

Exhibit No.:
Issues: *Experimental Low Income Rate
Program and Weatherization*
Witness: *Anne E. Ross*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *GR-2004-0209*
Date Testimony Prepared: *June 11, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

ANNE E. ROSS

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
June 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

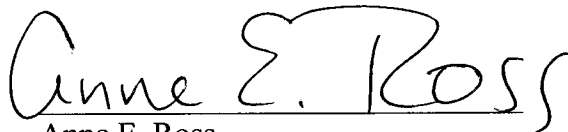
In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate)
Increase for Natural Gas Service)

Case No. GR-2004-0209

AFFIDAVIT OF ANNE E. ROSS

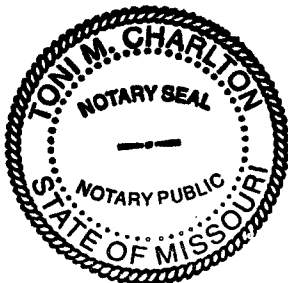
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Anne E. Ross, being of lawful age, on her oath states: that she has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the following surrebuttal testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Anne E. Ross

Subscribed and sworn to before me this 28 day of June 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

SURREBUTTAL TESTIMONY

OF

ANNE E. ROSS

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Q. Please state your name and address.

A. Anne E. Ross, Regulatory Economist, Missouri Public Service Commission,
PO Box 360, Jefferson City, MO 65102.

Q. Are you the same Anne Ross that filed both direct and rebuttal testimonies in this proceeding?

A. Yes I am.

Q. What is the purpose of your surrebuttal testimony?

A. I will respond to comments made by Missouri Gas Energy (MGE) witness Michael R. Noack and Office of the Public Counsel (OPC) witness Barbara A. Meisenheimer concerning the Staff's Experimental Low Income Rate (ELIR) program proposal. In addition, I will clarify a table heading in my rebuttal testimony.

Q. What is your clarification?

A. On pages 16-17 of my rebuttal testimony, I put together a table summarizing my understanding of each parties' position on the Experimental Low Income Rate/Weatherization/PAYS program issues. The fifth column is labeled Adder/month. I did not intend for this label to represent any of the parties' positions on funding of these programs; it was used for illustrative purposes only.

1 Q. What does Mr. Noack say about MGE's position regarding the continuance of
2 the ELIR program?

3 A. In his rebuttal testimony, Mr. Noack states, "...MGE has come to the general
4 conclusion that its involvement in low-income activities must be focused on matters that can
5 be shown to provide demonstrable benefits to MGE's body of customers as a whole, and
6 which do not require significant administrative undertakings by MGE." (Noack, rebuttal,
7 p.30, ll. 19-22).

8 Mr. Noack then goes on to say that the Company, "...believes the low-income rate
9 program cannot yet be characterized as a success or a failure..." (Noack, Rebuttal, p. 31,
10 ll. 19-20) but that, "...it has, however, required significantly more in the way of
11 administrative undertakings by MGE than MGE originally anticipated. *As a consequence*
12 MGE is willing to continue the experimental low-income program – unmodified – through
13 July of 2006 or until funding runs out, whichever occurs first." (Noack, Rebuttal, p. 31, ll.
14 22 through p. 32, ;l. 1-3.) (emphasis added)

15 Q. What is your understanding of the Company's reluctance to continue this as
16 an on-going program?

17 A. From reading Mr. Noack's rebuttal testimony, and talking with MGE
18 personnel, MGE indicates that it has experienced higher administrative costs than expected,
19 and that the existence of these unreimbursed costs is the reason that MGE proposes that the
20 program be continued, as is, until the money runs out.

21 Q. Won't Staff's proposed additions and modifications to the program add to
22 MGE's administrative costs?

1 A. Staff's proposal does not exacerbate this situation. First, Staff's proposal
2 shifts some of the administrative duties to the Joplin Community Action Agency (CAA). To
3 the extent that MGE is incurring additional costs as a result of Staff's proposal, Staff
4 proposes that they be fairly compensated.

5 Q. What is Staff's position on the appropriate level of administrative costs?

6 A. Staff believes that with a program of this magnitude, some administrative
7 costs are to be expected, and that these should be fairly compensated, whether these duties
8 are performed by MGE or by a third party, such as the CAA in Joplin. However, if a low-
9 income program is proven effective in reducing a Company's costs in one area, those savings
10 may be used to offset the administrative costs of the low income program.

11 Q. What is your recommendation on appropriate compensation for ELIR
12 program administrative costs?

13 A. I do not have a specific dollar recommendation at this time. In the Laclede
14 Gas Case No. GT-2003-0117, pertaining to the Catch-Up Keep-Up program proposal, OPC
15 recommended a level of "recoverable administrative costs" of 5%. (Meisenheimer direct,
16 GR-2003-0117, p. 11, ll. 1-2.) In the previous MGE case, OPC witness, Roger Colton,
17 discussed an administrative cost of \$42 per participant to cover the cost of qualifying a
18 customer for this program; for example, assisting with the application process and verifying
19 the customers' household income. (Colton direct, Case No. GR-2001-292, p. 21, ll. 5-11.) In
20 Schedule RDC-16 of Mr. Colton's direct testimony in that case, it appears that an estimate of
21 \$36 was actually used in calculations.

22 Staff believes that any of these approaches is reasonable. I have sent a data request to
23 the Company, asking for a list of the administrative duties it performs currently, and will be

1 expected to perform under Staff's proposal in this case, as well as an estimate of the cost
2 associated with each duty. When I receive this information, I will be able to more accurately
3 define the costs, and propose appropriate compensation for these duties.

4 Q. What are your comments on OPC witness Meisenheimer's rebuttal testimony
5 on the Staff's proposed increase in the ELIR credits?

6 A. Ms. Meisenheimer appears to agree generally with the need for a higher bill
7 credit; however, OPC is recommending a structure with four levels of bill credits.
8 (Meisenheimer, direct, p. 7, ll. 6-11), as opposed to the current two-tiered structure. If this
9 proposal can be supported by appropriately designed credits, and if any increase in
10 administrative costs associated with this proposed change is not burdensome, Staff will be
11 willing to consider OPC's proposal to increase the number of levels of bill credits.

12 OPC witness Meisenheimer states that she would support making weatherization a
13 requirement for program eligibility, "...to the extent that funding is available and with the
14 condition that customers who were successful in the previous program would be assured
15 weatherization funding so that they might continue in the program."

16 Staff has proposed that \$150,000 be earmarked for weatherizing program participants,
17 and we see no reason to deny these benefits to current participants. If every current
18 (approximately 300) and proposed (approximately 200) participant had to be weatherized;
19 (i.e., none of the current or future participants had already been weatherized or did not need
20 weatherization) that would mean that we would be looking at weatherizing a maximum of
21 approximately 500 households. According to an April 15, 2004, report on MGE's 2003
22 weatherization program, the Joplin CAA, which would be administering the weatherization
23 component of Staff's proposed plan, was able to weatherize 37 homes in 2003, expending

1 about \$38,000 in the process. (MGE letter to Dr. Henry Warren, Staff, and Mr. Ryan Kind,
2 OPC, dated April 15, 2004). At that rate (\$1,000/household), the 500 customers could be
3 weatherized in as little as four years. Staff, therefore, believes that the funding would be
4 available and that the weatherization of current program participants would be feasible under
5 the Staff's recommended approach.

6 Q. Does Staff agree with Ms. Meisenheimer's comments concerning the waiver
7 of late payment fees? (Meisenheimer, Rebuttal, p. 25, ll. 11-16)

8 A. Yes.

9 Q. Did OPC express an opinion about Staff's proposal that MGE match the
10 amount of arrears a customer repays on their arrearage balance, not to exceed \$200 in a six-
11 month period?

12 A. OPC states that they can support this, "...to the extent that the Staff can
13 demonstrate that the program is likely to generate equivalent savings...or increase revenues
14 to offset the required non-recovered write off..." (Meisenheimer, Rebuttal, p. 25, ll. 21
15 through p. 26, ll. 1-2.)

16 Q. Can Staff demonstrate that the program will provide these savings or
17 revenues?

18 A. I believe so. In response to Staff Data Request No. 121, the Company
19 indicated that, historically, for every dollar turned over to a collection agency, the agency
20 eventually collects about 30 - 35 cents. In addition, the collection agency is compensated
21 some percentage (e.g. 10%-30%) of the money it collects. It appears that, when the
22 collection agency fees and receipts are netted, MGE collects from 21 to 32 cents on the
23 dollar. Note that these numbers do not reflect the cost of collection activities that occur

1 before MGE sends the account to the agency - letters, phone contacts, and disconnection
2 expenses.

3 Examination of Staff's proposal indicates that this program will result in savings for
4 MGE.. Ignoring the \$200 ceiling, if MGE matched, dollar for dollar, the arrears that a
5 customer repaid, they would still be getting a return of approximately 50 cents on the dollar,
6 as compared to the 21-32 cents it currently collects. Furthermore, if customers are able to
7 pay their bills, the company will not incur the collection costs I discussed in the previous
8 paragraph. It is apparent that, even with a matching requirement, MGE will come out ahead.
9 Everyone benefits – the participant, MGE, and the other ratepayers who pay for uncollectible
10 expenses in their rates.

11 Q. Does this conclude your surrebuttal testimony?

12 A. Yes.