

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE JOINT APPLICATION)
OF SOURCEGAS DISTRIBUTION LLC, AND) Docket No. 30003-49-GA-10
MGTC, INC., FOR APPROVAL OF A TRANSFER) Docket No. 30022-151-GA-10
OF UTILITY ASSETS AND CERTIFICATE) Record No. 12484
AUTHORITY FROM MGTC, INC. TO SOURCEGAS)
DISTRIBUTION LLC AND TO ESTABLISH TARIFF)
RATES AND PROVISIONS)

PRE-FILED DIRECT TESTIMONY OF

Denise Kay Parrish

On Behalf of the Office of Consumer Advocate

Testimony Filed: June 18, 2010

Hearing Begins: July 8, 2010

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Denise Kay Parrish and my business address is 2515 Warren Avenue, Suite 304, Cheyenne, Wyoming 82002.

Q. WHAT IS YOUR OCCUPATION?

A. I am currently the Deputy Administrator of the Wyoming Office of Consumer Advocate (OCA), an independent division of the Wyoming Public Service Commission. In this position, I review and provide input into the recommendations made by the OCA. I review utility applications filed with the Wyoming Public Service Commission (Commission) and provide advice to the Administrator regarding the involvement the OCA should have, if any, in the various cases. I review applications, perform analyses and provide recommendations to the Commission relative to various utility matters, including revenue requirements, tariff language, competitive issues, rules and regulations, and other items. I write and issue press releases, perform special studies, as well as provide information and research to customers, the legislature, the OCA Administrator, and others. I do other assignments and tasks, as needed and as assigned by the OCA Administrator.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. In 1976, I graduated from Michigan State University with a Bachelor of Arts degree in Accounting. I have spent more than thirty-three years as a regulator of public utilities, having been on the staff of four state utility regulatory commissions and two consumer advocate entities. More than eighteen of these years have been spent at the Wyoming Public Service Commission, some with the Rates and Pricing Section (now part of the technical advisory staff) and some with the Office of Consumer Advocate. I have taken classes related to various aspects of public utility regulation, including income taxes, regulatory accounting, capital recovery, cost-of-service, rate design, revenue requirements, separations and allocations, and other specialized topics. I have taught classes on issues of

accounting standards, general ratemaking principles, affiliate transactions, regulatory accounting, financial reporting, and other specialized topics to regulatory professionals.

Since 2002, I have been a member of the program faculty at the Michigan State University Institute of Public Utilities. I have also worked with the Nigerian Communications Commission on regulatory accounting and reporting matters and have done work for the International Telecommunications Union as a seminar leader. Furthermore, I have participated in several meetings of the Tariff and Pricing Committee of the Energy Regulators Regional Association (ERRA) and have been asked to be a permanent representative to that ERRA Committee. I was a presenter at, and participant in a workshop sponsored by the Energy Group of the Institute of International Education (IIE) regarding the development of an Electricity Distribution Indicator Toolkit. I was a panelist/presenter at a Consumer Workshop in conjunction with the World Forum on Energy Regulation III. Finally, I have been appointed by NARUC to be member of the International Confederation of Energy Regulators (ICER) Virtual Working Group on Competitiveness and Affordability.

I am the past chair and a current member of the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Accounting and Finance. I am the current chair of the NARUC Staff Subcommittee on International Relations. I am a member of the National Association of State Utility Consumer Advocates' (NASUCA) Tax and Accounting Committee. Finally, I am a member of the staff of the Federal-State Joint Board on Universal Service.

Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?

A. Yes. I have testified in many cases before regulatory bodies and several years ago stopped counting the number of cases I have been involved in when the number reached one-hundred twenty five. I have testified before the Michigan Public

Service Commission, the Colorado Public Utilities Commission, the Colorado District Court, the Arizona Corporations Commission, the Wyoming Public Service Commission, the Wyoming Legislature Joint Corporations Committee, the Federal Energy Regulatory Commission, and the Federal-State Joint Board on Universal Service. I have testified in telecommunications, water, wastewater, electric, and natural gas cases. The subjects upon which I have testified include revenue requirements, rate design, cost-of-capital, nuclear decommissioning, accounting deferrals, adjustment mechanisms, income taxes, capital recovery, universal service funding, and other specialized topics.

Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?

A. As a member of the Office of Consumer Advocate, I represent the interests of Wyoming citizens and all classes of utility customers in this public utility matter, as required by W.S. § 37-2-401. It is neither my intent nor my charge to represent the position of any individual, group, municipality, or corporation.

Q. WHAT COURSE OF ACTION IS AVAILABLE TO INDIVIDUAL CONSUMERS OR OTHER INTERESTED PARTIES IF THEY WISH TO PURSUE ISSUES NOT ADDRESSED BY THE OFFICE OF CONSUMER ADVOCATE, OR TAKE A DIFFERENT POSITION FROM THE OFFICE OF CONSUMER ADVOCATE?

A. Consumers and other parties may intervene in the proceedings and raise additional issues not addressed by the Office of Consumer Advocate, and may take different positions than those presented by the OCA. Consumers may also present written or oral comments at the hearing, which then become part of the record in the case and are available to the Commission as it makes its decision on any particular proposal or suggested change. The OCA encourages the participation of the public and all interested parties in cases before the Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present the recommendations and concerns of the OCA relative to SourceGas' and MGTC's joint application to approve: SourceGas' expansion and MGTC's cancellation of their certificates of public convenience and necessity, the sale of MGTC's distribution utility assets to SourceGas, the proposed tariff rates and provisions of service proposed by SourceGas following the close of the transaction, and SourceGas' proposed financial and ratemaking treatment of the costs and efficiencies associated with the proposed transaction.

Q. ARE YOU SPONSORING ANY SEPARATELY ATTACHED COMPUTATIONAL SCHEDULES OR OTHER EXHIBITS AS PART OF YOUR DIRECT PREFILED TESTIMONY IN THIS PROCEEDING?

A. No. All of the figures, tables, and graphs that I am presenting as part of my testimony are contained within the body of the narrative testimony itself.

Q. IN SUMMARY, WHAT ARE THE OCA'S RECOMMENDATIONS IN THIS PROCEEDING?

A. The OCA has no objection to SourceGas expanding its certificate of public convenience and necessity in order to permit SourceGas to begin serving the distribution and transportation customers in Wyoming who are currently served by MGTC. If SourceGas is permitted to so expand its territory, MGTC should then simultaneously be allowed to cancel its certificate of public convenience and necessity to serve these same customers. The expansion by SourceGas and abandonment by MGTC should be simultaneous and dependent upon each other. Furthermore, if the certificate transfer is approved, the OCA has no objection to MGTC selling the assets that it uses for its distribution operations to SourceGas for its use in providing service to the distribution and transportation customers who are the subject of discussion in this case.

The remainder of the joint request involves the financial and ratemaking arrangements that SourceGas proposes be approved at this time as a result of the

proposed purchase/sale of the distribution assets and the expansion/abandonment of the certificate of public convenience and necessity. There are certain aspects of the proposal that the OCA recommends that the Commission not approve at this time, most specifically the portion of the proposal that would permit SourceGas to retain more than \$500,000 per year in expected cost savings for the five years following the consummation of the transaction.

Q. IS IT NECESSARY FOR THE COMMISSION TO RULE ON THE RATEMAKING ASPECTS OF THE TRANSACTION AT THIS TIME?

A. No, not to the extent requested by the Joint Applicants in this docket. Certainly, it is important that the Commission, utility, and customers understand the rates that would be applied to each group of customers (specifically, the MGTC Division customers, the Gillette Division customers, and the transport customers including the Choice Gas suppliers) immediately following the transfer of these customers to SourceGas' service territory. However, the Commission often approves utility applications such as this without establishing the ratemaking implications for the next several years. It is common practice for the Commission to indicate that the ratemaking aspects of a transaction such as the one proposed in this proceeding will be taken up and ruled upon at a later time, generally at the time that the utility makes a specific application to change its prices or tariffs. Even when the Commission does make ratemaking decisions regarding a transaction such as this, it is usually narrower in focus, such as addressing a small portion of the costs or a single cost issue (e.g., treatment of the acquisition adjustment).

The Joint Applicants have indicated that without a decision on the ratemaking treatment that will be afforded the cost savings expected to occur as a result of the proposed transaction, the transaction may not occur at all, because SourceGas would be unable to estimate and assure shareholders of the expected profitability and cash flows generated by the acquisition of the MGTC customers and assets. Therefore, the OCA is providing the Commission its current view of the ratemaking treatment that should be afforded the expected costs and savings in

case the Commission chooses to rule on the requested ratemaking treatment(s) as part of this proceeding.

Q. PLEASE DESCRIBE THE STANDARDS THAT SHOULD BE USED TO DETERMINE WHETHER OR NOT THE JOINT APPLICATION SHOULD BE APPROVED.

A. Based on my research of the Commission's rules and consultation with the OCA attorneys on Wyoming statutes, the standard to be applied is whether the request is in the public interest or not. This is a more flexible standard than the 'no harm to the provision of service standard' that is required to be applied to the change in control or change in ownership transactions. Thus, the Commission has the ability to look at both the long-run and the short-run impacts of the transaction and determine whether they result in a long-run public good.

Q. DO YOU HAVE A SUGGESTION ON WHAT FACTORS SHOULD INFLUENCE THE COMMISSION'S DECISION ON WHETHER GRANTING THE TOTALITY OF THE REQUESTS CONTAINED WITHIN THE JOINT APPLICATION IS IN THE PUBLIC INTEREST?

A. Yes. I think there are several items that should be examined when determining whether the overall transaction meets the public interest. However, before listing them, I must say that I do not find the decision to be clear-cut or obvious. The items that I recommend the Commission consider in determining whether to grant the application in part or in total are, in no particular order:

- a. Will the cash outflows and financing of both the initial assets purchase and the expected improvements harm the already tenuous credit ratings and/or financial condition of SourceGas Distribution or SourceGas LLC?
- b. What will be the rate impacts on the proposed MGTC Division customers and how do these compare to the rate impacts that would likely occur if those customers remain with MGTC?

- c. What will be the rate impacts on the current Gillette Division customers and how do these compare to the rate impacts that would likely occur absent the consummation of the proposed transaction?
- d. Is the ratemaking treatment requested by the Joint Applicants for the next five years consistent and/or permissible with proper regulatory practices, the Commission's rules, and Wyoming statutes?
- e. How will the quality of service be altered with the change in service provider and is there an immediate and/or obvious need for improved service in the MGTC service area?
- f. Are there other qualitative or quantitative benefits that can be or have been identified in association with the proposed transaction?

The OCA has considered each of these issues and in the testimony below, offers some discussion of our thoughts on each of these general issue areas.

Q. WILL THE CONSUMMATION OF THE PROPOSED TRANSACTION HAVE A HARMFUL IMPACT ON THE CREDITWORTHINESS OF SOURCEGAS?

- A. Given the relatively small size of the transaction, it is unlikely that the payment of \$1.6 million for the acquisition of the MGTC assets or the anticipated first five years' upgrade investments of about \$1.5 million will have any significant impact on the overall corporate SourceGas LLC credit ratings or financial status. In other words, the transaction in isolation of the other activity of the utility and its corporate parent is not likely to further degrade the current credit rating. However, we do not have an opinion on whether not entering into this transaction would either contribute to stabilizing or improving the SourceGas LLC credit

rating – a rating that is already low in comparison to most other U.S. natural gas distribution utilities.

Q. WHAT IS THE COMPARISON OF THE LIKELY RATE IMPACT ON THE EXISTING MGTC CUSTOMERS BETWEEN APPROVING AND NOT APPROVING THE JOINT APPLICATION?

A. That question requires a number of facts and figures to answer correctly. It has been more than two decades since MGTC has changed the non-gas commodity portion of its rates; however, MGTC regularly (at least once each year, sometimes more often) updates the commodity portion of its rate. On the other hand, SourceGas updated the non-commodity portion of its rate in 2007 and has an additional rate case pending. Furthermore, SourceGas updates its Pass-on Rate [Regulated Rate] quarterly while the commodity rates from the other Choice Gas suppliers are generally updated at least once each year. A comparison of the current Wyoming MGTC rates and Gillette Division SourceGas rates (assuming the Pass-on Rate [Regulated Rate]) is as follows:

	MGTC Rate (effective 8/1/2009)	SourceGas Gillette Rate (effective 6/1/2010)
Residential – Gas Cost	\$2.5370 per mcf	
Residential – Non-Gas Cost	\$1.9435 per mcf	
Industrial – Gas Cost	\$2.4137 per mmbtu	
Industrial – Non-Gas Cost	\$1.1957 per mmbtu	
Small General Service – Customer Charge		\$12.00 per month
Small General Service – Distribution Charge		\$1.5542 per Dth
Small General Service – Pass-on Rate		\$4.8763 per Dth
Medium General Service – Customer Charge		\$62.00 per month
Medium General Service – Distribution Charge		\$1.3042 per Dth
Medium General Service – Pass-on Rate		\$4.8763 per Dth
Large General Service – Customer Charge		\$193.00 per month
Large General Service – Distribution Rate		\$1.0542 per Dth
Large General Service – Pass-on Rate		\$4.8763 per Dth

There are a couple of obvious conclusions that arise from this table. The first is that there is a significant difference in the two sets of commodity (or gas cost) rates with MGTC's being at about \$2.50 per mmbtu and SourceGas' being at about \$4.88 per Dth – difference of about \$2.33 per unit. (A million British thermal units (mmbtu) and a decatherm are approximately equal values.) Much of the difference is explained by the transportation charges that are required to be paid by SourceGas to MGTC to transport natural gas into the Gillette area. The current transport rate, according to page 2 of Appendix B to the Joint Application is a commodity rate of at least \$0.2557 per MMBtu on all of the Gillette volumes plus a contract demand rate of \$2.5825 on a maximum contract demand of 15,160

MMBtu for each monthly period. This additional transportation cost that SourceGas pays to MGTC causes a significant portion of the difference in the two sets of commodity rates. It should be noted, however, that MGTC has a higher distribution charge, or non-gas charge, since much of its transportation infrastructure is in its non-gas cost rather than in its commodity rate.

The second obvious conclusion drawn by looking at the above table is that it is difficult to compare the two sets of rates. To simplify the comparison, I have computed two sample residential usage rate impacts:

	MGTC Rate (effective 8/1/2009)	SourceGas Gillette Rate (effective 6/1/2010)	Difference
<i>Residential at 10 dth</i>			
Customer Charge	\$0.00	\$12.00	
Distribution Charge	\$25.37	\$15.54	
Gas Cost	\$19.44	\$48.76	
TOTAL	\$44.81	\$76.30	70%
<i>Residential at 25 dth</i>			
Customer Charge	\$0.00	\$12.00	
Distribution Charge	\$63.43	\$38.86	
Gas Cost	\$48.57	\$121.91	
TOTAL	\$112.00	\$172.77	54%

So, to answer the question, one could assume that MGTC customers will always be worse off if SourceGas becomes their supplier, since the SourceGas rates are higher than the MGTC rates. Yet, MGTC has stated in its testimony that it may be required to increase its rates if the Joint Application is not approved. On page 9 of his testimony, Mr. Wilson indicates that the non-gas portion of the MGTC rate may need to increase as much as 79%, if it were to make the same level of capital improvements that SourceGas assumes it will make in the five years following the transaction. As shown on the chart below, this would bring the MGTC updated rates and the SourceGas current rates closer together.

	MGTC Rate (with 79% non-gas rate increase)	SourceGas Gillette Rate (effective 6/1/2010)	Difference
<i>Residential at 10 dth</i>			
Customer Charge	\$0.00	\$12.00	
Distribution Charge	\$45.41	\$15.54	
Gas Cost	\$19.44	\$48.76	
TOTAL	\$64.85	\$76.30	18%
<i>Residential at 25 dth</i>			
Customer Charge	\$0.00	\$12.00	
Distribution Charge	\$113.54	\$38.86	
Gas Cost	\$48.57	\$121.91	
TOTAL	\$162.11	\$172.77	7%

It is difficult to foresee any situation where the existing MGTC customers are not worse off from a rate standpoint as a result of the transaction, including situations where there are substantial investments made by MGTC over the next few years. While it is true that SourceGas has offered to freeze the distribution rates of these customers for a five year period, doing so will make the rate increases that will ultimately occur more pronounced.

Q. WHAT CONCLUSIONS DID YOU REACH REGARDING THE COMPARISON OF THE RATE IMPACTS ON THE GILLETTE CUSTOMERS WITH AND WITHOUT THE APPROVAL OF THE JOINT APPLICATION?

A. The outcome of the comparison for the Gillette Division customers is different than that noted above for the MGTC customers. It is estimated that approval of the proposed transaction would ultimately result in some rate reductions – all other things being equal – for the Gillette customers.

Mr. Meckling discusses the proposed savings in his testimony and attempts to calculate some of the rate impacts in the exhibits attached to his testimony. For illustrative purposes, I have attempted to show the impacts below based on a simple, high-level approach.

On Exhibit WHM-1, Mr. Meckling calculates that the financial public interest benefit of eliminating the costs associated with the MGTC transportation contract and instead, putting the assets in rates as part of the non-commodity rate is about \$551,833 annually. If this number is divided by the total volumes only for the current Gillette division customers as shown on Exhibit WHM-2 – a total volume of about \$1.685 million dth – the resulting savings is about \$0.33 per dth.

Continuing with the illustrative examples shown above, the bill impact including this reduced average gas transportation cost is shown on the table below:

	SourceGas Gillette Rate (effective 6/1/2010)	SourceGas Gillette Rate (including reduced transportation cost of \$0.33/dth)	Difference
<i>Residential at 10 dth</i>			
Customer Charge	\$12.00	\$12.00	
Distribution Charge	\$15.54	\$15.54	
Gas Cost	\$48.76	\$45.46	
TOTAL	\$76.30	\$73.00	(4.3%)
<i>Residential at 25 dth</i>			
Customer Charge	\$12.00	\$12.00	
Distribution Charge	\$38.86	\$38.86	
Gas Cost	\$121.91	\$113.66	
TOTAL	\$172.77	\$164.52	(4.8%)

These calculations show that the sample residential bill at the illustrated usage levels would be reduced by 4% to 5%. However, these are simply two illustrated bill impacts and do not provide a more global look at the impact of reducing the natural gas transportation costs.

Therefore, I further examined the average impact on customer rates of reducing the transportation costs. I began by computing the overall transport cost that SourceGas pays to MGTC to be approximately \$ 900,535, as shown below.

Demand cost of \$2.5825 x 15,160 MMBtu x 12 months	\$469,808
Per unit commodity cost of \$0.2557 x Gillette volumes of 1,684,501	\$430,727
Total Transportation Costs SourceGas pays to MGTC	\$900,535
Estimated Net Savings	\$551,833
Estimated Savings	61%
Transportation Costs of \$900,535 / Gillette Volumes of 1,684,501	\$0.53

Net savings of about \$551,833 constitutes about 61% of the transportation costs. However, the transportation costs that SourceGas currently pays to MGTC is about \$0.53 per Dth (or about 11%) of the current total commodity Pass-on Rate [Regulated Rate] of \$4.8763 per Dth. The total commodity cost of \$4.8763 is about 76% of the total approved volumetric rate for SourceGas Pass-on Rate [Regulated Rate] customers. When the math is all said and done (11% savings on 76% of the volumetric portion of the bill) the estimated overall savings should be in excess of 8% of the average Gillette customer's bill at today's natural gas prices.

Q. DOES THE JOINT APPLICATION PROPOSE THAT THESE TRANSPORTATION COST SAVINGS BEGIN TO BE PASSED-ON TO CUSTOMERS IMMEDIATELY?

A. No. The Joint Application proposes that SourceGas keep these savings for shareholders for the first five years after the transaction occurs. The Gillette customers would not begin to see these savings for at least a five year period. Additionally, as noted on lines 22 through 25 of Mr. Meckling's Exhibit WHM-3, the potential net savings to the Gillette Division customers in years two, three, and four are even greater than the estimated \$551,833, as the transportation savings have not yet been reduced as much by the addition of the new capital expenditures that are expected to be made within the first five years.

Q. WOULD IT BE CONSISTENT WITH THE COMMISSION'S RULES TO ALLOW SOURCEGAS SHAREHOLDERS TO KEEP THE FIRST FIVE YEARS OF SAVINGS ASSOCIATED WITH COMMODITY TRANSPORTATION COSTS?

A. No. The Commission has always been emphatic that its pass-on rules require the entire change in commodity and commodity-related costs to be passed-on to customers. It has also been explained to customers for many years that the pass-on rules do not allow a utility to earn on its commodity costs but instead, costs are reflected on a dollar-for-dollar basis. This would no longer be true if the Commission were to allow SourceGas to keep a portion of the reduction in its commodity-related costs since keeping a portion of the savings would permit an increase in SourceGas' earnings.

It is true that some utilities (primarily electric utilities) have chosen to establish rate mechanisms that do not pass-on the entire cost changes associated with the commodity or commodity-related costs. However, these rate mechanisms have not been established under the purview of Sections 249 or 250 of the Commission's Procedural Rules and Special Regulations. These rate provisions have also been established in price or tariff proceedings in advance of implementing rates pursuant to these generally incentive-based provisions.

Q. IF THE COMMISSION WISHED TO PROVIDE AN INCENTIVE TO SOURCEGAS' SHAREHOLDERS IN CONJUNCTION WITH THE PROPOSED TRANSACTION, IS THERE A STATUTORY PROVISION THAT COULD BE USED TO DO SO?

A. Perhaps. W.S. § 37-3-115 states:

In the case of a utility furnishing natural gas, if the utility decreases its cost of natural gas, not less than ninety percent (90%) of the decrease in the cost shall be passed on to the consumer and in addition to other factors allowed by the commission in setting rates the commission may allow the utility to add to its rate not more than ten percent (10%) of the difference between its previous cost for natural gas and its new cost for natural gas.

If the Commission finds that a commodity-related cost such as transportation charges qualify as a cost of natural gas under this statute, this would provide an alternative means of sharing the cost savings between the utility's shareholders and ratepayers. However, I am not prepared at this time to suggest to the

Commission how W.S. § 37-3-115 could be implemented in this proceeding or even whether it should be implemented at this time. I simply mention it at this time to show that there may be alternatives to accomplish providing an incentive, if the Commission so chooses, without having to violate the long-held integrity of the pass-on rules.

The ruling in *Montana-Dakota Utils. Co. v. Wyoming Pub. Serv. Comm'n*, 746 P.2d 1272, 1987 Wyo. LEXIS 559 (Wyo. 1987), affirmed that the Commission has some discretionary authority regarding both whether to grant an incentive and the amount of the incentive to be granted on a continuing basis. It further made clear at 1275 that “an incentive award is determined primarily by the costs passed-on and is tied to the savings the utility can achieve by reducing its costs.” This seems directly relevant to the type of cost savings that are being advanced by the Joint Applicants in this proceeding and should be considered if the Commission determines that it is important to provide some incentive to the SourceGas shareholders to accomplish the proposed deal. The OCA, however, is generally not a proponent of providing incentives to utilities in order to reduce costs as much as they are reasonably able, as we believe utilities should be doing this as part of their general service obligations.

Q. ARE THERE OTHER ACCEPTED RATEMAKING ARRANGEMENTS THAT COULD BE UTILIZED TO PROVIDE SOURCEGAS SOME ADDITIONAL RECOVERY OF FUNDS THAT IT SEEKS TO INVEST IN THE MGTC SYSTEM?

A. Yes. One such method would be to include the acquisition premium in the calculation of the non-gas rates, allowing either recovery of the amortization of the premium, recovery of a return on the acquisition adjustment or both. At page 18 of his testimony, Mr. Meckling states that SourceGas Distribution “will not seek to adjust its rate base to recovery any acquisition premium.”

At this time, no support has been provided as to why the \$1.6 million that SourceGas has agreed to pay MGTC for its distribution assets is a reasonable amount given the current book value of the assets. I also am concerned that the Joint Applicants have not provided an adequate public interest showing that allowing the acquisition adjustment in rates is reasonable given the entire set of facts and circumstances surrounding the sale/purchase.

What I am suggesting, however, is that *if* the Commission finds that it is important to provide some additional cash flow and or some incentive to SourceGas to assure that the transaction is accomplished, it would be better to provide the additional funds through the inclusion of an acquisition adjustment in rates rather than through a waiver of Commission Rules 249 and/or 250, assuming that such a waiver were even permissible. It is certainly not unheard of for the Commission to allow a utility to include an acquisition adjustment in the calculation of its rates, once the proper showing and support has been provided.

Furthermore, with a SourceGas rate case currently pending before the Commission, it would be relatively easy to include an acquisition adjustment, newly acquired plant, and/or other near term capital improvements in the SourceGas rates with little or no regulatory lag, if the Commission found that it would be in the public interest to do so.

Q. WHAT COMMENTS DO YOU WISH TO OFFER THE COMMISSION REGARDING THE ISSUE OF SERVICE QUALITY AND WHETHER THERE IS A DRASTIC NEED FOR IMPROVEMENTS IN THE MGTC SERVICE AREA?

A. During the OCA discussions with the Joint Applicants, we asked a number of questions about the capital improvements that Source Gas intends to make to the distribution plant during the first five years following the transaction. One of the issues we focused on was whether there are any existing violations of federal or

state requirements that would require immediate and identifiable upgrades to the existing MGTC assets. We were assured that there are not.

We then pursued whether there is an immediate need to replace the above-ground pipe that currently exists in the MGTC territory. Again, we were assured that replacement of the above-ground pipe was not immediately planned and, in fact, SourceGas Distribution has some of its pipe above ground in at least one other state. Mr. Whitefoot at page 12 of his testimony indicates, in regard to the system replacements, “the extent and location are not known at this point in time.”

From this discussion, I concluded that MGTC is currently working to meet existing quality and reliability standards and that there is not necessarily urgency for SourceGas to become the new owner/operator of the system to assure that service quality standards are appropriately addressed.

The initial conclusion I reached on service quality was also supported by the fact that MGTC has continued to invest and make improvements to the system, even during the long pendency of the negotiations for the sale. This is confirmed by the testimony of Mr. Meckling at page 7, where he states:

As disclosed to SourceGas Distribution by MGTC’s Annual Report for 2009, MGTC added \$358,301 of net plant in 2009 to the MGTC Distribution Pipelines in the South Rozet system by replacing approximately three miles of above-ground steel and buried fiberglass line with buried poly pipe. This new information changes rate base, earnings on rate base and depreciation expense.

Q. ARE THERE ANY OTHER ITEMS THAT YOU WISH TO BRING TO THE COMMISSION’S ATTENTION AT THIS TIME THAT SHOULD BE CONSIDERED WHEN MAKING THEIR DECISION ON WHETHER THE TRANSACTION, AS PROPOSED IN THE JOINT APPLICATION, IS IN THE PUBLIC INTEREST?

A. Yes. SourceGas states that one of the benefits of the transaction that may be achieved is a per unit cost reduction resulting from spreading some of its fixed costs over a larger customer base. However, the Commission should be cautious about such statements and may wish to pursue such claims with additional facts and figures. For example, I did some high level examination of average SourceGas operational expenses versus the operational expenses of MGTC. I found that the data was quite inconsistent and I had trouble drawing conclusions about operational efficiencies versus deferred maintenance or other operational characteristics. A brief analysis, based on figures taken from the annual reports filed with the Commission, is provided in the table below.

	MGTC 2008	MGTC 2009	SourceGas 2008	SourceGas 2009
Administrative General Expense	\$819,567	\$437,066	\$6,402,808	\$8,749,209
Net Dth Sold	341,460	352,313	4,415,905	4,138,784
Expense per Dth Sold	\$2.40	\$1.24	\$1.45	\$2.11
Operations and Maintenance Expense	\$667,757	\$800,427	\$10,557,235	\$8,209,168
Net Plant	\$434,837	\$582,527	\$92,629,808	\$98,896,249
O&M per Dollar of Net Plant	\$1.54	\$1.37	\$0.11	\$0.08

Q. WHAT IS THE RECOMMENDATION OF THE OCA REGARDING THE PROPOSED TRANSACTION TO ELIMINATE MGTC AS A DISTRIBUTION NATURAL GAS PROVIDER AND ALLOW SOURCEGAS TO PROVIDE SERVICE IN PLACE OF MGTC, AFTER SOURCEGAS PURCHASES MOST OF THE EXISTING DISTRIBUTION ASSETS OF MGTC?

A, The OCA is relatively indifferent as to whether SourceGas or MGTC is the distribution service provider for the service territory. MGTC has had few, if any, complaints submitted to the Commission in regard to its service, it is continuing to upgrade its property, and it regularly updates its commodity rates. However, providing natural gas to distribution end users is not the core business of MGTC or its relatively new corporate parent. SourceGas is a large distribution company

in the state whose core business is the distribution of natural gas to end users. However, it has had a number of operational and billing problems over the years, has had an ownership change in recent years, has had several significant managerial changes in recent months, and has relatively recently expanded its utility operations. There are pros and cons associated with both of the utilities.

The OCA has no objection to SourceGas purchasing the MGTC distribution assets if it takes over as the certificated provider in the current MGTC certificated area.

The issue that is most concerning to the OCA, however, is the proposed ratemaking treatment of the net savings that are expected to be derived from reduced natural gas transportation costs and other efficiencies. We recommend that the Commission **not allow** SourceGas shareholders to retain several million dollars of natural gas transport cost reductions for the first five years following the transaction. We are particularly troubled that SourceGas seeks to do this through a waiver of Commission Rule 249 rather than through a more accepted, more traditional ratemaking method(s).

Finally, we urge the Commission to gather more information regarding any additional expected operational efficiencies and cost reductions that SourceGas touts as benefits of the transaction given the odd, inconsistent data that is contained within the annual reports.

Q. DOES THAT COMPLETE YOUR PREFILED, DIRECT TESTIMONY?

A. Yes, it does.

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AFFIDAVIT, OATH AND VERIFICATION

Denise Kay Parrish (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

Affiant is the Deputy Administrator of the Wyoming Office of Consumer Advocate which is a party intervenor in this matter pursuant to its Notice of Intervention filed on May 4, 2010.

Affiant prepared and caused to be filed the foregoing testimony. Affiant has, by all necessary action, been duly authorized to file this testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant’s knowledge, all statements and information contained within the testimony and all of its attached schedules are true and complete and constitute the recommendations of the Affiant in her official capacity as Deputy Administrator of the Wyoming Office of Consumer Advocate.

Further Affiant Sayeth Not.

Dated this 18th day of June, 2010.

Denise Kay Parrish, Deputy Administrator
Wyoming Office of Consumer Advocate
2515 Warren Avenue, Suite 304
Cheyenne, WY 82002
(307) 777-5743
dparri@state.wy.us

STATE OF WYOMING)
) SS:
COUNTY OF LARAMIE)

The foregoing was acknowledged before me by Denise Kay Parrish on this 18th day of June, 2010. Witness my hand and official seal.

My Commission Expires: