

**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 )

**SUPPLEMENTAL TESTIMONY OF**

**Denise Kay Parrish**

**On Behalf of the Office of Consumer Advocate**

**Testimony Filed: August 20, 2010**

**Hearing Begins: August 24, 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. ARE YOU THE SAME PERSON WHO FILED TESTIMONY IN THIS MATTER ON JUNE 18, 2010?**

A. Yes, I am.

**Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL TESTIMONY?**

A. The purpose of my supplemental testimony is to update some of the information that was provided in my prefiled direct testimony and to offer some additional comments on the amended joint application. This supplemental testimony is not meant to replace the earlier filed testimony. Instead, I ask that the two sets of testimony be considered together as one package.

**Q. ARE YOU SPONSORING ANY SEPARATELY ATTACHED COMPUTATIONAL SCHEDULES OR OTHER EXHIBITS AS PART OF YOUR SUPPLEMENTAL 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. HAS THE OCA'S RECOMMENDATION IN THIS PROCEEDING CHANGED SINCE YOU FILED TESTIMONY EARLIER IN THIS MATTER?**

A. No. The OCA continues to have 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 with the simultaneous cancellation of MGTC's certificate. However, we continue to have an objection to SourceGas' proposed ratemaking treatment which would allow it to charge unreasonably high rates to its Gillette Division customers for the five years following the consummation of

the transaction. The rates SourceGas proposes to charge during this five year period are unjust and unreasonable and are driven by SourceGas' desired internal earnings levels, rather than by traditional cost-based regulatory principles.

The OCA also continues to be particularly concerned about SourceGas' request to waive Section 249(a)(ii) of the Commission's Procedural Rules and Special Regulations for a five year period.

**Q. IF YOUR POSITION HAS NOT CHANGED, WHY ARE YOU FILING SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING?**

A. I prefiled my direct testimony in this proceeding based on the originally submitted joint application and supporting testimony. Since the time that my testimony was submitted, the joint applicants have provided an Amended Joint Application with Revised Testimony and Exhibits. As a result of the revisions and corrections offered by the joint applicants, the Commission issued a *Notice of Amended Joint Application* on August 2, 2010. Paragraph 15 of the *Notice of Amended Joint Application* provides an opportunity for comment on the amended matter and with this supplemental testimony, the OCA is availing itself of the offered opportunity.

**Q. MS. PARRISH, IN YOUR EARLIER FILED DIRECT TESTIMONY, YOU PROVIDED A DISCUSSION OF THE IMPACT OF THE PROPOSED TRANSACTION ON THE EXISTING MGTC CUSTOMERS. DO YOU HAVE AN UPDATED ANALYSIS TO OFFER AT THIS TIME?**

A. Yes. To simplify the issue, it may be best to separate the non-gas rates from the commodity rate when trying to compare the rate impacts on MGTC customers of various scenarios. I begin with a showing of current non-gas rates for MGTC and SourceGas' Gillette Division. And, to further simplify the matter, I will focus only on the rates for residential customers, as the vast majority of MGTC's current customers are residential in nature.

	<b>MGTC Rate (currently in effect)</b>	<b>SourceGas Gillette Rate (currently in effect)</b>
Residential – Non-Gas Cost	\$1.9435 per mcf	
Small General Service – Customer Charge		\$12.00 per month
Small General Service – Distribution Charge		\$1.5542 per Dth

So, absent consideration of any commodity costs, a customer using less than 31 mcf per month would always be better off under the MGTC rate rather than the SourceGas rate, if one considers mcf and Dth to be approximately equal values. If, as SourceGas presumes, a million cubic feet has about 1,061.8 Btu rather than 1,000, a customer using 41 mcf per month or less would be better off with the MGTC rate. Since SourceGas, on Exhibit WHM-5 shows average residential usage by the MGTC customers of about 10 units per month, it is logical that residential customers would generally be better off with the current MGTC non-commodity rates than with the SourceGas rates. This is illustrated with the following examples:

	<b>MGTC Non-Gas Tariff Only* (Currently in Effect)</b>	<b>SourceGas Gillette Non-Gas Tariff Only (Currently in Effect)</b>
Usage of 43.44 dth (40.91 mcf)	\$79.51	\$79.51
Usage of 25 dth (23.54 mcf)	\$45.75	\$50.86
Usage of 10 dth (9.42 mcf)	\$18.31	\$27.54

\* Based on SourceGas response to Staff’s Information Request 77: customers would be billed in Dth at a Btu value of 1061.8 Btu per cubic foot, rather than the original assumption of 1000 Btu.

**Q. HOW DOES THE COMPARISON CHANGE IF COMMODITY COSTS ARE INCLUDED IN THE ANALYSIS?**

A. It depends on the assumptions that are made. Mr. Meckling, at pages 6-7 of his rebuttal, argues that the commodity cost included in the rate comparison should be the same for both companies as “both companies acquire natural gas from the

same production region.” Based on this assumption, residential customers would continue to be better off economically with the current MGTC non-gas rates and assumed commodity costs than with the SourceGas non-gas rates plus commodity costs.

I, however, have made a different assumption based on recent data from the two companies’ pass-on filings. Recent data shows that the proposed gas cost estimated by MGTC (excluding any true-up or balancing account recoveries) is less than that estimated by SourceGas. In its most recent pass-on filing, Docket No. 30003-50-GP-10, MGTC projected its natural gas cost to be \$4.8973 per MCF (according to the Commission’s Notice and Order dated July 19, 2010). In the most recent SourceGas pass-on filing for its Gillette Division (see Docket No. 30022-159-GP-10), the proposed commodity cost before surcharges for prior over or under collections is shown as \$ 5.4927 per Dth. This comparison shows that the MGTC residential customers are better off financially with their existing rates compared to the existing SourceGas rates for the Gillette Division.

**Q. DOES YOUR CONCLUSION CHANGE IF MGTC WERE TO INCREASE ITS EXISTING NON-COMMODITY RATE BY EITHER THE 23% OR THE 79% DISCUSSED BY MR. WILSON ON PAGE 8 OF HIS CORRECTED DIRECT TESTIMONY?**

A. Of course, if all other things are equal. This includes no further increases for SourceGas such as those that are currently pending before the Commission. The comparisons are shown in the table below.

	<b>MGTC Non-Gas Tariff Only</b>	<b>SourceGas Gillette Non-Gas Tariff Only</b>
Usage of 10 dth (9.42 mcf)	\$18.31	\$27.54
Plus: 23% increase	<u>\$4.21</u>	
Total	\$22.52	
Usage of 10 dth (9.42 mcf)	\$18.31	
Plus: 79% increase	<u>14.46</u>	
Total	\$32.77	

If MGTC received a 23% increase of its non-gas costs, the residential customer using about 10 dth would still pay 18% less than a similarly situated Gillette SourceGas customer. If MGTC received a 79% increase in its non-gas costs, the same “average” residential customer would pay about 19% more than if the existing SourceGas non-commodity rates were applied.

However, this comparison is really quite speculative, given that SourceGas rates are likely to increase in the next few months, and I would be shocked if MGTC were to receive a 79% non-commodity rate increase that assumed a return on rate base of 11.66%. It also fails to recognize any difference between the two companies’ commodity rates, if one exists.

**Q. WHAT CONCLUSIONS DO YOU OFFER BASED ON THE ABOVE SERIES OF RATE COMPARISONS?**

A. I offer two conclusions. First, residential customers are better off economically with the use of the current MGTC rates compared to the existing SourceGas rates. While Mr. Meckling’s Revised Exhibit WHM-2 shows that today’s MGTC customers have a current higher average bill than do today’s Gillette SourceGas customers, this is because the computations are done on different average volumes for the two sets of customers. Second, I conclude that it is unclear what will happen in the future. It is not clear what rate changes will be sought and approved for either MGTC or SourceGas and thus, comparisons of future rates are speculative, at best.

**Q. DO YOU AGREE THAT UNDER THE RATE PLAN CONTAINED IN THE JOINT APPLICATION, GILLETTE CUSTOMERS WILL BE BETTER OFF IN THE FUTURE THAN IF THE TRANSACTION IS NOT APPROVED?**

A. I agree that transportation portion of the commodity rate will be reduced beginning in five years pursuant to the described plan. However, it is not clear to me how the overall rate will compare to that of today, given proposed rate

increases that are pending – including pending requests for a plethora of various rate adjustment mechanisms. However, the overall reduction in transportation rates that is expected to occur five years after the close of the transaction is not insignificant.

**Q. SINCE THE NON-GAS COST RATES OF THE MGTC CUSTOMERS ARE LIKELY TO INCREASE REGARDLESS OF THE OUTCOME OF THIS JOINT APPLICATION, SHOULD THAT BE THE DETERMINANT IN THIS CASE?**

A. No, at least not in isolation. Instead, the Commission should look at the wider view of the costs and benefits associated with the proposal. The bigger picture includes the following pieces:

<b>Impact on Existing MGTC Customers</b>	<b>Impact on Existing Gillette Customers</b>	<b>Impact on Shareholders</b>
5 years of Base Rate Freeze followed by Increased Base Rates	Overpayment of Shared Costs during Period of MGTC Customer Rate Freeze	
Possibly Higher Commodity Costs under SourceGas than MGTC		
	Overpayment of Commodity Costs for 5 years	Increased Earnings due to Overpayment of Gillette Commodity Costs and Waiver of Pass-on Principles
	Reduced Transport Costs Beginning in 5 years	
Possible but Not Guaranteed Improvements to Existing MGTC System	Eventual Increase in Base Rates to Pay for Improvements Made (if any) to MGTC System	Loss of Earnings on New Investment and Increased Expenses until New Gillette Rates Effective
		Responsible for Purchase Price that Exceeds Book Value (i.e. acquisition adjustment)

The key elements of this table are whether the promise of reduced transport costs for Gillette customers warrant providing shareholders an incentive – that is, an amount over and above the normal utility returns -- to make the investment to buy the MGTC system. And, if such an incentive is to be granted, should it be done by violating the integrity of the pass-on rules?

**Q. MS. PARRISH, IS THERE ONE LAST AREA YOU WISH TO ADDRESS IN YOUR SUPPLEMENTAL DIRECT TESTIMONY?**

A. Yes. In my original prefiled testimony, I raised a question about the efficiency of SourceGas compared to MGTC based on some very high level ratio analysis. In his rebuttal, Mr. Meckling voices his concern that my analysis incorporated inaccurate data. He then provides his view of the corrected data: however, his analysis shows a different set of comparisons than I had originally attempted to show. Therefore, I have provided an updated version of my analysis below.

	<b>MGTC 2008</b>	<b>MGTC 2009</b>	<b>SourceGas 2008</b>	<b>SourceGas 2009</b>
<b>Administrative and General Expense</b>	\$819,567	\$437,066	\$6,402,808	\$8,749,209
<b>Dth Sold*</b>	357,176	352,313	11,094,740	10,408,688
<b>A &amp; G Expense per Dth Sold</b>	\$2.29	\$1.24	\$0.58	\$0.84
<b>Operations and Maintenance Expense</b>	\$667,757	\$800,427	\$10,557,235	\$8,209,168
<b>Net Plant</b>	\$434,837	\$582,527	\$92,629,808	\$98,896,249
<b>O&amp;M per Dollar of Net Plant</b>	\$1.54	\$1.37	\$0.11	\$0.08

\* Excludes dth transported only. Sales include volumes for choice and pass-on customers for SourceGas.

**Q. DOES THAT COMPLETE YOUR SUPPLEMENTAL 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 20<sup>th</sup> day of August, 2010.

\_\_\_\_\_  
Denise Kay Parrish, Deputy Administrator  
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STATE OF WYOMING )  
 ) SS:  
COUNTY OF LARAMIE )

The foregoing was acknowledged before me by Denise Kay Parrish on this 20<sup>th</sup> day of August, 2010. Witness my hand and official seal.

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My Commission Expires: