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Issues: Revenues, Gas costs, Bad debt
expense, Postage
Witness: Greg R. Meyer
Sponsoring Party: MOPSC
Type of Exhibit: Direct Testimony
Case Nos.: GR-2006-0387
Date Testimony Prepared: September 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

GREG R. MEYER

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
September 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

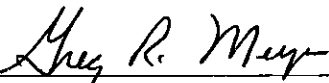
In the Matter of Atmos Energy Corporation's Tariff)
Revision Designed to Consolidate Rates and)
Implement a General Rate Increase for Natural Gas)
Service in the Missouri Service Area of the)
Company.

Case No. GR-2006-0387

AFFIDAVIT OF GREG R. MEYER

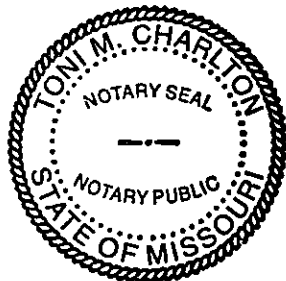
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

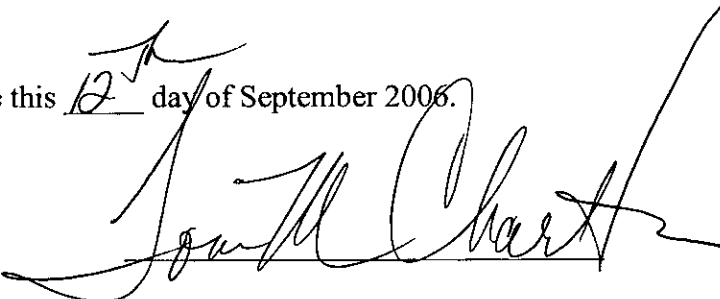
Greg R. Meyer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Greg R. Meyer

Subscribed and sworn to before me this 12th day of September 2006.





TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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DIRECT TESTIMONY

OF

GREG R. MEYER

ATMOS ENERGY CORPORTATION

CASE NO. GR-2006-0387

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1 Q. With reference to Case No. GR-2006-0387, have you made an examination of
2 the books and records of the Atmos Energy Corporation (Atmos or Company)?

3 A. Yes, with the assistance of other members of the Commission Staff (Staff).

4 Q. What are your areas of responsibility in this case?

5 A. I am responsible for pricing many of the Staff's revenue adjustments,
6 eliminating the cost of natural gas, the allowance for bad debt expense and finally a postage
7 expense adjustment.

8 **EXECUTIVE SUMMARY**

9 Q. Please summarize your testimony.

10 A. The Staff's annualized revenues in this case are based on a thirty-year normal
11 weather calculation from three weather stations located in Missouri. The Staff annualized
12 revenues based on the customer counts that existed in the test year for this case. The
13 Company has experienced minimal growth in the service districts which it serves. The Staff
14 removed gas costs from both the expenses and revenues of the Company's books in order to
15 present the Staff's cost of service (revenue requirement) on a margin basis. Gas costs are
16 addressed by the Staff's Procurement Analysis Department on an annual basis separate and
17 distinct from rate cases. The Staff annualized bad debt expense using the test year net write-
18 offs. The Company's write-offs over the last three years has remained relatively stable.
19 However, the Company's collection efforts have improved substantially in the test year. The
20 Staff recognized this improved collection effort in its annualization. Finally, the Staff has
21 proposed a postage adjustment to reflect the postage increase which went into effect on
22 January 8, 2006.

1 **REVENUES**

2 Q. Please describe the procedures you utilized to annualize revenues for purposes
3 of this case.

4 A. As discussed in the direct testimony of Staff witness Stephen M. Rackers, of
5 the Commissions Auditing Department, the Staff has prepared seven revenue requirement
6 calculations to correspond with the seven operating districts of the Company. Therefore, I
7 performed seven revenue annualizations to correspond with each revenue requirement
8 calculation. The seven districts of which I annualized revenues are listed below:

9 1) South East Missouri (SEMO)

10 2) Kirksville

11 3) Butler

12 4) United Cities Gas (UCG)

13 5) Greeley

14 6) Palmyra

15 7) Neelyville

16 Within each district, several revenue classes are maintained by the Company. The
17 following classes of revenues can be found in an operating district:

18 Residential

19 Small General Services

20 Large General Services

21 Transportation

22 Special Contract

23 Other Revenues

1 The first step I performed in this area was to obtain the booked revenues from the
2 Company's trail balance for the twelve months ending September 30, 2005. The twelve
3 month ending September 30, 2005, is the Staff's test year in this case. The test year gas
4 volumes associated with the booked revenues are important as these volumes become the
5 starting point for the Staff's weather normalization calculations. The test year revenues
6 needed to be adjusted to remove gas costs and unbilled revenues.

7 Q. Please describe the adjustments to remove unbilled revenues from the test year.

8 A. I eliminated unbilled revenues from the test year revenues. Unbilled revenues
9 are those revenues which are not recognized during a specific month on the Company's books
10 due to billing cycle readings, but are estimates of the revenues which would have been
11 realized if the Company's revenues could be billed on a daily basis. The Staff eliminates
12 unbilled revenues in-rate cases to reflect the Staff's case on an as-billed basis. These
13 adjustments are necessary to match the volumes and revenues in the cost of service
14 calculation consistent with the Staff's data used to perform the weather normalization
15 calculations. The unbilled revenues are netted with the estimated gas costs to achieve those
16 levels of revenues to derive the unbilled adjustments. The unbilled amounts and gas costs for
17 those unbilled amounts were obtained from the Company's trial balance for the twelve
18 months ending September 30, 2005.

19 Q. Please describe the adjustments to the test year revenues to remove gas costs.

20 A. I removed gas costs incurred to provide sales to customers, from both the test
21 year revenues and expenses. Gas costs account for approximately seventy percent of a gas
22 company's operating expenses. Due to the magnitude of the expense of this commodity and
23 the potential volatile nature of the gas prices, the Federal Energy Regulatory Commission

1 permits the recovery of gas costs through a mechanism called the Purchased Gas Adjustment
2 (PGA) clause. To the extent gas prices change, a utility can change their tariffs to reflect the
3 change in gas costs without the necessity of filing a complete rate case. The gas costs of a gas
4 utility are audited annually by the Procurement Analysis Department of the Staff. These staff
5 members audit the prices paid for gas and the quantities purchased. Therefore, gas costs are
6 not an area that the parties to this case need to address. By eliminating gas costs and unbilled
7 revenues from the test year, the Staff has reflected their revenue requirement calculations on a
8 billed margin basis.

9 Q. Are all revenues analyzed using the same methodology?

10 A. No. Revenues from the smaller use groups of natural gas of Atmos are
11 analyzed differently than the larger user-groups of natural gas. For instance, the smaller users
12 of natural gas in Atmos are generally the Residential and Small General Service classes.
13 Customers within these classes consume small amounts of gas on an individual customer
14 basis. These customers usage is affected by weather. The large users of gas in the Atmos
15 system are classified as Large General Services, Large Volume, and Transportation
16 customers. These classes of customers consume large quantities of gas and their usage is
17 usually not influenced by weather. In some instances though, large consumers of gas can also
18 be sensitive to the weather. An example of this would be a public school. A discussion of the
19 influences of weather on the annualization of revenue will be discussed later in this testimony.

20 Q. What adjustments were made to the test year margin revenues for the
21 Residential and Small General Services Revenue classes?

22 A. Residential and Small General Service test year margin revenues were adjusted
23 for normal weather and 365 days of usage. In addition, those margin revenues were

1 annualized based on the test year customer numbers and normal gas usage for the customer
2 class.

3 Q. Please describe the 365 day adjustment.

4 A. As part of the Staff's analysis of billed revenues for the Residential and Small
5 General Services classes, the Staff determines if all billing cycles during the test year
6 represent only 365 days of usage. Many times during a twelve month period certain billing
7 cycles could include more or less days in the year than 365. The Staff analyzes the billing
8 cycles to assure that only 365 days of usage is captured. Using more than 365 days would
9 overstate annual revenues, while less than 365 days would understate revenues. Staff witness
10 James Gray of the Commission's Energy Department performed this analysis and determined
11 if an adjustment was necessary.

12 Q. Why is it appropriate to adjust revenues for normalized weather?

13 A. Temperature levels experienced during any twelve month period could have a
14 significant impact on the Company's revenues. If the overall temperature was very cold
15 during the period, the Company's revenues would be overstated in relation to normal weather.
16 Conversely, if the overall temperature was warm during the period, the Company's revenues
17 would be understated in relation to normal weather. In this case, Staff normalized revenues
18 for weather, eliminating the effects of above normal temperature levels during the test year.

19 Q. What methodology did Staff use to normalize for weather?

20 A. The methodology and weather station data used by the Staff to develop actual
21 and normal weather is discussed in the direct testimony of Staff witness Gray. This data was
22 used to develop weather normalized sales and usage per customer for the Residential and

1 Small General Services Revenue classes. Mr. Gray adjusted the actual monthly gas sales
2 from the test year to reflect normalized weather.

3 Q. How is Mr. Gray's adjustments input into the Staff's revenue requirement
4 calculations?

5 A. Mr. Gray develops adjustments to normalize weather and to reflect 365 days of
6 usage. These adjustments are quantified in CCF's of gas usage. I have taken Mr. Gray's
7 weather adjustments and priced them using the Company's current tariffs. I am sponsoring
8 the adjustments to the Staff's revenue requirement calculation using Mr. Gray's CCF
9 adjustments.

10 Q. Do you have anything further to discuss regarding the Staff's adjustments for
11 weather?

12 A. Yes. In the Small General Services Revenue class for the United Cities and
13 Palmyra operating districts, the Company's tariffs for gas usage is blocked. For the first 600
14 CCF's (first block) of usage, a certain rate is charged while a different rate is charged for all
15 gas usage over 600 CCF's (second block). For purposes of this direct testimony filing, the
16 Staff has assumed that the weather adjustments for the above districts for the Small General
17 Service class were attributable to gas usage in the second block. This assumption prices the
18 weather adjustment at the lower block CCF rate. The Staff may examine this block
19 assumption after the direct filing to determine if the second block pricing is appropriate.

20 Q. Are all the classes of revenues on the Company's books subject to weather
21 adjustments?

22 A. No. As previously discussed, generally the larger customers in a gas utilities
23 customer base have gas usage requirements that are not adjusted for weather. These

1 customers are referred to as non-weather sensitive customers. In other words, these customers
2 gas usage do not vary with changes in the temperature, but remain at a fairly constant level.

3 In the current case the following customer classes were not adjusted for weather:

4 Large General Services

5 Large Volume

6 Transportation

7 Special Contract

8 However, the Staff intends to review specific customers within these classes after the
9 direct filing, to determine if indeed some customers are weather sensitive and thus should
10 have their gas usage adjusted.

11 Q. Please describe the annualization of revenues for the Residential and Small
12 General Services classes.

13 A. Revenues from these classes were annualized individually for each of the
14 seven operating districts. Test year customer counts and normal weather usage per customer
15 class were priced using the Company's current tariffs to derive annualized revenues. Test
16 year booked margin revenue adjusted for weather and 365 days of usage were then subtracted
17 from annualized revenues to determine the adjustment. Test year customer counts were
18 utilized as Atmos has not shown any trend in growth over the previous years.

19 Q. Were the test year revenues from the Large General Services, Large Volume,
20 and Transportation classes analyzed?

21 A. Yes. Staff witness Anne E. Ross, of the Commission's Energy Department,
22 analyzed and adjusted as necessary the above revenue classes for purposes of this case.
23 Ms. Ross made adjustments to certain of these revenue classes to address customers coming

1 on the system or conversely leaving the system. Ms. Ross also adjusted revenues to reflect
2 customers on the gas system for a full twelve month period and identified customers
3 switching between customer classes (rate switching) during the test year.

4 Q. Please describe the circumstances of customers switching between customer
5 classes.

6 A. Customers switching classes or rate switching; can occur for several reasons.
7 The nature of a customer's operations may have changed and now another customer class is
8 more appropriate. The customer may find it more economical to switch to another customer
9 class. Finally, the customer may decide to procure its own gas and thus, a rate switch would
10 be necessary. The Staff has proposed rate switching adjustments in the UCG and Butler
11 districts.

12 Q. Why is it necessary to adjust revenues for customers being on the gas system for an
13 entire year?

14 A. These adjustments are necessary to assure that annualized revenues include all
15 customers receiving a customer charge for the entire twelve months of the test year. On some
16 occasions the Staff has discovered situations where a customer has not received a bill for
17 certain months during the test year. The Staff is unaware of any circumstance where a
18 customer would not be billed a customer charge for a month when being considered a current
19 customer. These adjustments simply restate annual revenues to reflect those customers as
20 being active customers for a full twelve month period. The Staff has proposed this adjustment
21 for specific customers in the SEMO and Kirksville districts.

22 Q. Why is it necessary to analyze revenues to determine if specific customers came on or
23 left the gas system during the test year?

1 A. In many instances, customers leave or join the gas system during some point in the test
2 year. In order to determine annualized revenues for a twelve month period, those customers
3 revenues must either be increased to reflect an annual level of revenues or eliminated to depict
4 that customer no longer receiving service from the utility. The Staff has proposed this
5 adjustment for a specific customer in the SEMO district.

6 Q. Did the Staff calculate annualized revenues for the Large General Services, Large
7 Volume and Transportation classes?

8 A. Yes. Ms. Ross determined annualized revenues for each revenue class incorporating
9 the revenue adjustments described above. I adjusted test year booked margin revenue to
10 reflect the annualized level of revenue for each customer class as calculated by Ms. Ross.

11 Q. Did the Staff analyze the Special Contracts Atmos has in effect with two of its
12 customers?

13 A. Yes. Staff witness Dan Beck of the Commission's Energy Department reviewed the
14 contracts with those customers and is sponsoring adjustments to annualize those customers
15 revenue. Please refer to the Direct Testimony of Mr. Beck for a discussion of those
16 adjustments.

17 **BAD DEBT EXPENSE**

18 Q. Please describe the Staff's adjustment for bad debt expense.

19 A. The Staff has adjusted bad debt expense to reflect the net write-offs which the
20 Company experienced in the twelve months ending September 30, 2005. Net write-offs, nets
21 the write-offs the Company incurs, when determining a customer account is uncollectible
22 against the subsequent collection of those write-offs for a period of time. The actual write-
23 offs of the Company over the last three years has not varied as compared to the collection of

1 written off accounts. Collection of written off accounts improved vastly during the most
2 recent twelve month period ending September 30, 2005, as compared to the previous two
3 years. The Staff decided to use the net write-offs accomplished for the twelve months ending
4 September 30, 2005, as the basis to annualize bad debt expense.

5 **POSTAGE EXPENSE**

6 Q. Please describe the Staff's annualization of postage expense.

7 A. A postage rate increase went into effect on January 8, 2006. The increase for post
8 card mailings increased by one cent (\$0.01). The Staff believes that the Company bills the
9 vast majority of its customers using post cards. The Company annualized postage expense by
10 asserting a two cent (\$0.02) postage increase. The Staff's adjustment to postage expense
11 merely divides in half the Company adjustment to reflect the one cent post card rate increase.

12 Q. Does this conclude your direct testimony?

13 A. Yes it does.

SUMMARY OF RATE CASE INVOLVEMENT

Greg R. Meyer

<u>COMPANY</u>	<u>CASE NO.</u>
Missouri Utilities Company	GR-79-270
Missouri Public Service Company	GR-80-117
Missouri Public Service Company	ER-80-118
Missouri Utilities Company	ER-80-215
General Telephone Company of the Midwest	TR-81-47
Capital City Water Company	WR-81-193
Missouri Utilities Company	GR-81-244
Missouri Utilities Company	WR-81-248
Missouri Utilities Company	ER-81-346
Associated Natural Gas Company	GR-82-108
Southwestern Bell Telephone Company	TR-82-199
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	ER-85-128/ EO-85-185
Arkansas Power and Light Company	ER-85-265
Southwestern Bell Telephone Company	TR-86-84
General Telephone Company of the Midwest	TC-87-57
Union Electric Company	EC-87-114
Southwestern Bell Telephone Company	TC-89-14
GTE North Incorporated	TR-89-182
Arkansas Power and Light Company	EM-90-12
Southwestern Bell Telephone Company	TC-93-224
Laclede Gas Company	GR-94-220
Union Electric Company	EM-96-149
Laclede Gas Company	GR-96-193

COMPANYCASE NO.

Imperial Utility Corporation

SC-96-427

Union Electric Company

GR-97-393

Laclede Gas Company

GR-98-374

Union Electric

GR-2000-512

AmerenUE d/b/a Union Electric

EC-2002-1

AmerenUE d/b/a Union Electric

EO-2003-271

Osage Water Company

ST-2003-0562

Osage Water Company

WT-2003-0563

AmerenUE d/b/a Union Electric

EO-2004-0108

AmerenUE d/b/a Union Electric

EA-2005-0180