

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF)
SOURCEGAS DISTRIBUTION LLC FOR) Docket No. 30022-148-GR-10
AUTHORITY TO INCREASE ITS NATURAL) Record No. 12450
GAS RATES BY \$7.46 MILLION PER ANNUM,)
TO CONSOLIDATE ITS TORRINGTON,)
CASPER AND GILLETTE DIVISIONS, AND)
TO IMPLEMENT A DEMAND-SIDE)
MANAGEMENT PROGRAM AND SEVERAL)
RATE ADJUSTMENT MECHANISMS.)

**PRE-FILED SURREBUTTAL TESTIMONY OF
Denise Kay Parrish**

On Behalf of the Office of Consumer Advocate

Testimony Filed: September 1, 2010
Hearing Begins: September 20, 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 PREFILED DIRECT TESTIMONY IN THIS PROCEEDING ON JULY 19, 2010?

A. Yes.

Q. WHAT ARE THE ISSUES THAT YOU WISH TO DISCUSS AT THIS TIME IN RESPONSE TO THE REBUTTAL TESTIMONY OF SOURCEGAS?

A. The primary issues that are addressed in the SourceGas rebuttal to which I wish to respond are the costs to be included in rates related to the Oil Springs seismic study, the rate case expense, the proposed Pipeline Infrastructure Cost Adjustment tariffs, and the proposed Inflation Adjustment Mechanism tariffs. However, prior to my response to the Company's discussion on each of these items, I will briefly comment on the rebuttal adjustments to the revenue requirement that have been provided by SourceGas. Additionally, I will describe my corrected / updated schedules and explain why there was a need to update these schedules.

Q. WERE THE CORRECTED / UPDATED SCHEDULES THAT ARE ATTACHED TO THIS SURREBUTTAL TESTIMONY PREPARED BY YOU?

A. Yes.

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF YOUR CORRECTED / UPDATED SCHEDULES.

A. These schedules are provided using the same format, formulas, and worksheets that were utilized for the schedules filed with my direct testimony in this docket with the only difference being the adjustments that are included as inputs to the revenue requirement calculation. (The numbers that are different than those

originally filed are shown in red.) In these revised schedules, I have attempted to show the SourceGas position regarding the revenue requirement calculation as it now exists based on my understanding of the rebuttal testimony. Additionally, I am presenting the position of the Office of Consumer Advocate (OCA) relative to the overall recommended revenue requirement as it now stands, with updates and corrections, given our current understanding of the issues that have been identified.

From the vantage point of the OCA, these revised schedules are a better reflection of the revenue requirement portion of the case as it now stands. Based on the discussion contained within its rebuttal testimony, SourceGas is now requesting an increase in its non-commodity revenues of about \$6.96 million per annum. Based on the corrections and updates to the OCA's calculations in this matter, we are now recommending that SourceGas receive an increase in its non-commodity revenues of about \$4.32 million per annum.

The gap between the SourceGas request and the OCA recommendation is about \$2.64 million. The primary issues causing the difference are:

- the level of cost related to the Oil Springs seismic study that should be included in the retail rates;
- whether a CPI factor is an appropriate indicator of cost increases, including increases to salaries;
- the level of rate case expense that should be included in the rates and the time period over which they should be amortized;
- whether the costs associated with the PEACE billing system should be included in the development of the retail rates; and
- the rate of return that should be included in the computation of the revenue requirement – an issue discussed further by Ms. Wichmann in her surrebuttal testimony.

Q. PLEASE DESCRIBE THE PRIMARY CHANGES THAT ARE REFLECTED IN YOUR REVISED SCHEDULES.

A. The first set of changes reflected in these schedules are the adjustments described by SourceGas in its rebuttal testimony.

First, the rate of return now utilized in the SourceGas Rebuttal column of Corrected / Updated OCA Schedule DKP-1 is 9.02%, based on Dr. Moyer's rebuttal testimony, as opposed to the originally requested rate of 9.17%.

Second, a change is reflected to the Company's Accumulated Deferred Income Taxes (ADIT) balance, shown on the updated version of OCA Schedule DKP-2, to recognize the updated ADIT discussion in Mr. Elliott's and Ms. Johnson-Powe's rebuttal testimonies.

Third, the SourceGas recognized Administrative and General Expenses are updated on my revised OCA Schedule DKP-4 to recognize the corrections to lobbying costs and rate case expenses as described by Mr. Elliott. These are specifically shown on his Rebuttal Exhibit JME-13, lines 5 and 6.

Fourth, the depreciation changes recognized by Mr. Elliott on his rebuttal Exhibit JME-14 at line 4 are also reflected on the Depreciation and Amortization Expense line on the updated version of OCA Schedule DKP-4. Additional detail on the Company accepted corrections to the depreciation expense is shown on corrected OCA Schedule DKP-9.

These expense changes then flow through to changes in income taxes and net operating income, as shown toward the bottom of OCA Schedule DKP-4. Additional detail of the income tax calculation is shown on OCA Schedule DKP-11. With the exception of some rounding differences, the figures labeled as being reflective of SourceGas' rebuttal position should be consistent with the figures contained within Mr. Elliott's rebuttal schedules.

Q. DO THE OCA'S UPDATED SCHEDULES ALSO REFLECT SOME CHANGES TO THE OCA POSITION IN THIS DOCKET?

A. Yes. Ms. Wichmann has updated the OCA recommended rate of return to 7.98% and it has been utilized in the revenue requirement calculation shown on OCA Schedule DKP-1.

The correction with the largest impact that I am recommending is to the Accumulated Deferred Income Taxes associated with the PEACE billing system. In my prefiled direct testimony, I inadvertently failed to make this adjustment. It is common practice to remove the associated Accumulated Depreciation and ADIT when a plant balance is removed or excluded from rate base. In this case, Mr. Freeman has filed testimony recommending the exclusion of the PEACE billing system costs from rate base. In my original testimony, I removed the PEACE asset balance and the accumulated depreciation from rate base but failed to remove the associated ADIT. On corrected OCA Schedule DKP-2, I rectify my earlier mistake by removing \$389,080 of ADIT associated with the PEACE billing system. This ADIT adjustment increases rate base, all other things being equal.

Two additional very small adjustments are also shown as being part of the OCA recommendation on corrected OCA Schedule DKP-2. These two adjustments in the amounts of \$47 and \$14,055 are changes to transmission accumulated depreciation and distribution accumulated depreciation, respectively. In its rebuttal, SourceGas adopts these changes to depreciation expense but fails to then follow-up with a similar adjustment to accumulated depreciation. I accept and have incorporated into my calculations these changes to depreciation expense but recommend that they also be made to accumulated depreciation to be consistent with the way accumulated depreciation has otherwise been calculated. This is a small adjustment with little impact on the overall rate increase, but is done to keep the overall calculation consistent and theoretically correct.

On the face of Corrected / Updated OCA Schedule DKP-4, it appears that there are changes to the OCA recommended expenses. However, this is easily clarified with a brief explanation of the changes to the expense figures for Administrative and General Expense and Depreciation and Amortization Expense. Since SourceGas agreed with several of the originally proposed OCA adjustments (as shown on Mr. Elliott's rebuttal Exhibit JME-13) and they are now reflected in the SourceGas rebuttal figures, it would be double-counting to continue to show these same adjustments in the OCA Adjustment column. Thus, once they were included as a SourceGas adjustment, there was no need to include them as an OCA adjustment. This is what is reflected on the revised OCA schedules, specifically OCA Schedule DKP-4.

Q. PLEASE EXPLAIN WHY THERE ARE REVISIONS TO OCA SCHEDULE DKP-5.

A. The revisions to the OCA adjustments by expense subcategory are formulaic driven based on the original OCA adjustment to remove the SourceGas' inflation adjustment. To better understand the changes on revised OCA Schedule DKP-5, it is best to start with an examination of revised OCA Schedule DKP-6 and the Administrative and General costs at the bottom of the page. The Company's Administrative and General expenses have changed, as mentioned above and shown on Mr. Elliott's rebuttal Exhibit JME-13. These updated Administrative and General costs have been updated to \$7,890,647 with total SourceGas costs shown on this page as \$20,466,170. The allocation of the OCA adjustment (totaling \$307,903) to each listed expense subcategory is driven by the proportional relationship of the Company's expense subcategories amounts to the total expense. Thus, any change in the SourceGas Administrative and General expense will change the proportional relationships applied to the OCA adjustment as it is spread to the various expense subcategories. These changes are very small but were built into the spreadsheet and are useful to Ms. Zamora as she assigns costs to develop her cost of service and rate proposals. These changes from OCA

Schedule DKP-6 then carry over to OCA Schedule DKP-5, as the inflation adjustment removal is combined with the OCA's proposed wage adjustment. No adjustments beyond those reflected in my original direct testimony are proposed to the wage adjustment shown on OCA Schedule DKP-7.

Q. ARE YOU PROPOSING ANY CHANGES TO YOUR RATE CASE EXPENSE ADJUSTMENTS?

A. No. The substance and nature of these adjustments have not changed from the discussion contained within my prefiled direct testimony. The only small change relates to the fact that a very small portion of the OCA proposed rate case adjustment has been agreed to by SourceGas in its rebuttal testimony, as described by Mr. Elliott. As with some of the other adjustments, the \$18,336 agreed to by SourceGas has now been recognized as a SourceGas adjustment rather than as an OCA adjustment. Other than this small change, the earlier proposed OCA rate case expense adjustment remains as it was previously proposed.

Q. MS. PARRISH, WHAT DO YOU HAVE TO ADD TO YOUR PRE-FILED TESTIMONY REGARDING YOUR RECOMMENDED DISALLOWANCE OF SOME OF THE OIL SPRINGS SEISMIC STUDY COSTS?

A. I have one point to add to my initial testimony on this matter. In his rebuttal testimony at page 5, Mr. Elliott argues that if a cost, such as that incurred for the Oil Springs study and possible storage expansion, is prudently incurred and "used and useful for the convenience of the public" then the entirety of the costs must be included in rates. However, this violates the common regulatory practice of sharing costs among various beneficiaries. For example, it is a common regulatory practice to share certain costs between shareholders and ratepayers when there is a clear benefit to both – for example, when dealing with corporate restructuring or downsizing costs. Furthermore, costs are often shared between regulated and unregulated operations when there is a benefit to both. Items to be shared include trucks, labor, materials and supplies, etc. A third type of sharing

occurs between jurisdictions. Taken to its extreme illogical conclusion, SourceGas' argument could conclude that all of the costs of the corporate headquarters building should be recovered through Wyoming rates, rather than shared with other states such as Nebraska and Colorado, since that headquarters building is used and useful for serving Wyoming customers. But, in practice, that is not what happens. Instead, the costs are shared among the various jurisdictions.

This last example, of sharing costs among jurisdictions, is on point to the Oil Springs issue. The long term plan was to seek to expand the Oil Springs storage field through the conversion of the storage facilities into an interstate jurisdictional asset. Thus, there was a plan to have an interstate jurisdiction, along with the existing retail jurisdictions, among which the costs of the various investments and expenses would be shared. So, the seismic study costs were to benefit shareholders through the establishment of an interstate jurisdiction. The fact that the interstate jurisdiction never came to be for Oil Springs does not change the intention of the longer term plan for storage expansion nor the fact that costs were incurred pursuant to this failed plan.

Prudently incurred costs are frequently shared among various beneficiaries. That is precisely what OCA proposes in this case. It is not a matter of whether the costs were prudently incurred but rather, who were the intended beneficiaries of the expenditures. Much of the plan focused on how to make more money for shareholders while making sure that ratepayers were no worse off. For that reason, the OCA continues to recommend that the costs be shared between ratepayers and shareholders.

Q. HAS THE OCA CHANGED ITS POSITION REGARDING THE LEVEL OF RATE CASE COSTS TO BE INCLUDED IN THE RATES RESULTING FROM THIS PROCEEDING?

A. No. In fact, we are more convinced than ever that SourceGas has overestimated the rate case costs to be included in the revenue requirement used to establish retail rates in this case.

Q. PLEASE EXPLAIN.

A. As summarized in my direct testimony in this case and as shown on OCA Schedule DKP-8, page 1 of 2, SourceGas has estimated rate case expenditures for outside services and incremental out-of-pocket costs of more than \$818,000 in association with this proceeding. This is a huge amount of money given the increased costs that have already been incorporated into the revenue requirement for the establishment of an in-house regulatory department. The amount requested in this case is 20% more than the rate case expense requested in the last proceeding and in excess of 57% more than the amount of rate case expense included in the settlement of the prior rate case.

The OCA is recommending that the amount of rate case expense to be included in the revenue requirement be established at \$335,000 with the cost amortized over a five year period, resulting in an annual expense of about \$67,000. To be added to this would be the remaining amortization for the prior rate case costs. The OCA recommends that these remaining period case costs of more than \$227,000 be amortized over the next five years, rather than over the originally agreed upon timeframe of another 7.75 years. The result of OCA's recommendation is a total annual rate case expense of more than \$112,000 per year for the next five years.

In my original testimony at page 14, I characterized the OCA recommended rate case expense for this proceeding (in the amount of \$335,000) as "quite generous." The OCA's characterization and original rate case cost estimate appear to be supported by a review of the expenditures to-date. As found in the SourceGas response to the Commission Staff's Information Requests 4.62, the expenses that had been invoiced as of the response dated August 20, 2010, were:

Expert Witnesses	\$128,975
Depreciation Study	\$9,956
Outside Counsel	\$34,318
Printing, Copying, Mailing	\$8,406

The amounts invoiced to date are a fraction of the original cost estimates, as shown below:

	SourceGas Estimate	Invoiced To-Date
Expert Witnesses and Other Consulting Costs	\$395,000	\$128,975
Depreciation Study	\$38,100	\$9,956
Outside Counsel	\$250,000	\$34,318
Printing, Copying, and Mailing	\$90,000	\$8,406
Public Hearings and Employee Travel	\$45,000	
TOTAL	\$818,100	\$181,655

Less than 25% of the SourceGas originally estimated costs have been spent to date and the case has been prepared, the rebuttal has been filed, and much of the discovery has been completed. Of course, there will be some additional fees incurred for prosecuting the case, particularly if the matter does not settle. However, it is difficult to imagine how many of these originally estimated fees could be expended at this time. For example, look at the cost of the depreciation study. The study has been completed, as it was discussed as part of the original Company testimony and used in the development of the filed rate change request. No party has filed an objection to the proposed rates, and thus, there appears to be little controversy regarding these rates. Yet, the cost estimate that Mr. Elliott continues to support includes a cost estimate nearly four times the amount invoiced to-date.

Travel and hearing costs are another category that seems to be estimated at an extremely high level. OCA Schedule DKP-8, page 1 of 2, shows a SourceGas cost estimate of Employee Travel to Cheyenne of \$25,000. First, we now know that the Commission has scheduled the hearing for four days. If 10 people were

to spend an average of \$200 per day for 5 days, the cost would be \$10,000. There is no further explanation as to the reasonableness of a \$25,000 cost estimate. Furthermore, at page 11 of his rebuttal, Mr. Elliott explains that the cost estimate for some of the consultants is inclusive of both personnel fees and travel costs, raising additional concern about the level of the separately identified travel costs.

Another concerning category of cost is that identified for Black and Veatch at a level of \$325,000. It is true that a consultant from the firm of Black and Veatch spent a great deal of time working with the Company witnesses and sitting in on the OCA's regulatory audit. However, it appears that these costs have been estimated by Mr. Elliott to be about \$35,500 at page 11 of his testimony. There is no specificity in Mr. Elliott's testimony regarding the remaining \$289,500 in Black and Veatch costs. If the cost is associated with Mr. Sullivan's testimony, there is no explanation as to why his testimony and associated costs are so much more than for the other outside consultants.

Q. HOW DO YOU RESPOND TO MR. ELLIOTT'S REBUTTAL TESTIMONY THAT INDICATES THAT THE OCA RECOMMENDED THE DISALLOWANCE OF THE COST ASSOCIATED WITH SPECIFIC COMPANY EXPERTS IN THIS PROCEEDING?

A. I disagree with Mr. Elliott's characterization of the OCA rate case expense adjustment. The OCA has not recommended that the cost associated with any particular consultant or outside expert in this proceeding be eliminated. Instead, the OCA recommends that the estimated rate case cost be reduced from the estimated level requested by SourceGas in this case, since the SourceGas estimate does not appear to be reasonable or justified.

The OCA is recommending a more reasonable level of costs than the level estimated by SourceGas. The OCA's cost estimate is based on available data from the prior rate case and is further substantiated by the costs invoiced to-date. We are not recommending that the cost for one consultant be allowed while

another is disallowed. Instead, we recommend the inclusion of a reasonable total. Because of the mischaracterization of my initial testimony in this proceeding, the discussion of Mr. Elliott in his rebuttal that suggests that the OCA is recommending costs associated with specific consultants is not on point.

Q. WHAT DO YOU WISH TO ADD TO YOUR DISCUSSION ABOUT THE PROPOSED INFLATION ADJUSTORS IN RESPONSE TO MR. SULLIVAN’S REBUTTAL TESTIMONY?

A. On page 18 of his rebuttal testimony, Mr. Sullivan states that I have provided an erroneous description of the review process that would be associated with the proposed inflation adjustment tariffs. Mr. Sullivan then states that “the review process being proposed by the Company is essentially the same review process the Commission performs in regard to PGA filings.”

I continue to disagree with Mr. Sullivan on this point. Changes to the Pass-On Rate [Regulated Rate] require the filing of an application – as specified explicitly in SourceGas’ Wyo. P.S.C. Tariff No. 5, Second Revised Sheet No. 18, at 8.3:

On a quarterly basis, the Company will file an application to establish a projected Pass-On Rate [Regulated Rate] Base Charge to be included in its Tariff ...

This is different than the language proposed for the Distribution Inflation Adjustment Rider on Wyo. P.S.C. Tariff No. 5, Original Sheet No. 21F.02 in Exhibit 1 attached to SourceGas’ Application. Specifically, the proposed language states:

Company shall file a report with the Commission on or before March 1st of each year showing the calculation of the DIA Factor for the DIA Calculation period.

There is no mention of an application anywhere in the proposed Distribution Inflation Adjustment Rider tariff or in the Transmission Inflation Adjustment Rider Tariff. This language in itself raises significant concern about the difference

in process that may be anticipated or employed for changes to the Pass-On Rate [Regulated Rate] versus the Inflation Adjustors.

I note that the Transportation Rate Adjustment tariff, found at Wyo. P.S.C. Tariff No. 5, First Revised Sheet No. 20, also explicitly requires the filing of an application to change the rate:

On an annual basis, the Company will file an application to establish a TRA rate to be included in rates.

I also disagree with Mr. Sullivan regarding his view of the simplicity of the review process for the Pass-On Rate [Regulated Rate]. He states at page 18 of his rebuttal in a reiteration of his earlier testimony:

The Commission's review process should focus on ensuring that the Company has used the correct input data and correctly performed the calculations prescribed in the tariff.

This may be Mr. Sullivan's view of what should be done but the reality of the review process is entirely different. In fact, the Commission has looked at lots of issues beyond whether the formulas are being correctly calculated and whether inputs are correctly entered into the formula. The Commission has examined whether the forecast data makes sense in the current market. The Commission has examined whether the specific tariff language is being properly interpreted. The Commission has studied Company's hedging policies and purchasing practices. These are more than a matter of seeing that the proper number from a government website is properly input into a formula.

Q. MS. PARRISH, DO YOU HAVE ANY FURTHER COMMENTS IN LIGHT OF THE REBUTTAL TESTIMONY THAT SOURCEGAS PROVIDED REGARDING ITS PROPOSED PIPELINE INFRASTRUCTURE COST ADJUSTMENT MECHANISMS?

A. Yes. I wish to comment on two specific issues raised by Mr. Abbate in his rebuttal testimony. First, at page 2 of his rebuttal testimony, Mr. Abbate indicates that SourceGas would be willing to accept certain changes to the proposed PICA

mechanisms under certain conditions. Yet, no revised language is offered for the Commission's or parties' review or comment. It is not clear which of the OCA's comments SourceGas may be willing to accept and which would be unacceptable because they do not meet the Company's stated conditions. The OCA continues to oppose the proposed PICA tariffs in concept; however, even if the Commission were inclined to adopt the concept, there is no revised language to review to determine whether the specifics of the mechanism are in the public interest. Clearly, based on the discussion in my direct testimony, the language as it has been currently provided in this docket is not in the public interest and should not be approved.

Second, I wish to respond to Mr. Abbate's rebuttal testimony on page 3 wherein he indicates that the proposed PICA tariffs are necessary, in part, because of the use of a historic test year in rate proceedings and the inherent regulatory lag associated with a historic test year. I simply wish to point out that a historic test year is not required by Wyoming statute or practice. This was a choice made by SourceGas; other utilities have looked at different test periods including reaching into the future or coordinating rates with the in-service dates of new plants.

Q. MS. PARRISH, DO YOU RECOMMEND THAT THE COMMISSION AUTHORIZE A PER ANNUM INCREASE TO ITS NON-COMMODITY RETAIL REVENUES IN THE AMOUNT OF ABOUT \$4.3 MILLION?

A. Yes, to do so would be in the public interest and the OCA so recommends. Our remaining concerns regarding the proposed adjustment mechanisms remain and we recommend that they not be authorized at this time.

Q. DOES THIS CONCLUDE YOUR PREFILED SURREBUTTAL 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 intervener in this matter pursuant to its Notice of Intervention filed on March 1, 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 1st day of September, 2010.

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

STATE OF WYOMING)
) SS:
COUNTY OF LARAMIE)

The foregoing was acknowledged before me by Denise Kay Parrish on this 1st day of September, 2010. Witness my hand and official seal.

Notary Public

My Commission Expires: