safety Program Experimental Incentive Plan. Finally, I will explain the Company's recommendation on OPC's proposal to implement a tariffed rate for low-income, troubled-payment customers.

1. REVENUE ADJUSTMENTS AND RATE DESIGN

Q. WHICH PARTIES PROPOSE REVENUE ADJUSTMENTS IN THIS PROCEEDING?

A. The Staff developed comprehensive revenue adjustments pertaining to a number of items, and the OPC proposed revenue adjustments pertaining to off-system sales and capacity release. No other party proposed any revenue adjustments.

Q. HAS AN AGREEMENT BEEN REACHED ON REVENUE ADJUSTMENTS?

A. It is my understanding that an agreement has been reached on all revenue adjustments, with the exception of adjustments proposed by the Staff and OPC pertaining to off-system sales and/or capacity release. The agreed-to revenue adjustments are listed on Schedule FJC-1.

Q. PLEASE EXPLAIN THE $1,080,734 REVENUE ADJUSTMENT PERTAINING TO MISCELLANEOUS SERVICE CHARGES?

A. The purpose of this adjustment is to recognize the increased revenue expected from the agreed-to, revised service charges (i.e., connect fee, standard reconnect fee, transfer fee, reconnect at the curb fee, and reconnect at the main fee), thereby reducing the amount of revenue that must be derived from recurring monthly service. The agreed-to service charges are as follows:

Connect fee	$ 20
Reconnect fee (except at the curb And at the main)	$ 35
Reconnect at the curb fee	$ 56
Reconnect at the main fee	$106
Transfer fee	$ 5

By collecting some or all of the costs associated with providing these services from individuals causing those costs to be incurred, those costs are not included in the rates for recurring monthly service, i.e., customer charges and volumetric rates for the various customer classes.

Q. PLEASE EXPLAIN THE PARTIES' SETTLEMENT PERTAINING TO RATE DESIGN.

A. The parties have agreed to the following monthly customer charges:

Residential	$ 10.05
Small General Service ("SGS")	$ 13.55
Large General Service ("LGS")	$ 83.25
Large Volume Service ("LVS")	$409.30

Current customer charges are $9.05 for the residential class, $11.05 for the SGS class, $65.80 for the LGS class, and $409.30 for the LVS class. The current tariff provision pertaining to LVS customer changes for multiple meter installations remains in effect.

OPC witness Hu proposes a tariff change through which service at a single meter premise, such as an apartment, where the individual responsible for paying the bill does not reside at the premise would be billed under the residential rate schedule rather than the SGS rate schedule. The parties agree that the Company will conduct a special, detailed study to enable identification and quantification of the elements of the revenue shift that would be associated with OPC's proposal and will make this information available as part of its next general rate case filing. No party has given up any rights with respect to positions that it may take on this matter in a future proceeding.

2. CLASS COST OF SERVICE AND REVENUE ALLOCATION

Q. DO YOU HAVE ANY GENERAL OBSERVATIONS ON THE PARTIES' CLASS COST OF SERVICE STUDY RESULTS?

A. Yes. The results of the parties' class cost of service studies confirm my direct testimony (lines 18-21, page 9) which indicated that class cost of service study findings tend to vary widely among analysts and do not provide clear guidance to the decision-maker. The cost of service study results of the Staff, OPC and Midwest Gas Users' Association ("MGUA") <u>based on the assumption of no revenue increase</u> are shown below:

	Residential	Small General Service	Large General Service	Large Volume Service
Staff	$2,942,878	($2,396,407)	($782,184)	$ 235,956
OPC	312,393	(2,555,937)	(634,299)	2,877,803
MGUA	6,293,839	(2,383,676)	(796,853)	(3,113,310)

The results are dramatically different, especially with respect to the residential and large volume service ("LVS") classes. The Staff study results in a fairly sizable increase for the residential class and a small increase for the LVS class. The OPC study results in a small increase for the residential class and a very sizable increase for the LVS class. In sharp contrast, the MGUA study results in a sizable residential increase and a very sizable LVS decrease.

Q. DO YOU HAVE ANY OBSERVATIONS PERTAINING TO THE PARTIES' RECOMMENDATIONS ON ALLOCATION OF THE REVENUE INCREASE AMONG CUSTOMER CLASSES?

A. The Company, OPC, and MGUA provide class revenue allocation recommendations; the Staff did not propose a revenue allocation because it recommended no overall revenue increase in its direct testimony. The parties' class revenue allocation recommendations based on the Company's as-filed revenue increase of $39,882,006 are as follows:

	Residential	Small General Service	Large General Service	Large Volume Service
OPC	$27,570,599	$6,624,945	$457,965	$5,227,600
MGUA	35,272,530	5,255,240	(53,001)	(502,137)
MGUA Alt.	34,717,392	5,225,240	0	0
Company	27,773,036	7,952,423	884,199	3,271,212

The differences between OPC and MGUA again focus on residential versus LVS revenue changes. The Company's recommendation lies between the two, but accomplishes moderation in increases to both the residential and LVS classes through larger increases in SGS and LGS revenues than proposed by either of the other parties.

Q. DOES THE COMPANY PROPOSE ANY CHANGES IN ITS CLASS REVENUE ALLOCATION RECOMMENDATION?

A. No, the Company continues to believe that the recommendation provided in my direct testimony is reasonable. However, in an effort to bring the parties closer together, the Company proposes an alternative recommendation for the Commission's consideration. This alternative would spread the first $5,000,000 of required revenue increase to the residential, SGS, and LGS classes proportionately to their as adjusted test year revenues. The remainder of the required revenue increase would be spread to all classes proportionately to their as adjusted test year revenues.

The following table provides a comparison between the Company's initial class revenue allocation recommendation and this alternative based on the Company's revised $37,382,862 revenue deficiency that reflects the agreements reached during the prehearing conference, including the agreed-to revenue adjustments discussed in my rebuttal testimony:

	Residential	Small General Service	Large General Service	Large Volume Service
Recommendation	$25,966,649	$7,546,368	$825,219	$3,044,626
Alternative	$26,274,592	$7,635,861	$835,005	$2,637,404

Company witness Noack discusses the revised revenue deficiency in his rebuttal testimony.

3. WEATHERIZATION PROGRAM

Q. ON PAGE 7 OF HIS DIRECT TESTIMONY, STAFF WITNESS WARREN PROPOSES THAT THE EXISTING WEATHERIZATION PROGRAM BE MAINTAINED IN THE KANSAS CITY AREA AND EXTENDED TO AS MANY CUSTOMERS AS IS PRACTICAL IN OTHER AREAS SERVED BY THE COMPANY. PLEASE RESPOND.

A. The Company agrees with Mr. Warren that the existing program in the Kansas City area should be continued at its current funding level. It is the Company's understanding that no party has proposed to remove that $250,000 funding level from the Company's revenue requirement. In addition, the Company has informed the other parties that it has no objection to Mr. Warren's proposal as long as: (1) the Company's revenue requirement is increased to include funds to be devoted to extending the weatherization program to other areas served by the Company; 2) agencies in those other areas are capable of, and willing to, administer such funds; and (3) the administrative burdens placed upon the Company as a result of extending the program to other areas do not increase to any material degree.

4. CUSTOMER SERVICE EFFECTIVENESS/GAS SAFETY PROGRAM EXPERIMENTAL INCENTIVE PLAN ("CSE/GSIP")

Q. WHAT IS OPC'S POSITION REGARDING THE COMPANY'S PROPOSED CSE/GSIP?

A. On pages 16 and 17 of his direct testimony, OPC witness Robertson indicates that OPC does not believe the CSE/GSIP is needed to replace the current safety program accounting authority order ("AAO") process. He goes on to list four concerns with the CSE/GSIP proposal that form the basis for his conclusion.

Q. DO YOU AGREE WITH OPC'S "CONCERNS" REGARDING THE CSE/GSIP?

A. No. I will address each of OPC witness Robertson's "concerns" in the order listed in his testimony. Mr. Roberston's first "concern" is that the current safety program is scheduled to expire in 2004. The timing of the completion of the safety program is not an issue for the application of the CSE/GSIP. The CSE/GSIP is an experimental plan, with the last filing under the plan covering safety program expenditures through March 31, 2004.

Mr. Robertson's second "concern" is that the current AAO process works efficiently and as intended. However, in each of the last two (and only two) Company rate cases, the safety program AAO and various aspects of recovery of amounts deferred under the AAO were contentious issues that required parties and the Commission to devote substantial resources to resolve. In this rate case, OPC witness Robinson again raises an AAO-related issue. By contrast, the CSE/GSIP process would be straightforward and administratively simple.

Mr. Robertson's third "concern" is that the CSE/GSIP may be considered incomplete and/or a violation of single-issue ratemaking to the extent that it does not enable a full review of the Company's operations. Although I cannot comment on the question of single-issue ratemaking from a legal perspective, my layman's interpretation is that the concept relates to adjusting rates to reflect selected items while ignoring changes in other items that are causally related to the items included in the adjustment. For example, adjusting rates to reflect new investment while ignoring the increased revenue from new customers added as a result of the investment would constitute single-issue ratemaking. The CSE/GSIP does not present any such difficulties. Safety program costs do not result in the addition of new customers; they are non-revenue-producing investments. In addition, the Company has addressed the possible perception that certain operations and maintenance expenses may be reduced as a result of the safety program by not allowing full recovery of safety program costs through the CSE/GSIP. Regarding Mr. Robertson's broader concern about a full review of the Company's operations, the CSE/GSIP would not preclude the Commission from reviewing the reasonableness of the Company's earnings under its existing statutory authority and procedures. Because neither the Staff nor the OPC has ever alleged, nor has the Commission ever found, that the Company was in an over-earnings position, the

Company does not expect such concerns to arise during the effective period of the CSE/GSIP.

Mr. Robertson's fourth "concern" is that there is no real linkage between the customer service standards and the safety program. This "concern" is a red herring. The Company does not suggest that there is a correlation between safety program expenditures and the quality of customer service. Rather, the CSE/GSIP offers a vehicle to provide the Company with strong incentives to provide quality customer service. Failure to do so in a given year results in the Company not recovering safety program costs incurred in the period through the CSE/GSIP. The only "linkage" is in the results - - the Company and its customers benefit through the provision and receipt of safe, reliable, and quality customer service.

5. LOW-INCOME FIXED TARIFF RATE

Q. DOES THE COMPANY SUPPORT THE OPC'S OBJECTIVE OF PROVIDING ASSISTANCE TO LOW-INCOME CUSTOMERS?

A. Yes. The Company has demonstrated its support for low-income customer assistance through filings with the Commission over the past several years. In January 1997, the Company proposed to implement, on an experimental basis, a "Residential Energy Assistance Program." The Company ultimately withdrew the proposal in response to objections by Staff and OPC, but the Commission opened another case, Case No. GO-97-465, for the purpose of investigating an experimental energy assistance program. The Commission, in September 1997 by order in Case No. GO-97-465, ultimately adopted the recommendation of the parties that a number of factors mitigated against the development of a new energy assistance program at the time. These factors included the new PGA procedures designed to enhance rate stability, the recent enactment of Utilicare legislation, the fact that no specific statutory authority was present for a new energy assistance program, and the fact that discussions revealed that input from a wider variety of interested constituencies into the development of such a program would be advisable.

In January 2001, the Company filed an Application for Variance designed to make certain federal refunds (of roughly $1 million) available for energy assistance for lower-income customers. MGE also proposed to contribute (and in February 2001 did contribute) $250,000 in shareholder funds for the same purpose. This case was docketed as Case No. GE-2001-393. Both the Staff and OPC opposed the proposal on legal and policy grounds. In March 2001, the Commission denied the Application, indicating that the Company's proposal was both unlawful and poor public policy.

In addition to these filings made with the Commission, the Company has actively worked to assist low-income customers. This past winter, the Company targeted many of its resources and educational efforts toward helping lower-income customers with unprecedented high natural gas bills. Beyond relaxing several payment options, the Company successfully lobbied the legislature to secure UtiliCare funding and worked closely with several cities opting to reduce franchise fees. Company staff coordinated several onsite customer meetings through United Services designed to bring energy assistance options directly to customers and worked with the Mid America Assistance Coalition to bring together elected officials, social service agencies and the faith and business communities to encourage collaboration and information sharing. The Company actively responded to and sought numerous media opportunities to educate customers about energy assistance options. The Company continues to commit full-time staff to working with low-income customers. This past winter, the Company approached the Department of Family Services ("DFS") and offered to provide $15,000 for the DFS to hire temporary help to assist in processing LIHEAP applications and reduce the backlog, but the DFS would not accept the Company's offer. (See Schedule FJC-2)

Q. DOES THE COMPANY RECOMMEND THAT THE FIXED CREDIT TARIFF PROPOSAL DESCRIBED IN THE DIRECT TESTIMONY OF OPC WITNESS COLTON BE IMPLEMENTED IN THIS PROCEEDING?

A. No. While I am not an attorney, recent Commission decisions suggest that the Commission itself believes that it lacks the authority under the law to adopt such a proposal. Recent decisions also suggest that the Commission may believe that creation of a separate low-income class contravenes good public policy. Legal and public policy questions aside, I will discuss various issues related to implementation, cost estimates, cost recovery, and other customer impacts that result in the Company's recommendation that the Commission not adopt the tariff proposal in this case. Company witness Hendershott also provides rebuttal testimony that addresses various aspects of OPC's testimony concerning the fixed credit tariff proposal.

Q. PLEASE DESCRIBE THE MAJOR IMPLEMENTATION ISSUES.

A. The Company has identified a number of significant implementation issues. First, perhaps more of a conceptual, policy, and cost-related issue than an implementation issue, OPC's proposal, in assisting only those low-income customers who have arrears of at least $200, provides incentives for low-income, good-pay customers to become delinquent. The incentives are blunted further with OPC's proposed deferred payment plan that allow payments of past due amounts to be spread over a number of years.

Second, programming changes in the Company's billing system would have to be developed and tested prior to implementation of the new rate. While the suggested fixed credit appears simple, the Company's billing system is complex and cannot be modified for a new type of rate without substantial time and effort. It is also imperative to test any billing system changes prior to implementation to ensure that not only those customers on the new rate but also all other customers will receive accurate bills subsequent to the change. The costs of these programming changes and their resulting implementation should be established and included as a cost to be recovered as part of the tariff proposal.

Third, Mr. Colton recommends that an applicant's income eligibility under the tariff be contracted out to a third party. The suggested bidding, evaluation, and selection process, as well as establishing necessary information links between the Company and third party, would require time to accomplish. At this time, the Company does not know whether any firms with the required expertise are located in Missouri or whether a wider search would have to be pursued.

Fourth, Mr. Colton's recommendation regarding the Company being designated as a customer's agent in the LIHEAP process as a vehicle to reduce costs that must be recovered from other customers would require agreement by the DFS, an agreement that may or may not be achievable. At a minimum, the Company would incur administrative costs, including necessary staff additions, if it were required to act as the agent for LIHEAP applications for the large number of customers expected to be served under the tariff proposal. Assuming LIHEAP assignment responsibilities can be assumed, these costs should be developed and included as part of the recoverable program costs. More generally, Mr. Colton proposes to shift the risks associated with changes in LIHEAP funding levels, eligibility, and participation rates to the Company by not including LIHEAP as an offset to the fixed credit but rather assuming the Company will receive LIHEAP funds based on historical, average funding levels and very high assumed LIHEAP enrollment rates.

Fifth, in order for the new offering to be effective, a training program for the Company's customer service representatives would have to be developed and administered. Training for the Company's Community Relations and Public Affairs staff would be reasonable and necessary in order for this group to explain and promote the offering to various social service agency, community organizations, and customer groups.

Sixth, program details are insufficient to determine whether there would be other implementation issues. For example, Mr. Colton does not address whether periodic re-evaluation of participant income qualifications would be part of his proposal. Without such re-evaluations, the program may provide benefits beyond those for which it is designed. With the re-evaluations, the administrative mechanics and costs of such a process would have to be developed and considered as part of the implementation process and program costs.

Q. WHAT CONCERNS DO YOU HAVE REGARDING COST ESTIMATES, COST RECOVERY, AND OTHER CUSTOMER IMPACTS?

A. Mr. Colton has developed an estimate of the costs that must be recovered from non-participants, namely, other residential customers. It appears that Mr. Colton intends that as part of the process of setting rates in this proceeding, this dollar amount would be added to the revenue otherwise to be recovered from the residential customer class. Mr. Colton appears to believe that his proposal will prevent the Company and its shareholders from bearing any of the program costs by indicating that "a fixed credit rate allows MGE to determine <u>with certainty</u> the maximum amount of costs that need to be reallocated to customers on standard residential rates" (emphasis added, page 24, lines 3-4 of his direct testimony) and "[T]he only thing that can happen is that reallocated costs might go down if, for whatever reason, the customer leaves the system" (page 24, lines 10-12 of his direct testimony).

Mr. Colton's estimate of costs that must be recovered from other residential customers is based on a number of very significant assumptions. If some of his assumptions turn out to be wrong, either the Company and its shareholders unexpectedly bear additional costs or other residential customer rates are unnecessarily high. Given the assumptions employed, I believe the former situation is likely to occur and the stakes are very high.

Q. PLEASE QUANTIFY THE IMPACT OF CHANGES IN MR. COLTON'S ASSUMPTIONS ON THE FIXED COSTS THAT MUST BE RECOVERED FROM OTHER RESIDENTIAL CUSTOMERS.

A. Schedule FJC-3 provides a summary of Mr. Colton's estimated costs to be recovered from the residential class as well as estimates based on changing certain assumptions embedded in his analysis. Simply by reflecting certain issues settled in this case (namely, normal residential use, residential bill counts, and uncollectibles expense) and applying the current PGA rate, Mr. Colton's costs to be recovered from residential customers jumps from $1.9 million to more than $6 million.

Factoring in the possible unavailability of the LIHEAP offset, this amount grows to more than $8 million. By changing other assumptions, these costs could be as high as almost $12 million or even $21 million. While Mr. Colton indicates that the reallocated costs amount to $4.25 per residential customer per year, the information contained in Schedule FJC-3 shows that the costs could range from almost $14 per customer per year to $26 or perhaps $46 per customer per year. The simple fact is that no one knows with any degree of certainty what these costs will be in advance of implementing such a proposal, but the potential range is extremely large.

Q. ARE THERE OTHER ASSUMPTIONS INCLUDED IN MR. COLTON'S ANALYSIS THAT WOULD AFFECT THE LEVEL OF COSTS THAT MUST BE RECOVERED FROM OTHER CUSTOMERS?

A. Yes, there are a number of assumptions that affect these costs, costs which incorrectly estimated and built into standard residential rates could adversely affect the Company or its other residential customers. Assumptions that could change and affect program costs that must be recovered from standard rate residential customers and that are not varied in Schedule FJC-3:

- No increase in residential rates will result from this proceeding
- Enrollment on the rate will not increase as the Company's residential customer base grows
- Gas costs do not change
- 20% of initial applicants do not complete the application process
- Distribution of Company customers by income levels matches the underlying Census data for the communities that the Company serves
- Usage level does not vary between 0% and 150% of poverty level
- Take rate and payment-troubled status percentage do not vary with income
- All customers under the rate receive the historical average LIHEAP payment

- No re-verification of income eligibility after initial qualification for the rate

A number of Mr. Colton's assumptions rely on either national data or information from other states that may or may not be valid in Missouri or for the Company. These include:

- Third-party income verification costs based on Pennsylvania experience
- Low-income and non-low-income disconnect rates (used to develop the uncollectibles offset) based on 1992 national electric and gas service experience
- Percentage of poor families who could not pay their bills (used in part to estimate the troubled-payment percentage) based on 1992 national utility bill data
- percentage of troubled-payment customers on new rate who make full and timely payments based on Pennsylvania experience
- credit and collection cost savings based on Pennsylvania utility experience

Certain assumptions, such as those pertaining to low-income customer usage and the take rate, are made without reference to any specific data or support. In fact, Company witness Thompson presents rebuttal testimony that demonstrates that Mr. Colton's customer usage assumption is wrong. Finally, other costs that will be incurred by the Company are ignored in Mr. Colton's estimates. These costs include the costs of billing system program changes, training costs, carrying costs on the proposed extended deferred payment plans, and various administrative costs including those associated with the third-party eligibility contractor and LIHEAP assignment responsibilities.

My purpose in developing Schedule FJC-3 and in listing these assumptions is simply to demonstrate that actual costs that will be incurred as a result of the proposed tariff are uncertain, at best. Even if OPC's proposal were considered appropriately structured, additional analyses and experience are required to deal with various implementation issues and to assess alternative mechanisms that would ensure that the tariff proposal will be cost, revenue, and earnings neutral based on actual experience. Only through such a process is the need to guess correctly by making various assumptions obviated.

Q. ARE THERE OTHER ISSUES PERTAINING TO OPC'S FIXED CREDIT RATE PROPOSAL THAT YOU WISH TO ADDRESS?

A. Yes. I address problems associated with two recommendations: the proposed extended deferred payment plan and the proposed supplemental funding source.

Q. PLEASE EXPLAIN THE PROBLEMS ASSOCIATED WITH THE PROPOSED EXTENDED DEFERRED PAYMENT PLAN.

A. Mr. Colton's proposed extended deferred payment plan is unrealistic if its purpose is provide the Company a reasonable opportunity to collect the overdue funds. If a customer whose annual income was $6,000 were in arrears, Mr. Colton's proposal would require the customer to pay off the arrearage at the rate of $5 per month. If the customer has only the minimum arrearage level to just qualify for the tariff as proposed by Mr. Colton, the customer would pay off the past due amount over a period of more than 3 years. If the customer had a $500 arrearage, the customer would pay off the overdue amount over a period of more than 8 years. Elsewhere in his testimony (pages 55-56), Mr. Colton indicates that low income households have a much higher mobility than do households in general because low-income households are disproportionately renters. He cites nationwide data suggesting 2.1

years median duration in rented homes and showing that one-third of residents in renter-occupied housing unit moved in the previous year. The likelihood of collecting the past due amounts over periods that range from more than 3 years to over 8 years and longer appears extremely remote given Mr. Colton's conclusions regarding low-income household mobility.

Q. PLEASE DESCRIBE YOUR CONCERNS RELATED TO OPC'S SUGGESTED SUPPLEMENTAL FUNDING SOURCE.

A. Mr. Colton proposes that 30% of Kansas ad valorem tax refunds that the Company receives be used to offset some or all of the reallocated costs that would otherwise have to be included in the rates of other residential customers. The OPC proposal appears to contravene a Stipulation and Agreement, to which OPC is a signatory, that was approved by the Commission in Case No. GO-98-500 on April 20, 1999. As re-stated in the Commission order approving the Stipulation and Agreement,

> The parties agreed to the terms and conditions upon which the refunds shall be made in the Unanimous Stipulation and Agreement. The parties have agreed that all Kansas ad valorem refunds received, now or in the future, by MGE from Williams will be refunded to the customers issuing 71.73 percent of the refunds to residential, small general service, large general service and unmetered gaslight customer classes and 28.27 percent of the refunds to the large volume customer class. Refunds to the residential, small general service, large general service and unmetered gaslight customer classes are to be processed through the PGA procedure as set forth in sheet Nos. 21 and 22 of MGE's tariff.

Q. PLEASE SUMMARIZE THE COMPANY'S RECOMMENDATIONS PERTAINING TO OPC'S RECOMMENDED FIXED CREDIT TARIFFED RATE.

A. The Company recommends that OPC's fixed credit tariffed rate be rejected. If the Commission determines that this type of concept is lawful and constitutes sound public policy, the Company recommends that the Commission establish a separate docket in which a study group of interested parties could assess and resolve implementation, cost, and customer impact issues associated with specific low-income assistance programs. The group's objective would be to propose to the Commission a program(s) that could be implemented on a cost, revenue, and earnings neutral basis. In establishing the docket, the Commission should provide direction on program objectives and structures that it deems are appropriate so that the group can be effective. As one example, OPC's proposed fixed credit tariffed rate provides assistance only to those low-income customers who are delinquent in paying their bills, i.e., arrears of at least $200. The Commission should indicate whether it considers it sound public policy to implement a program that provides incentives for good pay, low-income customers to become delinquent in order to qualify for the credit.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Missouri Service Area.	))))	Case No. GR-2001-292

AFFIDAVIT OF F. JAY CUMMINGS

STATE OF TEXAS COUNTY OF TRAVIS	)))	ss.

F. Jay Cummings, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

F. Jay Cummings

F. JAY CUMMINGS

Subscribed and sworn to before me this 17th day of May 2001.

Jean K. Shubenell

Notary Public

My Commission Expires: 1/27/2003

Summary of Settled Revenue Adjustments

	Dollars
Weather - Sales Service	$ 4,710,952
Days Adjustment	$ 40,346
Growth	$ 2,003,065
LVS Weather and December Adjustment	$ 118,494
Flex Rate Customers/Customer Loss	$ (388,739)
Economic Development	$ (14,312)
Non-Jurisdictional	$ (68,552)
Switching and Customer Deletion	$ (38,934)
Off System Sales and Capacity Release (1)	$ 1,200,000
Miscellaneous Service Charges (2)	$ 1,080,734
Total	$ 8,643,054

(1) Settlement agreement specifies conditions related to this dollar amount.

(2) Revenue adjustment predicated on implementing the following miscellaneous service charges:

Reconnect (except at the main and at the curb)	$ 35
Reconnect at the curb	$ 56
Reconnect at the main	$ 106
Connect	$ 20
Transfer	$ 5

MGE MISSOURI GAS ENERGY
3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5753 • Fax (816) 360-5541
E-Mail: pamela.levetzow@southernunionco.com

PAM LEVETZOW
Director Public Affairs

February 28, 2001

Barb Daniels
Missouri Division of Family Services
Jackson County
615 East 13th Street
Kansas City, Missouri 64106

Dear Ms. Daniels:

This winter has been an especially difficult time for energy assistance organizations. The combination of colder weather and higher prices increases bills for everyone, forcing some people to ask for assistance for the first time.

Through meetings with DFS, MAAC, the community action networks and other providers, I am aware of the challenges energy assistance organizations face each year. This year those problems have been amplified. Because of the increase in funds and the demand for those funds, I understand that DFS has not been able to administer paperwork as quickly as you would like this winter, possibly slowing down the delivery of assistance.

I would like to reiterate the commitment I made in January: MGE will incur expenses up to $15,000 so that the DFS offices in Jackson and Clay counties may hire temporary employees through an agency of your choice to attend to administrative duties. The goal of this commitment is to allow quicker relief to customers in need.

I believe that in cases such as this, public and private organizations can work together to help disadvantaged and underserved members of our community. I understand that this offer has not been acted upon and I would like to assure you that our commitment stands. Please let me know if there are other ways we may be able to help.

Sincerely,

Pam

Cc: Katherine Taeubert,
Social Services Manager

SCHEDULE FJC 2-2

MAR 16 2001

CC: Hack
Cattron
Snider ✓
Richardson
Hoch

BOB HOLDEN
GOVERNOR

MISSOURI
DEPARTMENT OF SOCIAL SERVICES
DIVISION OF FAMILY SERVICES
P.O. BOX 88
JEFFERSON CITY
65103
TELEPHONE: 573-751-3221

for hearing and speech impaired
TEXT TELEPHONE
1-800-735-2966
VOICE
1-800-735-2466

March 14, 2001

Ms. Pamela Levetzow
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111

Dear Ms. Levetzow:

This energy assistance season has been a challenge to both of our organizations.

I believe that the Division of Family Services' Energy Assistance Office in Jackson County and Missouri Gas Energy (MGE) have made an outstanding cooperative effort to work together to help members of our community in need of assistance. That cooperation has been a bright spot in a difficult year with unprecedented cold weather and high-energy prices.

We appreciate the MGE offer to assist us further by funding expenses for additional temporary employees. The DFS is taking steps internally to meet the increased need for assistance during this year's heating season and respectfully decline your offer.

As the energy assistance season ends, we look forward to your participation in the FY-2002 program year.

Sincerely,

Barbara Daniels

Barbara Daniels
Management Analyst Specialist II
Energy Assistance Unit

BD:ss
cc: Kathryn Taeubert

Sensitivity of Costs to be Reallocated To Residential Customers

	Office of Public Counsel Filing	Case 1	Case 2	Case 3
Estimated Costs Before Offsets	$ 4,410,043	$ 8,326,305	$ 12,846,299	$ 21,379,395
3rd Party Income Verification Costs	$ 595,332	$ 703,603	$ 1,302,670	$ 1,857,511
Subtotal	$ 5,005,375	$ 9,029,908	$ 14,148,969	$ 23,236,906
LIHEAP Offset	$ (2,277,145)	$ (2,306,811)	$ (1,647,722)	$ (1,647,722)
Credit & Collection Offset	$ (330,740)	$ (335,049)	$ (387,699)	$ (368,554)
Bad Debt Offet	$ (545,721)	$ (234,534)	$ (336,006)	$ (331,698)
Total Offsets	$ (3,153,606)	$ (2,876,395)	$ (2,371,428)	$ (2,347,975)
Total Fixed Costs to be Reallocated	$ 1,851,769	$ 6,153,513	$ 11,777,541	$ 20,888,932
Reallocated Cost per Residential Customer	$ 4.25	$ 13.95	$ 26.37	$ 46.18

Move From	Move To	Changed Assumptions
OPC Filing	Case 1	Settled normal use per residential customer Settled as adjusted residential customer count Current PGA rate Settled uncollectibles expense
Case 1	Case 2	Payment troubled status increased from 35% to 45% Customer take rate increased from 50% to 60% 50% customers apply for LIHEAP and 50% of these eligible for a fixed credit 3rd part verification costs 20% higher 75% customers on rate remain good pay; 75% of estimated collection cost savings per customer
Case 2	Case 3	110% normal use Payment troubled status increased from 45% to 55% Customer take rate increased from 60% to 70% 50% customers on rate remain good pay; 50% of estimated collection cost savings per customer