

Exhibit No.:
Issues: Rate Design
Witness: Michael J. Ensrud
Sponsoring Party: MO PSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2007-0208
Date Testimony Prepared: May 18, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

MICHAEL J. ENSRUD

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

**Jefferson City, Missouri
May 2007**

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

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate)
Schedules)

Case No. GR-2007-0208

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 11 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct 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.


Michael J. Ensrud

Subscribed and sworn to before me this 17th day of May, 2007.



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


Notary Public

My commission expires 9-21-10

Table of Contents

DIRECT TESTIMONY

OF

MICHAEL J. ENSRUD

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

EXECUTIVE SUMMARY	1
UNIFORM CONNECTION CHARGE	1
RECONNECTIONS	10

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

DIRECT TESTIMONY
OF
MICHAEL J. ENSRUD
LACLEDE GAS COMPANY
CASE NO. GR-2007-0208

Q. Please state your name and business address.

A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same witness who submitted Direct Testimony on Revenues as part of this same case?

A. Yes. I am.

Q. What is the purpose of your testimony in the Rate Design portion of this case?

A. The purpose of my Rate Design testimony is to address the various tariff changes that Staff is proposing within the context of this case.

EXECUTIVE SUMMARY

The Issues that I will address are as follows:

#1) Staff proposes a Connection Charge to be uniformly priced, and priced above cost.

#2) Staff proposes a Reconnection Charge having a close relationship with underlying cost.

UNIFORM CONNECTION CHARGE

Q. What is Staff's proposal for a Service Initiation (SI) Charge - generically known as a "Connection Charge"?

1 A. Staff believes Laclede's SI Charge should be applied uniformly to all
2 customers seeking connection to Laclede's system. It is a standardized function of a utility to
3 connect new customers. Laclede's customers need to be connected to Laclede's system.

4 Q. What is an appropriate name for a connection that is devoid of a trip?

5 A. Laclede uses the term "Turn Offs/Turn Ons" (TFTOs) to describe the
6 establishment of service for a new customer without making a trip. This activity goes by
7 many other names. It has been called: "soft connection", "soft turn on", "pseudo connection",
8 "pseudo turn on" and others. I will use the term "succession" to describe a situation where a
9 customer has service established without a utility dispatching an employee to the customer's
10 premises. Service is established simply by leaving the gas on in the interim, when the
11 premises is vacant. If the gas is never turned off, there is no need for a trip to the premises to
12 re-establish service.

13 Q. Did utilities ever charge for a connection in the past?

14 A. Yes. Until a few years ago, connections had basically been a uniformly priced
15 activity. The vast majority, who sought to connect, paid a charge for that privilege. The vast
16 majority of connections required a trip only a few years ago.

17 The potential for successions (no-trip connections) came about with the proliferation
18 of Automatic Meter Reading (AMR) devices that allowed for the remote readings necessary
19 with successions.

20 This past practice of pricing connection uniformly is sound and should be re-
21 established.

22 Q. What is Laclede's current practice concerning connections?

1 A. Laclede waives any charge for customers who gain connection via a
2 succession. For those customers who require Laclede to make a trip to the customer's
3 premises, Laclede charges \$36.00.

4 Q. What is Laclede's proposed practice concerning connections?

5 A. Laclede will continue to waive any charge for customers who gain connection
6 via a succession. For those customers who require Laclede to make a trip to the customer's
7 premises, Laclede proposes to charge \$50.00.

8 Q. What is Staff's proposed practice concerning connections?

9 A. Staff proposes that any connection (whether via succession or requiring a trip)
10 will generate a \$25.00 charge for the customer being connected.

11 Q. Why is Staff's proposal superior to that of the status quo?

12 A. Because in today's environment, customers being connected to Laclede's
13 service are charged differently from one customer to the next. Yet, all customers connected
14 receive the same benefit from being connected. The current application of the SI Charge has
15 transformed what was once a charge for connection, into a charge relating to Laclede
16 dispatching a truck to physically turn on service. Staff's proposal for a uniform charge for a
17 service providing uniform benefit, improves on the status quo.

18 Staff's proposal also eliminates the implicit discrimination of some connections being
19 "free", while other connections cost \$36.00 today. It is more the "luck of the draw", rather
20 than a proper assignment of cost that determines who gets free connection under both the
21 status quo and Laclede's future proposal.

22 Staff's proposed method of billing the SI charge assumes relatively uniform benefit to
23 all customers being connected, as opposed to a misplaced focus on what needs to be done to

1 establish service for a particular customer. While Staff acknowledges there could be variance
2 in cost from one connection to the next, these specific cost fluctuations should not translate
3 into different prices for different customers.

4 Q. How else is Staff's proposal superior to the status quo?

5 A. Staff's proposal recovers underlying costs. The status quo rate fails to recover
6 costs that Laclede acknowledges as appropriate in its environment of shifting rates for
7 connections. Staff's proposal is a cost-based method of pricing. It creates a uniformity of
8 price for all customers being connected, but also recovers the costs (as best can be defined)
9 for the service rendered. The costs of all connections, in composite, are being recovered
10 under Staff's proposal. Such can not be said for the status quo.

11 Staff's \$25.00 rate would be applicable to all connections and is superior in that it
12 comes far closer to covering underlying costs, as Laclede defines them. Laclede's
13 methodology fails to recover the cost of the trips. (Laclede's response to Staff's DR 216)
14 Laclede's costing methodology ignores various known costs, particularly those attributable to
15 successions. Staff advocates that properly attributable costs being ignored today are
16 accumulated and assigned in future cases.

17 Q. Why should the Commission require Laclede to return to a policy of charging
18 for connections, not trips?

19 A. Because the customer has no control over when Laclede is required to make a
20 trip, but Laclede does.

21 Laclede is the party responsible for AMR deployment. It is a prerequisite that
22 premises have an AMR before a connection could, potentially, be performed without Laclede
23 bearing the cost of a trip to the customer's premises.

1 Secondly, Laclede has discretion as to when service is initially disconnected. The fact
2 that Laclede controls when service is initially shut-off justifies a uniform charge. Following
3 some unknown duration (at Laclede's discretion), Laclede will send a truck out to the vacant
4 premises, and physically turn off the gas. Physical shut-offs occur even if the premises has an
5 AMR installed. Once service is physically turned off, it matters not whether a premises has
6 an AMR.

7 In this situation, Laclede must send a truck out to re-establish service at the premises.
8 Laclede's proposed \$50.00 charge would apply only in these specific circumstances. To
9 control when an initial shut-off takes place is to control who pays a trip charge to reconnect
10 service.

11 Since it is Laclede (not the customer) who makes the determination whether to
12 dispatch a truck to go out to initially turn gas off, it is inappropriate to hold the new customer
13 responsible for Laclede's actions.

14 This is not to say turning gas off in some situations is unreasonable. Staff
15 acknowledges that it is prudent to turn off gas in specific situations. Further, Laclede should
16 have discretion in this matter.

17 What is unreasonable is to hold customer responsible (meaning paying \$50.00 or
18 waiving the fee) for Laclede exercising its judgment as to when service should be physically
19 disconnected.

20 Q. When you talk of a "uniform charge", what are you proposing?

21 A. A "uniform charge" would mean that Laclede returns to a method where all
22 connections are priced uniformly. This uniform rate would apply to both a succession, and to
23 those connections requiring a trip.

1 The deployment of AMRs should cause the cost of connections to go down, because
2 some occur at a cheaper cost. This overall cost reduction for connections should benefit all
3 new customers. It should not be segregated to only to those who enjoy a particular type of
4 connection - the succession.

5 Q. Does Staff propose any future improvements in Laclede's costing
6 methodology?

7 A. Yes. Laclede should track and include "small administrative costs" that
8 Laclede acknowledges as existing, but are being ignored today. It is too late to include these
9 ignored costs into this rate case, but these costs should be included in future rate cases. It is a
10 fallacy that a succession is absolutely free. That is the implicit assumption in pricing a
11 succession at zero. Laclede even acknowledges there are some unknown costs associated
12 with a succession. In Laclede's response to DR 211, it states the following:

13 *E) Is it Laclede's position that there are absolutely no costs*
14 *incurred when service is left on via a "shut off" / "turn on"?*

15 *A. No. There is a small administrative cost which the Company has not*
16 *quantified.*

17
18 Laclede, on a going forward basis, should track these small administrative costs, and
19 assign them to the costs used in developing its connection charge.

20 Q. What other expense is Laclede ignoring on this issue?

21 A. Laclede is ignoring the cost of "interim gas". Varying in specific cases, there
22 is a limited duration (1-day, 3-days, or 5-days) between when the old customer ceases
23 responsibility and when the new customer assumes responsibility.

24 Interim gas results from gas usage that takes place at vacant premises that cannot be
25 properly assigned to either the departing customer or the arriving customer or the landlord.
26 Unassigned interim gas usage is the result of Laclede weighing the cost of two trips avoided

1 in a succession, compared to the cost of unassigned interim gas that Laclede experiences at
2 vacant premises where **Laclede chose** to leave gas on. This cost should be absorbed by
3 Laclede choosing to use a succession, rather than turning the gas off immediately.

4 Q. What other correction is necessary to Laclede's method of calculating the
5 proper cost of a connection in future rate cases?

6 A. Laclede assigns the cost of setting up the new customer's account in an
7 inappropriate fashion. Most other utilities assign the cost of setting up the account for a new
8 customer to the connection charge. Laclede does not. The cost of setting up an account so
9 that Laclede can bill a new customer is an integral part of a customer establishing service. To
10 include costs associated with establishing a new customer's record in a connection charge is a
11 reasonable application of the principle that the cost causer should be the cost payer. It is hard
12 to argue that such activity benefits any other customer but the particular customer whose
13 account is being set up. Therefore, that particular customer should reimburse Laclede for that
14 activity. Future connection costs should include the cost of setting-up accounts.

15 Q. Does Laclede ever acknowledge that the cost of setting up the account is not
16 assigned to the connection charge?

17 A. Yes. In Laclede's response to DR 111 and DR 211, Laclede's response
18 indicates that the cost of setting up accounts is omitted in calculating the reconnection charge.
19 Rather, Laclede accounts for these costs as operating expenses. Staff bases this conclusion on
20 the following:

21 *In Laclede's response to Staff's DR 111, Laclede's response is as follows:*

22 *No, customers requiring a trip to their premise to establish service don't pay the*
23 *costs associated with setting up the account of those who don't require a trip to*
24 *establish service. Costs included in the Service Initiation Fee relate to the field*
25 *service personnel and equipment needed to establish service [Emphasis Added]*

Staff's DR also asked:

*If the costs of office functions to establish services (setting up the accounts) are **not** recaptured via Service Initiation Charge, how are those costs recaptured?*

Laclede responded as follows:

These costs are part of the Company's operating expenses.

Such an exclusion of cost from the development of the connection rate is inappropriate and a misallocation.

While there is nothing that can be done to fix this misallocation of costs for setting up accounts in the context of this case, Laclede should be ordered to fix this misallocation and track these costs for future rate cases. Laclede should develop a methodology that builds into the cost of a connection, the appropriate cost of setting up the typical account.

Q. Beyond the aforementioned corrections to future rate cases, does Staff have other recommendations that require Laclede to develop proper accounting for costs in future rate cases?

A. Yes. Staff recommends that Laclede charge landlords the same connection charge that it charges other customers. Laclede should be required to track the number of occurrences for these landlords on a prospective basis. Laclede is tarified to waive this charge, but Staff believes that costs are incurred by Laclede for this service, and that the cost causer should pay for these specific costs, rather than Laclede's general body of ratepayers.

Laclede acknowledges this practice. In its response to DR 211, Laclede responds as follows:

A) *During the test year, were any new customers of Laclede not billed the Service Initiation Charge? Please provide the total number of times the charge was waived?*

B. Yes. ***The number of waived charges is not maintained.*** Owners of rental property where the owner agrees through written application to the Company

1 *to establish service in his/her name during periods of vacancy of rental units(s) and*
2 *the initiation of gas service when Company personnel are not required to go to a*
3 *particular address to initiate service are not charged a service initiation fee per*
4 *Company Tariff [Emphasis Added].*
5

6 Initially, Staff assumed the term "waived charges" translated to successions.
7 However, in Laclede's response to Staff's DR 216, Laclede supplied "Number of Turn
8 On/Turn Offs (TFTOs) where a visit to Customer premises was not required." When Staff
9 called a Laclede representative to clarify the contradiction between the two responses, Staff
10 was told that, in some instances, landlords were provided a free trip to turn off and turn on
11 service at some rental properties. At a minimum, these "free" trips need to be tracked.

12 There is also the issue of why landlords are privileged enough to have service re-
13 established at their rentals, for free; when others requiring a trip need to pay \$50.00 to have
14 service re-established. Staff proposes that the costs of these specific trips be included in the
15 cost of future connections anytime the landlord requires Laclede to make a trip to the rental
16 property.

17 Q. What do you propose as your primary position?

18 A. I propose Laclede establish a uniform rate for all connections. Since Laclede
19 can not quantify the small administrative costs, even though Laclede acknowledges such costs
20 exist, Staff recommends that the Commission require Laclede to properly account on a going
21 forward basis for these omitted costs.

22 Staff proposes the use of connection as the billing determinant, as opposed to number
23 of trips. Using a four-year average 2003 through 2006 connections (not trips), there were an
24 average 107,419 billing determinants. (See Schedule 1)

25 Q. What rate do you propose for a connection?

Direct Testimony of
Michael J. Ensrud

1 Q. What do you recommend for Laclede's Reconnection Charge?

2 A. I recommend that Laclede's Reconnection Charge be increased from the
3 existing \$54.00 per-occurrence, to \$72.00.

4 Q. Why is this rate increase appropriate?

5 A. After careful review of Laclede's replies to Staff DR No. 216 and a detailed
6 analyses of Laclede's limited cost support for the reconnection at \$71. 72, the proposed
7 \$72.00 rate is consistent with underlying costs. These Laclede submissions reflect the cost to
8 re-establish service after the initial disconnection. (Laclede's response to Staff's DR 216.)
9 Staff proposed that the Reconnection Charge be increased to \$72.00 per occurrence in order to
10 only cover cost.

11 Q. What is the revenue impact of increasing the reconnection charge to cover
12 underlying cost?

13 A. Staff's adjustment will provide Laclede with an additional annual revenue
14 level for this charge of \$468,322.00 over existing levels. (See Schedule 2)

15 Q. Do you recommend any future changes in costing procedure?

16 A. As described in detail in the Connection Charge section, Laclede should be
17 required to develop a method of assigning the cost of re-establishing the customer record as
18 part of the reconnection charge. This additional refinement will only impact future rate
19 changes.

20 Q. This concludes your direct testimony?

21 A. Yes it does.

Number of connections for 2003

Laclede Division	96,747	
Missouri Natural Division	8,760	
2003 Totals	<u>105,507</u>	105,507

Number of connections for 2004

Laclede Division	97,199	
Missouri Natural Division	8,739	
2004 Totals	<u>105,938</u>	105,938

Number of connections for 2005

Laclede Division	100,806	
Missouri Natural Division	8,414	
2005 Totals	<u>109,220</u>	109,220

Number of connections for 2006

Laclede Division	67,188	
Missouri Natural Division	8,024	
Number of TFTOs	33,799	
2006 Totals	<u>109,011</u>	109,011

Total Connections 2003 to 2006	<u>429,676</u>	
--------------------------------	----------------	--

Average # of Connections (2003 to 2006)	<u>107,419</u>	
--	----------------	--

(See Laclede's response to Staff's DR 216)

TOTAL PROJECTED CONNECTIONS	37,911	
Laclede's Proposed rate	\$50.00	
	<u>\$1,895,550.00</u>	\$1,895,550.00

STAFF's METHODOLOGY

TOTAL PROJECTED CONNECTIONS	107,419	
Staff Proposed rate	\$25.00	
Total revenue generated	<u>\$2,685,475.00</u>	\$2,685,475.00

\$789,925.00

Number of SIF Charges

Laclede 67,188

MoNat 8,024

total 75,212 75,212

Current Rate \$36.00

\$2,707,632.00 \$2,707,632.00

STAFF's METHODOLOGY

TOTAL PROJECTED CONNECTIONS 107,419

Staff Proposed rate \$25.00

Total revenue generated \$2,685,475.00 \$2,685,475.00

Difference between Staff & Laclede method (\$22,157.00)

Estimated TONN SIF Laclede	35,987
Estimated TONN SIF MoNat	1,924
TOTAL PROJECTED CONNECTIONS (Per Laclede 3.a)	<u>37,911</u>
 TOTAL PROJECTED CONNECTIONS	 37,911
SIF - Cost per reconnect*	\$71.72
<u>Total Cost</u>	<u>\$2,718,976.92</u>

* Laclede response to DR 216)

Total Cost of Trips	\$2,718,976.92
Average # of Connections	107,419
Cost per Connection	<u>\$25.31</u>

(Laclede's Response to Staff's DR 216)
Number of Reconnections

Laclede

	<u>2,003</u>	<u>2,004</u>	<u>2,005</u>	<u>2,006</u>
Oct	2,843	2,894	2,613	2,786
Nov	3,035	3,263	3,774	3,792
Dec	3,302	2,733	3,231	2,459
Jan	1,520	1,792	2,687	1,708
Feb	1,088	1,448	1,226	856
Mar	1,619	1,821	997	1,575
Apr	1,645	1,695	1,245	1,336
May	1,182	1,637	1,389	2,141
Jun	1,177	1,516	1,348	1,489
Jul	1,099	974	1,155	1,371
Aug	1,632	1,187	1,642	1,563
Sep	1,954	3,168	1,834	2,119

Total	<u>22,096</u>	<u>24,128</u>	<u>23,141</u>	<u>23,195</u>
-------	---------------	---------------	---------------	---------------

TOTAL

Missouri Natural

	<u>2,003</u>	<u>2,004</u>	<u>2,005</u>	<u>2,006</u>
Oct	379	358	357	345
Nov	357	331	386	297
Dec	127	217	254	134
Jan	90	32	140	91
Feb	126	110	80	138
Mar	209	213	149	116
Apr	245	242	220	130
May	220	192	200	223
Jun	199	205	191	175
Jul	154	174	185	136
Aug	176	153	136	143
Sep	184	181	132	200

	<u>2,466</u>	<u>2,408</u>	<u>2,430</u>	<u>2,128</u>
--	--------------	--------------	--------------	--------------

	Laclede	Missouri Natural	TOTAL
<u>2,003</u>	22,096	2,466	24,562
<u>2,004</u>	24,128	2,408	26,536
<u>2,005</u>	23,141	2,430	25,571
<u>2,006</u>	23,195	2,128	25,323
Total			<u>101,992</u>
Average			<u>25,498</u>
Average			25,498
Rate			\$72.00
			<u>\$1,835,856.00</u>

Reconnection Priced to Cover Cost	\$1,835,856.00
Reconnection Priced at \$54.00 (See Laclede workpaper 4.e)	\$1,367,534.00
Increase in Annual Revenue	<u>\$468,322.00</u>