

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

Exhibit No. 203  
Date 6-25-01 Case No. GR-2001-292  
Reporter Stewart

1 will explain the Company's recommendation on OPC's proposal to implement a  
2 tariffed rate for low-income, troubled-payment customers.

3  
4 **1. REVENUE ADJUSTMENTS AND RATE DESIGN**

5  
6 **Q. WHICH PARTIES PROPOSE REVENUE ADJUSTMENTS IN THIS**  
7 **PROCEEDING?**

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

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12 **Q. HAS AN AGREEMENT BEEN REACHED ON REVENUE**  
13 **ADJUSTMENTS?**

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

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

21 A. The purpose of this adjustment is to recognize the increased revenue expected from  
22 the agreed-to, revised service charges (i.e., connect fee, standard reconnect fee,  
23 transfer fee, reconnect at the curb fee, and reconnect at the main fee), thereby

1 reducing the amount of revenue that must be derived from recurring monthly  
2 service. The agreed-to service charges are as follows:

|   |                                   |       |
|---|-----------------------------------|-------|
| 3 | Connect fee                       | \$ 20 |
| 4 | Reconnect fee (except at the curb |       |
| 5 | And at the main)                  | \$ 35 |
| 6 | Reconnect at the curb fee         | \$ 56 |
| 7 | Reconnect at the main fee         | \$106 |
| 8 | Transfer fee                      | \$ 5  |

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

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

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

|    |                               |          |
|----|-------------------------------|----------|
| 17 | Residential                   | \$ 10.05 |
| 18 | Small General Service ("SGS") | \$ 13.55 |
| 19 | Large General Service ("LGS") | \$ 83.25 |
| 20 | Large Volume Service ("LVS")  | \$409.30 |

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

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26 OPC witness Hu proposes a tariff change through which service at a single meter  
27 premise, such as an apartment, where the individual responsible for paying the bill

1 does not reside at the premise would be billed under the residential rate schedule  
2 rather than the SGS rate schedule. The parties agree that the Company will conduct  
3 a special, detailed study to enable identification and quantification of the elements  
4 of the revenue shift that would be associated with OPC's proposal and will make  
5 this information available as part of its next general rate case filing. No party has  
6 given up any rights with respect to positions that it may take on this matter in a  
7 future proceeding.

8  
9 **2. CLASS COST OF SERVICE AND REVENUE ALLOCATION**

10  
11 **Q. DO YOU HAVE ANY GENERAL OBSERVATIONS ON THE PARTIES'**  
12 **CLASS COST OF SERVICE STUDY RESULTS?**

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

|       |                    | Small                  | Large                  | Large                 |
|-------|--------------------|------------------------|------------------------|-----------------------|
|       | <u>Residential</u> | <u>General Service</u> | <u>General Service</u> | <u>Volume Service</u> |
| 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)           |

24 The results are dramatically different, especially with respect to the residential and  
25 large volume service ("LVS") classes. The Staff study results in a fairly sizable

1 increase for the residential class and a small increase for the LVS class. The OPC  
2 study results in a small increase for the residential class and a very sizable increase  
3 for the LVS class. In sharp contrast, the MGUA study results in a sizable residential  
4 increase and a very sizable LVS decrease.

5  
6 **Q. DO YOU HAVE ANY OBSERVATIONS PERTAINING TO THE PARTIES'**  
7 **RECOMMENDATIONS ON ALLOCATION OF THE REVENUE**  
8 **INCREASE AMONG CUSTOMER CLASSES?**

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

|           |                    | Small                  | Large                  | Large                 |
|-----------|--------------------|------------------------|------------------------|-----------------------|
|           | <u>Residential</u> | <u>General Service</u> | <u>General Service</u> | <u>Volume Service</u> |
| 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             |

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

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

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

11  
12 The following table provides a comparison between the Company's initial class  
13 revenue allocation recommendation and this alternative based on the Company's  
14 revised \$38,831,388 revenue deficiency that reflects the agreements reached during  
15 the prehearing conference, including the agreed-to revenue adjustments discussed  
16 in my rebuttal testimony:

|                   | <u>Residential</u> | <u>Small<br/>General Service</u> | <u>Large<br/>General Service</u> | <u>Large<br/>Volume Service</u> |
|-------------------|--------------------|----------------------------------|----------------------------------|---------------------------------|
| 19 Recommendation | \$26,972,816       | \$7,838,777                      | \$857,195                        | \$3,162,601                     |
| 20 Alternative    | \$27,280,758       | \$7,928,271                      | \$866,981                        | \$2,755,378                     |

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

Schedule FJC-1  
Revised

**Summary of Settled Revenue Adjustments**

|                                     | <u>Dollars</u>      |
|-------------------------------------|---------------------|
| 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)         |
| Miscellaneous Service Charges (1)   | <u>\$ 1,080,734</u> |
| Total                               | \$ 7,443,054        |

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

|                                                   |        |
|---------------------------------------------------|--------|
| Reconnect (except at<br>the main and at the curb) | \$ 35  |
| Reconnect at the curb                             | \$ 56  |
| Reconnect at the main                             | \$ 106 |
| Connect                                           | \$ 20  |
| Transfer                                          | \$ 5   |

REBUTTAL TESTIMONY OF F. JAY CUMMINGS

CASE NO. GR-2001-292

TABLE OF CONTENTS

|    |                                                                                       |    |
|----|---------------------------------------------------------------------------------------|----|
| 1. | REVENUE ADJUSTMENTS AND RATE DESIGN.....                                              | 2  |
| 2. | CLASS COST OF SERVICE AND REVENUE ALLOCATION.....                                     | 4  |
| 3. | WEATHERIZATION PROGRAM.....                                                           | 7  |
| 4. | CUSTOMER SERVICE EFFECTIVENESS/GAS<br>SAEFTY PROGRAM EXPERIMENTAL INCENTIVE PLAN..... | 8  |
| 5. | LOW-INCOME FIXED TARIFF RATE.....                                                     | 10 |



**REBUTTAL TESTIMONY OF F. JAY CUMMINGS**

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

**May 22, 2001**

1   **Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4  
5   **Q.   DID YOU PROVIDE DIRECT TESTIMONY IN THIS PROCEEDING ON**  
6       **NOVEMBER 7, 2000 AND UPDATED DIRECT TESTIMONY ON**  
7       **JANUARY 31, 2001?**

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

10

11   **Q.   WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12   A.   I will address the parties' settlement pertaining to revenue adjustments and rate  
13       design. I will then address class cost of service and revenue allocation in response  
14       to the direct testimony of various parties in this proceeding. Next, I address the  
15       recommendation of the Missouri Public Service Commission Staff ("Staff")  
16       regarding the weatherization program. I then address the recommendation of the  
17       Office of Public Counsel ("OPC") pertaining to Company's proposed Customer  
18       Service Effectiveness/Gas Safety Program Experimental Incentive Plan. Finally, I

1 will explain the Company's recommendation on OPC's proposal to implement a  
2 tariffed rate for low-income, troubled-payment customers.

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**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") based on the assumption of no revenue increase are shown below:

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12 The following table provides a comparison between the Company's initial class  
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16 in my rebuttal testimony:

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| 19 Recommendation | \$25,966,649       | \$7,546,368            | \$825,219              | \$3,044,626           |
| 20 Alternative    | \$26,274,592       | \$7,635,861            | \$835,005              | \$2,637,404           |

21 Company witness Noack discusses the revised revenue deficiency in his rebuttal  
22 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.**

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

3  
4   **Q.     WHAT IS OPC'S POSITION REGARDING THE COMPANY'S PROPOSED**  
5           **CSE/GSIP?**

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

10  
11   **Q.     DO YOU AGREE WITH OPC'S "CONCERNS" REGARDING THE**  
12           **CSE/GSIP?**

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

19  
20           Mr. Robertson's second "concern" is that the current AAO process works  
21           efficiently and as intended. However, in each of the last two (and only two)  
22           Company rate cases, the safety program AAO and various aspects of recovery of  
23           amounts deferred under the AAO were contentious issues that required parties and  
24           the Commission to devote substantial resources to resolve. In this rate case, OPC



1 witness Robinson again raises an AAO-related issue. By contrast, the CSE/GSIP  
2 process would be straightforward and administratively simple.

3  
4 Mr. Robertson's third "concern" is that the CSE/GSIP may be considered  
5 incomplete and/or a violation of single-issue ratemaking to the extent that it does  
6 not enable a full review of the Company's operations. Although I cannot comment  
7 on the question of single-issue ratemaking from a legal perspective, my layman's  
8 interpretation is that the concept relates to adjusting rates to reflect selected items  
9 while ignoring changes in other items that are causally related to the items included  
10 in the adjustment. For example, adjusting rates to reflect new investment while  
11 ignoring the increased revenue from new customers added as a result of the  
12 investment would constitute single-issue ratemaking. The CSE/GSIP does not  
13 present any such difficulties. Safety program costs do not result in the addition of  
14 new customers; they are non-revenue-producing investments. In addition, the  
15 Company has addressed the possible perception that certain operations and  
16 maintenance expenses may be reduced as a result of the safety program by not  
17 allowing full recovery of safety program costs through the CSE/GSIP. Regarding  
18 Mr. Robertson's broader concern about a full review of the Company's operations,  
19 the CSE/GSIP would not preclude the Commission from reviewing the  
20 reasonableness of the Company's earnings under its existing statutory authority and  
21 procedures. Because neither the Staff nor the OPC has ever alleged, nor has the  
22 Commission ever found, that the Company was in an over-earnings position, the

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

3  
4 Mr. Robertson's fourth "concern" is that there is no real linkage between the  
5 customer service standards and the safety program. This "concern" is a red herring.  
6 The Company does not suggest that there is a correlation between safety program  
7 expenditures and the quality of customer service. Rather, the CSE/GSIP offers a  
8 vehicle to provide the Company with strong incentives to provide quality customer  
9 service. Failure to do so in a given year results in the Company not recovering  
10 safety program costs incurred in the period through the CSE/GSIP. The only  
11 "linkage" is in the results - - the Company and its customers benefit through the  
12 provision and receipt of safe, reliable, and quality customer service.

13  
14 **5. LOW-INCOME FIXED TARIFF RATE**

15  
16 **Q. DOES THE COMPANY SUPPORT THE OPC'S OBJECTIVE OF**  
17 **PROVIDING ASSISTANCE TO LOW-INCOME CUSTOMERS?**

18 A. Yes. The Company has demonstrated its support for low-income customer  
19 assistance through filings with the Commission over the past several years. In  
20 January 1997, the Company proposed to implement, on an experimental basis, a  
21 "Residential Energy Assistance Program." The Company ultimately withdrew the  
22 proposal in response to objections by Staff and OPC, but the Commission opened  
23 another case, Case No. GO-97-465, for the purpose of investigating an

1 experimental energy assistance program. The Commission, in September 1997 by  
2 order in Case No. GO-97-465, ultimately adopted the recommendation of the  
3 parties that a number of factors mitigated against the development of a new energy  
4 assistance program at the time. These factors included the new PGA procedures  
5 designed to enhance rate stability, the recent enactment of Utilicare legislation, the  
6 fact that no specific statutory authority was present for a new energy assistance  
7 program, and the fact that discussions revealed that input from a wider variety of  
8 interested constituencies into the development of such a program would be  
9 advisable.

10  
11 In January 2001, the Company filed an Application for Variance designed to make  
12 certain federal refunds (of roughly \$1 million) available for energy assistance for  
13 lower-income customers. MGE also proposed to contribute (and in February 2001  
14 did contribute) \$250,000 in shareholder funds for the same purpose. This case was  
15 docketed as Case No. GE-2001-393. Both the Staff and OPC opposed the proposal  
16 on legal and policy grounds. In March 2001, the Commission denied the  
17 Application, indicating that the Company's proposal was both unlawful and poor  
18 public policy.

19  
20 In addition to these filings made with the Commission, the Company has actively  
21 worked to assist low-income customers. This past winter, the Company targeted  
22 many of its resources and educational efforts toward helping lower-income  
23 customers with unprecedented high natural gas bills. Beyond relaxing several

1 payment options, the Company successfully lobbied the legislature to secure  
2 UtiliCare funding and worked closely with several cities opting to reduce franchise  
3 fees. Company staff coordinated several onsite customer meetings through United  
4 Services designed to bring energy assistance options directly to customers and  
5 worked with the Mid America Assistance Coalition to bring together elected  
6 officials, social service agencies and the faith and business communities to  
7 encourage collaboration and information sharing. The Company actively responded  
8 to and sought numerous media opportunities to educate customers about energy  
9 assistance options. The Company continues to commit full-time staff to working  
10 with low-income customers. This past winter, the Company approached the  
11 Department of Family Services ("DFS") and offered to provide \$15,000 for the  
12 DFS to hire temporary help to assist in processing LIHEAP applications and reduce  
13 the backlog, but the DFS would not accept the Company's offer. (See Schedule  
14 FJC-2)

15  
16 **Q. DOES THE COMPANY RECOMMEND THAT THE FIXED CREDIT**  
17 **TARIFF PROPOSAL DESCRIBED IN THE DIRECT TESTIMONY OF**  
18 **OPC WITNESS COLTON BE IMPLEMENTED IN THIS PROCEEDING?**

19 **A.** No. While I am not an attorney, recent Commission decisions suggest that the  
20 Commission itself believes that it lacks the authority under the law to adopt such a  
21 proposal. Recent decisions also suggest that the Commission may believe that  
22 creation of a separate low-income class contravenes good public policy. Legal and  
23 public policy questions aside, I will discuss various issues related to

1 implementation, cost estimates, cost recovery, and other customer impacts that  
2 result in the Company's recommendation that the Commission not adopt the tariff  
3 proposal in this case. Company witness Hendershott also provides rebuttal  
4 testimony that addresses various aspects of OPC's testimony concerning the fixed  
5 credit tariff proposal.

6  
7 **Q. PLEASE DESCRIBE THE MAJOR IMPLEMENTATION ISSUES.**

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

15  
16 Second, programming changes in the Company's billing system would have to be  
17 developed and tested prior to implementation of the new rate. While the suggested  
18 fixed credit appears simple, the Company's billing system is complex and cannot  
19 be modified for a new type of rate without substantial time and effort. It is also  
20 imperative to test any billing system changes prior to implementation to ensure that  
21 not only those customers on the new rate but also all other customers will receive  
22 accurate bills subsequent to the change. The costs of these programming changes

1 and their resulting implementation should be established and included as a cost to  
2 be recovered as part of the tariff proposal.

3  
4 Third, Mr. Colton recommends that an applicant's income eligibility under the  
5 tariff be contracted out to a third party. The suggested bidding, evaluation, and  
6 selection process, as well as establishing necessary information links between the  
7 Company and third party, would require time to accomplish. At this time, the  
8 Company does not know whether any firms with the required expertise are located  
9 in Missouri or whether a wider search would have to be pursued.

10  
11 Fourth, Mr. Colton's recommendation regarding the Company being designated as  
12 a customer's agent in the LIHEAP process as a vehicle to reduce costs that must be  
13 recovered from other customers would require agreement by the DFS, an agreement  
14 that may or may not be achievable. At a minimum, the Company would incur  
15 administrative costs, including necessary staff additions, if it were required to act as  
16 the agent for LIHEAP applications for the large number of customers expected to  
17 be served under the tariff proposal. Assuming LIHEAP assignment responsibilities  
18 can be assumed, these costs should be developed and included as part of the  
19 recoverable program costs. More generally, Mr. Colton proposes to shift the risks  
20 associated with changes in LIHEAP funding levels, eligibility, and participation  
21 rates to the Company by not including LIHEAP as an offset to the fixed credit but  
22 rather assuming the Company will receive LIHEAP funds based on historical,  
23 average funding levels and very high assumed LIHEAP enrollment rates.

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

7  
8 Sixth, program details are insufficient to determine whether there would be other  
9 implementation issues. For example, Mr. Colton does not address whether periodic  
10 re-evaluation of participant income qualifications would be part of his proposal.  
11 Without such re-evaluations, the program may provide benefits beyond those for  
12 which it is designed. With the re-evaluations, the administrative mechanics and  
13 costs of such a process would have to be developed and considered as part of the  
14 implementation process and program costs.

15  
16 **Q. WHAT CONCERNS DO YOU HAVE REGARDING COST ESTIMATES,**  
17 **COST RECOVERY, AND OTHER CUSTOMER IMPACTS?**

18 A. Mr. Colton has developed an estimate of the costs that must be recovered from non-  
19 participants, namely, other residential customers. It appears that Mr. Colton intends  
20 that as part of the process of setting rates in this proceeding, this dollar amount  
21 would be added to the revenue otherwise to be recovered from the residential  
22 customer class. Mr. Colton appears to believe that his proposal will prevent the  
23 Company and its shareholders from bearing any of the program costs by indicating

1 that "a fixed credit rate allows MGE to determine with certainty the maximum  
2 amount of costs that need to be reallocated to customers on standard residential  
3 rates" (emphasis added, page 24, lines 3-4 of his direct testimony) and "[T]he only  
4 thing that can happen is that reallocated costs might go down if, for whatever  
5 reason, the customer leaves the system" (page 24, lines 10-12 of his direct  
6 testimony).

7  
8 Mr. Colton's estimate of costs that must be recovered from other residential  
9 customers is based on a number of very significant assumptions. If some of his  
10 assumptions turn out to be wrong, either the Company and its shareholders  
11 unexpectedly bear additional costs or other residential customer rates are  
12 unnecessarily high. Given the assumptions employed, I believe the former situation  
13 is likely to occur and the stakes are very high.

14  
15 **Q. PLEASE QUANTIFY THE IMPACT OF CHANGES IN MR. COLTON'S**  
16 **ASSUMPTIONS ON THE FIXED COSTS THAT MUST BE RECOVERED**  
17 **FROM OTHER RESIDENTIAL CUSTOMERS.**

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



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

9  
10 **Q. ARE THERE OTHER ASSUMPTIONS INCLUDED IN MR. COLTON'S**  
11 **ANALYSIS THAT WOULD AFFECT THE LEVEL OF COSTS THAT**  
12 **MUST BE RECOVERED FROM OTHER CUSTOMERS?**

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

- 18 . No increase in residential rates will result from this proceeding
- 19 . Enrollment on the rate will not increase as the Company's residential
- 20 customer base grows
- 21 . Gas costs do not change
- 22 . 20% of initial applicants do not complete the application process
- 23 . Distribution of Company customers by income levels matches the
- 24 underlying Census data for the communities that the Company serves
- 25 . Usage level does not vary between 0% and 150% of poverty level
- 26 . Take rate and payment-troubled status percentage do not vary with income
- 27 . All customers under the rate receive the historical average LIHEAP
- 28 payment

1           . No re-verification of income eligibility after initial qualification for the rate  
2 A number of Mr. Colton's assumptions rely on either national data or information  
3 from other states that may or may not be valid in Missouri or for the Company.

4 These include:

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

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

24  
25 My purpose in developing Schedule FJC-3 and in listing these assumptions is  
26 simply to demonstrate that actual costs that will be incurred as a result of the  
27 proposed tariff are uncertain, at best. Even if OPC's proposal were considered  
28 appropriately structured, additional analyses and experience are required to deal

1 with various implementation issues and to assess alternative mechanisms that  
2 would ensure that the tariff proposal will be cost, revenue, and earnings neutral  
3 based on actual experience. Only through such a process is the need to guess  
4 correctly by making various assumptions obviated.

5  
6 **Q. ARE THERE OTHER ISSUES PERTAINING TO OPC'S FIXED CREDIT**  
7 **RATE PROPOSAL THAT YOU WISH TO ADDRESS?**

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

10  
11 **Q. PLEASE EXPLAIN THE PROBLEMS ASSOCIATED WITH THE**  
12 **PROPOSED EXTENDED DEFERRED PAYMENT PLAN.**

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

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

6  
7 **Q. PLEASE DESCRIBE YOUR CONCERNS RELATED TO OPC'S**  
8 **SUGGESTED SUPPLEMENTAL FUNDING SOURCE.**

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

14 As re-stated in the Commission order approving the Stipulation and Agreement,

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

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

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

19  
20   **Q.   DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21   **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  | ) | Case No. GR-2001-292 |
| for Gas Service in the Company's Missouri | ) |                      |
| Service Area.                             | ) |                      |

AFFIDAVIT OF F. JAY CUMMINGS

|                  |   |     |
|------------------|---|-----|
| STATE OF TEXAS   | ) |     |
|                  | ) | ss. |
| COUNTY OF TRAVIS | ) |     |

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

Subscribed and sworn to before me this 17<sup>th</sup> day of May 2001.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: 1/27/2003

**Summary of Settled Revenue Adjustments**

|                                           | <u>Dollars</u>      |
|-------------------------------------------|---------------------|
| 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)         | <u>\$ 1,080,734</u> |
| 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<br>the main and at the curb) | \$ 35  |
| Reconnect at the curb                             | \$ 56  |
| Reconnect at the main                             | \$ 106 |
| Connect                                           | \$ 20  |
| Transfer                                          | \$ 5   |



**MISSOURI GAS ENERGY**

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5753 • Fax (816) 360-5541  
E-Mail: [pamela.levetzow@southernunionco.com](mailto:pamela.levetzow@southernunionco.com)

**PAM LEVETZOW**  
Director Public Affairs

February 28, 2001

Barb Daniels  
Missouri Division of Family Services  
Jackson County  
615 East 13<sup>th</sup> 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,

Cc: Katherine Taeubert,  
Social Services Manager



MAR 16 2001



SCHEDULE FJC 2-2

CC: Hack  
Cotton  
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<br>Public Counsel<br>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 Offset                           | \$ (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       | <u>\$ 1,851,769</u>                   | <u>\$ 6,153,513</u> | <u>\$ 11,777,541</u> | <u>\$ 20,888,932</u> |
| Reallocated Cost per Residential Customer | \$ 4.25                               | \$ 13.95            | \$ 26.37             | \$ 46.18             |

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