

Exhibit No.:
Issues: Rate Design

Witness: Michael J. Ensrud
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2006-0387
Date Testimony Prepared: November 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

**Jefferson City, Missouri
November 2006**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

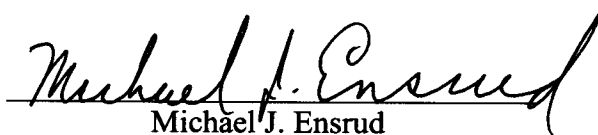
In the Matter of Atmos Energy)
Corporation's Tariff Revision Designed to)
Consolidate Rates and Implement a)
General Rate Increase for Natural Gas)
Service in the Missouri Service Area of)
the Company.)

Case No. GR-2006-0387

AFFIDAVIT OF 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 Surrebuttal Testimony in question and answer form, consisting of 13 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal 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 9th day of November, 2006.



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


Notary Public

My commission expires 9-21-10

TABLE OF CONTENTS

SURREBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

EXECUTIVE SUMMARY	1
ATMOS' TRANSPORTATION GAS LOST & UNACCOUNTED PROPOSAL	2
ATMOS' MISCELLANEOUS (ACTIVATION) CHARGES PROPOSAL	4
MAIN EXTENSION POLICY PROPOSAL	8
ATMOS' ECONOMIC DEVELOPMENT RIDER PROPOSAL	9
RECONNECTS	11

1
2
3
4
5
6
7
8
9
10

SURREBUTTAL TESTIMONY
OF
MICHAEL J. ENSRUD
ATMOS ENERGY CORPORATION
CASE NO. GR-2006-0387

11 Q Please state your name and business address.

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

13 Q. Are you the same Michael J. Ensrud who filed Direct Testimony, Corrected
14 Direct Testimony, and Rebuttal Testimony in this case?

15 A. Yes. I am.

16 Q. What issues do you plan to respond to in Surrebuttal issues?

17 A. The issues I plan to respond to are summarized in the Executive Summary.

18 **EXECUTIVE SUMMARY**

19 Issues that I will address are as follows:

20 Respond to points raised by Atmos Energy Corporation (Atmos) Witness
21 Patricia J. Childers in Rebuttal Testimony. Points to be addressed:

- 22 • Clarification of Atmos' 2% L&U Gas Provision
23 • Respond to points raised by the Office of Public Counsel (OPC)
24 • Witness Barbara A. Meiseheimer in Rebuttal Testimony.

25 Points to be responded to are as follows:

- 26 • Atmos' Miscellaneous Service Charges
27 • Main Extension Policy Proposal

- Atmos Economic Development Rider Proposal
- Reconnects

ATMOS' TRANSPORTATION GAS LOST & UNACCOUNTED
PROPOSAL

Q. What is your response to Atmos Witness Childers assertion that your recommendation (the Commission should impose fines if Atmos can not re-establish the ability to measure actual loss) is too harsh? (See Rebuttal p. 6, lines 5-17)

A. The Staff would seek penalties if Atmos does not meet Staff's requirements at the end of the two year period. While Staff does concur (as an interim step) with Atmos' 2% company-wide L&U gas proposal, Staff also recommends a subsequent re-establishment of the ability to use actual measurements of loss when billing transport customers for L& U gas.

Atmos seems to believe the use of arbitrary surrogates is sufficient for billing purposes. Staff does not. Lack of accurate measurement of L& U gas impacts equity concerns, financial concerns and safety concerns.

Without proper measurement of loss, a cross-subsidy could take place. The direction of that possible subsidy flow depends on what the actual experienced L&U is.

We do not know the financial impact of this issue on rates because L&U loss is unknown without an accurate measurement. Atmos is assigning transportation customers a 2% L&U factor, which is reasonable for a well functioning system. To reveal the actual L&U taking place, Atmos needs to regain the ability to accurately measure. While Atmos did provide information on the revenue impact of changing from the 1.43% factor to the 2% factor, the information is devoid of the impact of the actual L&U for transportation

1 customers. Also, without the ability to measure accurately, firm customers are uncertain of
2 their L&U factor.

3 Finally, there is the safety issue. The ability to measure the L&U is critical to the
4 safety issue. While Atmos has assured Staff many times that there is no major leakage of
5 gas taking place on its system, the ability to accurately measure L&U gas is needed.

6 For all these reasons, Staff has assigned a high priority to an eventual return to a
7 system that recognizes true L&U, and that brings about equilibrium between what
8 transportation customers pay and what firm customers pay.

9 Q. What did Atmos Witness Childers say about Staff's "cooperation" on this
10 matter?

11 A. Atmos Witness Childers states: "Atmos is committed to keeping Staff
12 informed of its progress in getting this issue **resolved in a cooperative manner**." (Emphasis
13 Added) (Rebuttal p.6 lines 16 - 17)

14 Q. How do you respond?

15 A. Staff believes that our willingness to initially accept the arbitrary 2% figure,
16 followed by a 24-month period to allow Atmos to regain the ability to accurately measure is
17 being "cooperative". The problem has existed since 2004. Atmos acknowledges that the
18 4.5% is "not indicative of real gas system losses" (See response to Staff's DR No. 53), and
19 implies that work is in progress to fix the problem. No anticipated completion date has yet to
20 be provided.

21 Staff asserts that its proposal is reasonable. Staff perceives this recommendation as
22 providing an adequate timeframe before the Staff would seek fines.

23 Let me; again, set forth my proposed time schedule:

Initially, Atmos is allowed to utilize its proposed 2% methodology. Atmos files a report every six-months providing Staff with the current actual L&U gas figure. Atmos must state whether the figure being reported is a real reflection of actual loss. Once Atmos has real figures, it must compare it to the 2% figure. If the reported figure deviates by more than 25% from the arbitrary 2% (below 1.5% / above 2.5%), Atmos must file a revised L&U percentage with the Commission. After 24-months of accurate reads (possibly 48 months from implementation) Atmos will revert to using the 24-month formula in place today.

Again, Staff contends this is a reasonable approach that offers Atmos ample opportunity to resolve the measuring problem and avoid being subject to the Staff seeking Commission approval to impose fines.

ATMOS' MISCELLANEOUS (ACTIVATION) CHARGES PROPOSAL

Q. What is your response to Witness Meiseheimer (Rebuttal p.36, line 1 - p.38, line 16) concerning various miscellaneous charges?

A. Developments in Atmos Witness Childers' Rebuttal Testimony may need to be considered in conjunction with OPC Witness Meiseheimer's Rebuttal Testimony. Witness Childers states: "Atmos is willing to accept Commission Staff Witness Ensrud's recommendations". (Rebuttal p. 5, lines 3 - 4) The rates that I sponsor are lower than what Atmos initially proposed.

Some of my proposed rates are higher and lower than the current rates. **All of Staff's proposed rates are cost based, with the exception of the Insufficient Funds Check charge.**

OPC witness Meiseheimer states:

1 Q. ARE THERE SIMILAR BENEFITS TO KEEPING THE
2 RECONNECTION FEE AT MORE AFFORDABLE LEVELS THAN THE
3 RATE PROPOSED BY THE COMPANY?
4

5 A. Yes. Many of the same consumer groups financially vulnerable to
6 increased connection fees are also financially vulnerable to increased
7 reconnection fees. In addition, where the **reconnection fee** at the proposed
8 level may pose an insurmountable obstacle for a customer to reinstate service,
9 I find it reasonable to assume the Company would face an increased risk of
10 writing off uncollected bill accounts. Ultimately, this write off would flow
11 through to the remaining customer base. [Emphasis added]
12

13 Assuming my proposed reconnection fees had been in place during the test year,
14 customers utilizing reconnections would have paid approximately \$29,000 less than what
15 they paid under current rates. In short, my proposed rates are a reduction to the currently-
16 established reconnection charges.

17 Q. Do you have any other examples of where your proposed rates comply with
18 the philosophy expressed by OPC Witness Meiseheimer?

19 A. Yes. OPC Witness Meiseheimer states: "Unless a connection charge can be
20 shown to be priced below incremental cost, there is little support for the notion that existing
21 customers are made significantly worse off by retaining a lower connection charge for new
22 customers." (Rebuttal p. 37, lines 16 - 18)

23 Since the existing connection charge is zero, it is a foregone conclusion that this
24 service is currently priced below incremental cost. (No reasonable person can assert that
25 there are no costs involved when a customer calls a dispatch center and requests that Atmos
26 dispatch an employee, in a company-provided truck, to establish service.)

27 Clearly, transfers, likewise, meet the criterion that OPC Witness Meiseheimer's
28 comments assert are a prerequisite to establishing a charge.

1 Since the two "new" charges meet the criterion that OPC Witness Meiseheimer sets
2 forth as justification to avoid retention of the status quo, it is reasonable to conclude that
3 these charges should be implemented. Both connections and transfer are currently priced
4 below incremental costs.

5 In its response to Staff's DR No. 151, Atmos asserts that the cost for connections and
6 reconnection are \$23.56 per-occurrence during business hours, and \$50.09 per-occurrence
7 outside business hours. Staff's analysis indicates that these amounts are representative of the
8 cost to perform these services.

9 Likewise, nothing provided to date refutes the NSF cost and the transfer cost rates
10 proposed by Staff.

11 The existence of these unchallenged costs is a compelling reason to change the
12 existing rates to a cost basis. These representations are at odds with OPC Witness
13 Meiseheimer's suggestion that no such reasons exist to change the existing rates. (Rebuttal p.
14 36 lines 13 - 14) Again, the record indicates some of the existing rates are above costs and
15 some are below costs. Staff's proposed rates are reflective of underlying cost. That is the
16 primary justification to migrate to Staff's proposed rates.

17 Q. What is your reaction to OPC Witness Meiseheimer's comments concerning
18 miscellaneous rates that vary substantially by district? (Direct p. 36, line 11)

19 A. MGE, Ameren and The Empire District Gas Company all have established the
20 multi-district / statewide miscellaneous-charge pricing. There is nothing odd or sinister about
21 what Atmos is proposing. The Commission has already accepted similar rate structures three
22 times.

1 Q. Do you challenge the underlying argument that subsidized miscellaneous
2 charges greatly benefit the typical low and moderate income customer? (See Meiseheimer
3 Rebuttal p.37, ls. 6 - 11)

4 A. Yes. Any rate increase works a greater hardship on the low and moderate
5 income because they have limited discretionary income. There is no evidence as to whether
6 the low and moderate income customers, as a group, benefited or suffered by having under
7 priced miscellaneous charges / over-priced monthly charges.

8 Q. Did the low and moderate income customers who utilized miscellaneous
9 services benefit by having those rates subsidized?

10 A. Most assuredly that was the case, but so did the economically advantaged
11 customer who would also utilize a subsidized service. The low and moderate income
12 customers who did not use miscellaneous services provided a subsidy to those who used
13 miscellaneous charges. On the other hand, the economically advantaged customers not
14 utilizing miscellaneous services would likewise have to pay the same subsidy.

15 The Commission should not act on OPC Witness Meiseheimer's position as it relates
16 to the retention of miscellaneous charges. The miscellaneous charges should reflect the cost
17 of providing those services.

18 A myopic concern for a particular economic stratum should not be all-controlling in
19 designing miscellaneous rates. OPC Witness Meiseheimer's seems to presuppose that the low
20 and moderate income groups' needs are controlling when designing rates. While the low and
21 moderate income stratum may deserve consideration, that consideration should not be all
22 encompassing. By having the miscellaneous charges under-priced, no cost disappears. It is
23 merely re-directed.

MAIN EXTENSION POLICY PROPOSAL

Q. Do you have any response to OPC Witness Meiseheimer's comments on Atmos proposed main extension policy? (Rebuttal p. 38, line 17 – p. 39, line 7)

Yes. Nothing OPC Witness Meiseheimer says impugns the validity of abandoning an outdated policy of main extension and replacing it with a financially-based method of allocation of main extensions. The primitive (150 feet) method of allocation ignores potential revenues streams and potential costs associated with any particular, potential customer.

Even an allotment of a uniform \$500 credit to all seeking a main extension would be more cognizant of underlying cost than is the antiquated 150-feet-free policy now in existence. At least there would be equity in the amount of cost defrayed.

Q. Is that what Atmos is proposing?

A. No. Atmos proposes the use of a computer model that estimates **both** the cost of the main extension and the revenues that will be derived from having the potential customer commence purchasing service from Atmos.

Q What is the support for your recommendation?

A. Pure adherence to a cost ideology would dictate that the customer should pay all costs associated with establishing service. After all, that customer is the primary beneficiary of the particular main extension. However, Staff is not recommending that the Commission go that far. Such an abrupt change is not justified.

A more reasonable and transitional approach is to continue to provide allowances. Without the continuation of allowances, potential customers might use propane or electricity, in lieu of Atmos' service. The computer model approach still grant customers the traditional allowance, but merely does so on a cost / benefit basis.

1 It is intransigent to be "locked in" to a 150-foot allowance methodology if more
2 scientific methods of allocation are now available. It is time to incorporate financial
3 principles into the main allocation process.

4 Atmos' proposal is a good transition from a method of allocation whose time has past,
5 but a continuation of a long-standing practice has merit.

6 Atmos already has a methodology that incorporates underlying cost to some degree.
7 It counts each and every dollar of cost after initially ignoring the fluctuating dollars of cost
8 associated the initial 150 feet of installation. This approach is unreasonable if it is possible to
9 count costs from "dollar one".

10 Atmos is proposing to replace this crude allocation with a more sophisticated,
11 scientific application that incorporates "dollar one" of cost, and base the offset, not on raw
12 footage, but on the projected revenue stream of the project. From this perspective, Atmos'
13 proposal is merely a refinement on the status quo.

14 The use of financial projections (both revenues & costs) will produce a more
15 equitable and more reasonable distribution of main extensions allotments.

16 **ATMOS' ECONOMIC DEVELOPMENT RIDER PROPOSAL**

17 Q. How do you respond to OPC Witness Meiseheimer comments concerning
18 Atmos' proposed Economic Development Rider (EDR)? (Rebuttal p. 3, lines 24-26)

19 A. The statement is not true. At a minimum, it misses a very important safeguard
20 that is likely to prevent what OPC Witness Meiseheimer is predicting will happen. The
21 statement is as follows: "11. The Company proposes to implement an economic development
22 rider that would force residential and small business customers to subsidize industry
23 discounts once such discounts are incorporated into rates."

1 This statement presupposes that any customer availing itself of this promotion will
2 incur greater costs than the revenues that will be generated by that customer. While it is a
3 possibility that a qualifying customer could have costs exceeding revenues, it is unduly
4 pessimistic to presuppose this will always be the outcome. A far more likely scenario is the
5 new customer (assuming one can be attracted) will generate revenues and defray fixed costs
6 to the point that both Atmos stockholders and customers will benefit. If the new customer
7 stays on Atmos' system long enough, then the "fronted" incremental costs and "fronted"
8 discounts will be offset by the new revenue stream generated by enticing a customer to
9 establish service in Atmos area.

10 Further, a new customer or a qualifying expansion, at least, has the potential to spur
11 economic development. Secondary benefits such as more jobs, a large variety of new tax
12 revenue, increasing property values, as well as other benefits, might, potentially result if an
13 EDR is successful in attracting a new customer or the expansion of an existing business to
14 Atmos' serving areas.

15 Q. If Staff detected that Atmos' EDR promotion was playing out the worst-case
16 scenario and Atmos was losing money by offering the EDR promotion, what could be done?

17 A. The Commission could discontinue the EDR promotion in future rate cases,
18 under such circumstance. If a promotion can be demonstrated to have negative result, there is
19 no obligation to continue offering such a promotion.

20 Q. What about the interim impact - between rate cases - of such a promotion?

21 A. Since Atmos got no adjustment as part of this case - either good or bad, the
22 impact of a negative promotion, in the future, would befall the Atmos stockholders in the

1 interim - up to Atmos' next rate case. On the other hand, if the promotion is highly
2 successful, the fruits of that promotion are reaped by Atmos' stockholder - in the interim

3 Q. Is there any other justification to approve the EDR discount?

4 A. Yes. There are other economic development riders that are implemented and,
5 as of yet, there is no known demonstrated negative ramification stemming from these other
6 promotions.

7 Since MGE's current existing promotion is acceptable and in operation then Atmos'
8 proposal should also have merit. Where Atmos has a uniform 25% discount over 4-years,
9 MGE has adopted a "front-end" loaded discount scheme – meaning a 30% discount in the
10 first year, followed by 25% in the following year. Atmos' proposed rate structure mitigates
11 the risk when compared to MGE's existing rate structure. Atmos' proposal is also superior to
12 Kansas City Power & Light Company's tariff that also contains front-end loaded discount
13 scheme.

14 **RECONNECTS**

15 Q. What is your reaction to concerns expressed by OPC Witness Meiseheimer
16 concerning your two-step Reconnection Fee? (See Rebuttal p. 2, lines 1 - 17 and p 7, lines, 1
17 - 6)

18 A. While OPC Witness Meiseheimer understands the mechanics of the concept
19 correctly, her characterization of the concept is wrong.

20 In the current environment, approximately 7,000 customers (out of approximately
21 70,000 customer base) disconnect from Atmos service for a month or more every year. (See
22 Atmos' response to Staff's DR No. 230) These customers reconnect and return to using gas –

1 generally in a colder time of the year. Customers who follow this pattern are referred to as
2 “seasonal customers”.

3 The number of customers availing themselves of seasonal disconnects demonstrates
4 the problem is material. The conversion to a delivery charge may increase the frequency of
5 seasonal disconnects because the potential summer savings are increased. The point is: there
6 needs to be an effective deterrent to seasonal disconnects. Otherwise, the potential exists for
7 greater cost-shifting than exists today.

8 Q. How do you characterize OPC Witness Meiseheimer's comments as to the
9 effectiveness of the status quo?

10 A. In OPC Witness Meiseheimer's Rebuttal Testimony, the implication is that the
11 seasonal disconnect is not a problem. (Rebuttal p. 2, lines 13-15) The facts of the situation
12 refute that everything is functioning well.

13 The existing deterrent is proving to be ineffective. Atmos is presently experiencing a
14 10% seasonal disconnect rate of occurrence. Failure of the current attempts to dissuade
15 customers from engaging in seasonal disconnect justifies more stringent deterrents.

16 The practice of engaging in seasonal disconnect may be very beneficial for the
17 interests of the particular customer who engages in this activity, but it diverts additional costs
18 to the residual customer base who retains their service year around. These are costs that
19 rightfully belong to the seasonal disconnect customer. The year-around customer ends up
20 paying all distribution cost rightly assigned to that particular customer plus an allocation of
21 the costs dodged by those customers who engage in seasonal disconnect.

Surrebuttal Testimony of
Michael J. Ensrud

1 If one recognizes that the majority of delivery charges are fixed and sunk, taking a
2 summer hiatus from paying the delivery charge may be self-serving, but detrimental to
3 others.

4 OPC Witness Meischeimer states the following:

5 Under this proposal a reconnecting residential or small business customer
6 would be required to **pay all delivery charges** for the months the customer
7 was disconnected. This would result in seasonal customers paying the
8 Company the same non-gas revenue as customers receiving year-round
9 service. **(Emphasis added)** (Rebuttal p. 7, lines 3-6)

10
11 My response to this position is that customers who actually partake of service
12 irregularly, but do so habitually, should pay all those fixed and sunk costs that the seasonal
13 disconnect customer avoids in the summer, but eventually enjoys - in the winter - when the
14 service has the greatest value. Without Atmos making sunk and fixed expenditures, the
15 seasonal-disconnect customers could not obtain service anytime of the year. The delivery
16 cost remains constant from month to month. These characteristics justify a two-component
17 reconnection charge as proposed by Staff that attempts to prevent seasonal disconnect
18 customers from "hopping" in and out of service.

19 Q. Does this conclude your Surrebuttal Testimony?

20 A. Yes, it does.