

Exhibit No.:  
Issues: Flex Rate Revenues; Reconnects,  
Connects & Transfers; Economic  
Development Rider  
Witness: Thomas Imhoff  
Sponsoring Party: MoPSC  
Type of Exhibit: Direct Testimony  
Case No.: GR-2001-292  
Date Testimony Prepared: April 19, 2001

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY**

**OF**

**THOMAS IMHOFF**

**MISSOURI GAS ENERGY**  
**A DIVISION OF SOUTHERN UNION COMPANY**

**CASE NO. GR-2001-292**

**Jefferson City, Missouri**  
**April, 2001**

Exhibit No. 25  
Date 6-25-01 Case No. GR-2001-292  
Reporter Stewart

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**TABLE OF CONTENTS**  
**DIRECT TESTIMONY**  
**OF**  
**THOMAS M. IMHOFF**  
**MISSOURI GAS ENERGY**  
**A DIVISION OF SOUTHERN UNION COMPANY**

FLEX RATE REVENUES.....3  
RECONNECTION, CONNECTION AND TRANSFER TARIFF CHANGES .....6  
ECONOMIC DEVELOPMENT RIDER (EDR).....8

1                                   **DIRECT TESTIMONY**  
2                                   **OF**  
3                                   **THOMAS M. IMHOFF**  
4                                   **MISSOURI GAS ENERGY**  
5                                   **A DIVISION OF SOUTHERN UNION COMPANY**  
6                                   **CASE NO. GR-2001-292**

7           Q.     Please state your name and business address.

8           A.     Thomas M. Imhoff, P.O. Box 360, Jefferson City, Missouri 65102.

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

10          A.     I am a Regulatory Auditor IV with the Missouri Public Service Commission  
11 (Commission).

12          Q.     Please describe your educational background.

13          A.     I attended Southwest Missouri State University at Springfield, Missouri, from  
14 which I received a Bachelor of Science degree in Business Administration, with a major in  
15 Accounting, in May 1981. In May 1987, I successfully completed the Uniform Certified  
16 Public Accountant (CPA) examination and subsequently received the CPA certificate. I am  
17 currently licensed as a CPA in the State of Missouri.

18          Q.     What has been the nature of your duties with the Commission?

19          A.     From October of 1981 to December 1997, I worked in the Accounting  
20 Department of the Commission, where my duties consisted of directing and assisting with  
21 various audits and examinations of the books and records of public utilities operating within  
22 the State of Missouri under the jurisdiction of the Commission. On January 5, 1998, I

Direct Testimony of  
Thomas M. Imhoff

1 assumed my current position of Regulatory Auditor IV in the Gas Tariffs/Rate Design  
2 Department, where my duties consist of analyzing applications, reviewing tariffs and making  
3 recommendations based upon those evaluations.

4 Q. Have you previously filed testimony before this Commission?

5 A. Yes. A list of cases in which I have filed testimony before this Commission is  
6 attached as Schedule 1 to my direct testimony.

7 Q. With reference to Case No. GR-2001-292, have you made an examination and  
8 study of the material filed by Missouri Gas Energy, a division of Southern Union Company  
9 (MGE or Company) relating to its proposed increase in gas rates?

10 A. Yes, I have.

11 Q. Are you sponsoring any adjustments?

12 A. Yes. I am sponsoring Staff Adjustment S-6.3, and Staff Adjustment S-6.4.

13 Q. What is the purpose of your direct testimony?

14 A. The purpose of my direct testimony is to present the Commission Staff's  
15 (Staff) position relating to the flex rate issue; reconnections, connections and transfer  
16 charges; and an adjustment relating to the MGE's economic development rider. This  
17 responsibility includes a review and analysis to determine if MGE's contracted flex rates are  
18 in accordance with the Commission's flex rate guidelines set forth in MGE's rate case, Case  
19 No.  
20 GR-96-285.

**FLEX RATE REVENUES**

Q. What are flex rates?

A. Flex rates are discounted transportation rates. MGE can only flex down the non-gas cost portion of its transportation rate. MGE's flex rate tariff First Revised Sheet No. 43 provides:

The Company may from time to time at its sole discretion reduce its charge for transportation service by any amount down to the minimum transportation charge for customers who have alternative energy sources, which on an equivalent BTU basis, can be shown to be less than the sum of the Company's transportation rate and the cost of natural gas available to the customers.

Such reductions will only be permitted if, in the Company's sole discretion, they are necessary to retain or expand services to a previous customer or to acquire new customers.

The Company will reduce its transportation rate on a case-by-case basis only after the customer demonstrates to the Company's satisfaction that a feasible alternative energy source exists.

If the Company reduces its transportation charge hereunder, it may, unless otherwise provided for by contract upon 2 days notice to the customer, further adjust that price within the rates set forth above.

Q. How do flex rates affect the rate setting process?

A. The use of flex rates for certain transportation customers could result in a shift of revenue collections from those customers to potentially all non-flex customers for ratemaking purposes. The Company could request to increase rates of non-flex customers to recover lost revenues due to the flex down of certain transportation customer's rates. If allowed, the burden and risk of flexing down rates would fall squarely on the shoulders of the non-flexing ratepayers (i.e., residential, commercial, etc...), essentially taking all of the burden and risk from MGE's shareholders.

1 Q. Does the Commission have established guidelines in place for regulated gas  
2 local distribution companies that want to recover foregone revenues related to the use of flex  
3 rates?

4 A. Yes it does.

5 Q. What are the Commission's guidelines for rate recovery related to MGE's use  
6 of flex rates?

7 A. To justify flowing to other customers the negative revenue impact of flex rate  
8 use, MGE is required to show by full, complete, substantial and competent evidence that the  
9 arrangement: 1) was necessary to avoid imminent bypass of MGE's system, resulting in the  
10 loss of a customer, or because of a competitive alternative (i.e., fuel oil); 2) recovers variable  
11 costs plus a reasonable contribution to fixed costs; and 3) in instances involving affiliates,  
12 was at arms length and flexes rates no lower than necessary to meet relevant competition.

13 Q. When did the Commission establish these guidelines?

14 A. These guidelines were first established by the Commission in a United Cities  
15 Gas Company rate case, Case No. GR-95-160, and were reiterated by the Commission in  
16 MGE's rate case, Case No. GR-96-285.

17 Q. Is the Staff proposing to include foregone revenues in MGE's revenue  
18 requirement due to its use of flex rates in this case?

19 A. No. The Company did not provide Staff with a current analysis or the  
20 breakdown of costs to substantiate the current level of discounts that it is affording certain  
21 transportation customers, despite earlier Commission orders.

22 Q. Did the Staff request copies of all supporting documentation and contracts to  
23 flex down rates with potential bypass customers or alternative fuel customers?

Direct Testimony of  
Thomas M. Imhoff

1           A.     Yes it did. This information was requested in Staff Data Request (DR)  
2 Numbers 4303 and 4304. The information the Company provided to Staff did not have any  
3 analysis of the breakdown of variable and fixed costs to substantiate the level of discounts  
4 that MGE is affording certain transportation customers.

5           Q.     Were any of the contracts and supporting information current?

6           A.     Some contract addendums were current. However, none of the contracted flex  
7 rates were supported by any breakdown between variable and fixed costs.

8           Q.     Has MGE provided evidence to support that contractual flexing transactions  
9 conform to Commission Standards?

10          A.     No, it has not. Absent any supporting breakdown between variable and fixed  
11 costs for each flex customer to demonstrate that the rate covers MGE's variable cost and  
12 makes a reasonable contribution to fixed costs, I recommend that all flex transportation  
13 volumes be priced at the full tariffed margin rates when calculating revenues for ratemaking  
14 purposes.

15          Q.     Do the contractual flex rates that MGE currently has with some of its  
16 transportation customers, which are identified in Staff DR No. 4309, conform to the  
17 guidelines established by the Commission in MGE's rate case, Case No. GR-96-285?

18          A.     No, they do not. MGE did not provide supporting information or any analysis  
19 or breakdown of costs to substantiate the level of discounts that certain transportation  
20 customers are receiving.

21          Q.     Have you determined that these flex rate transactions are inappropriate for  
22 ratemaking purposes?

1           A.     Yes, I have. I recommend imputation of revenue using the full margin in  
2 establishing MGE's rates in this case.

3           Q.     Have you made an adjustment to the Staff's revenue requirement to reflect  
4 your recommended imputation of revenues regarding the flex rate issue?

5           A.     Yes, I have. Staff Adjustment S-6.3 reflects the Staff's adjustment  
6 computation.

7 **RECONNECTION, CONNECTION AND TRANSFER TARIFF**  
8 **CHANGES**

9  
10          Q.     Has MGE proposed a change in their reconnection charges, and proposed new  
11 connection and tariff charges?

12          A.     Yes. MGE is proposing to increase its standard reconnect fee from \$29 to \$40  
13 (and the \$50 reconnect fee after turn off at the curb to \$61 and the \$100 fee after turn off at  
14 the main to \$111). The Company is also proposing to institute a new service connection fee  
15 of \$40 and a transfer fee of \$6.

16          Q.     Is it important for these miscellaneous charges to accurately reflect what it  
17 costs to provide these services?

18          A.     Yes, it is important that these miscellaneous charges reflect MGE's cost of  
19 performing these various services. The individual customers causing the Company to incur  
20 these expenses should be responsible for the associated costs.

21          Q.     Does the Staff agree with these proposals?

22          A.     After careful review and consideration of MGE's proposed changes, Staff  
23 does not object to some increase in most of these, but disagrees with MGE on what the



Direct Testimony of  
Thomas M. Imhoff

1 proper charge should be, and believes that charges relating to the reconnect at the curb and at  
2 the main should remain the same.

3 Q. What does Staff believe is the correct charge for each service?

4 A. Staff witness Kim J. Elvington of the Gas Tariffs/Rate Design Department  
5 describes the calculation and charge Staff believes to be representative of the MGE's costs.

6 Q. Does Staff dispute the loading rates MGE has applied to these services?

7 A. Yes. The Staff disagrees with MGE's inclusion of a non-productive time  
8 loading. This non-productive time loading factor includes vacation, sick time, holiday,  
9 training and standby time.

10 Q. Why does Staff disagree with the inclusion of the non-productive time  
11 loading?

12 A. These charges are based on a cost causation, per-job basis. Performing these  
13 various miscellaneous services are only a portion of the different jobs these employees must  
14 perform. Since the costs are based on a per-job basis, these non-productive loadings should  
15 not be included in these miscellaneous tariff rates. The vacation, sick time, holidays, training  
16 and standby time are already included in customer rates for gas supply services provided by  
17 the Company, and are not calculated on a per-job basis.

18 Q. Why is the Staff proposing no changes for charges relating to the  
19 reconnections at the curb and at the main?

20 A. In Staff DR No. 4103, Staff requested supporting information for the costs  
21 associated with all reconnects, disconnects and transfers but to date, MGE has not supplied  
22 Staff with any support for these proposed changes. Without such documentation, Staff is  
23 unable to determine whether an increase to the charges is justified.

1 **ECONOMIC DEVELOPMENT RIDER (EDR)**

2

3 Q. Please explain the EDR adjustment?

4 A. Staff Adjustment S-6.4 reflects the net decrease in revenue with the addition  
5 of a new customer that is eligible to participate under the EDR, and the increase of revenues  
6 that is computed at tariffed rates in effect at the end of the test year.

7 Q. Does this conclude your direct testimony?

8 A. Yes it does.

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

IN THE MATTER OF MISSOURI GAS     )  
ENERGY'S TARIFF FILING FOR     )  
GENERAL RATE INCREASE.     )

Case No. GR-2001-292

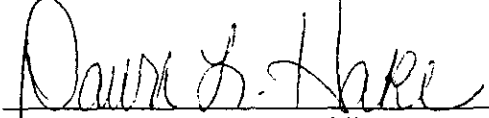
**AFFIDAVIT OF THOMAS IMHOFF**

STATE OF MISSOURI     )  
                                      ) ss  
COUNTY OF COLE     )

Thomas Imhoff, of lawful age, on his oath states: that he has participated in the preparation of the foregoing written testimony in question and answer form, consisting of 8 pages of testimony to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

  
Thomas Imhoff

Subscribed and sworn to before me this 12th day of April, 2001.

  
Notary Public

My commission expires \_\_\_\_\_

**DAWN L. HAKE**  
Notary Public - State of Missouri  
County of Cole  
My Commission Expires Jan 9, 2005

MISSOURI GAS ENERGY A DIVISION OF SOUTHERN UNION COMPANY  
CASE NO. GR-2001-292

Summary of Cases in which prepared testimony was presented by:  
THOMAS M. IMHOFF

<u>Company Name</u>	<u>Case No.</u>
Terre-Du-Lac Utilities	SR-82-69
Terre-Du-Lac Utilities	WR-82-70
Bowling Green Gas Company	GR-82-104
Atlas Mobilfone Inc.	TR-82-123
Missouri Edison Company	GR-82-197
Missouri Edison Company	ER-82-198
Great River Gas Company	GR-82-235
Citizens Electric Company	ER-83-61
General Telephone Company of the Midwest	TR-83-164
Missouri Telephone Company	TR-83-334
Mobilpage Inc.	TR-83-350
Union Electric Company	ER-84-168
Missouri-American Water Company	WR-85-16
Great River Gas Company	GR-85-136
Grand River Mutual Telephone Company	TR-85-242
ALLTEL Missouri, Inc.	TR-86-14
Continental Telephone Company	TR-86-55
General Telephone Company of the Midwest	TC-87-57
St. Joseph Light & Power Company	GR-88-115
St. Joseph Light & Power Company	HR-88-116
Camelot Utilities, Inc.	WA-89-1
GTE North Incorporated	TR-89-182
The Empire District Electric Company	ER-90-138
Capital Utilities, Inc.	SA-90-224
St. Joseph Light & Power Company	EA-90-252
Kansas City Power & Light Company	EA-90-252
Sho-Me Power Corporation	ER-91-298
St. Joseph Light & Power Company	EC-92-214
St. Joseph Light & Power Company	ER-93-41
St. Joseph Light & Power Company	GR-93-42
Citizens Telephone Company	TR-93-268
The Empire District Electric Company	ER-94-174
Missouri-American Water Company	WR-95-205
Missouri-American Water Company	SR-95-206
Union Electric Company	EM-96-149
The Empire District Electric Company	ER-97-81
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
Laclede Gas Company	GR-99-315
Atmos Energy Corporation	GM-2000-312
Ameren UE	GR-2000-512