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Public Service Commission
Wyoming

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
OF KINDER MORGAN, INC. FOR AUTHORITY)
TO INCREASE ITS CHARGES FOR GAS)
SERVICE IN IS CASPER DIVISION BY \$5.74)
MILLION PER YEAR, GILLETTE DIVISION)
BY \$1.37 MILLION PER YEAR AND)
TORRINGTON DIVISION BY \$0.83 MILLION)
PER YEAR; TO IMPLEMENT A NEW TARIFF)
VOLUME NO. 5; AND FOR APPROVAL OF A)
BAD DEBT TRACKER MECHANISM)

Docket No. 30022-73-GR-06
Record No. 10437

DIRECT TESTIMONY
OF
DENISE KAY PARRISH
ON BEHALF OF
THE OFFICE OF CONSUMER ADVOCATE

TESTIMONY FILED: August 9, 2006

HEARING DATE: September 18, 2006

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

4

5 **Q. WHAT IS YOUR OCCUPATION?**

6 A. I am the Deputy Administrator of the Wyoming Office of Consumer Advocate
7 (OCA). In this position, I review and provide input into the recommendations
8 made by the OCA. I review utility applications filed with the Wyoming Public
9 Service Commission (Commission) and provide advice to the Administrator
10 regarding the involvement the OCA should have, if any, in various cases. I
11 review applications, perform analyses and provide recommendations to the
12 Commission relative to various utility matters, including revenue requirements,
13 tariff language, competitive issues, rules and regulations, rate design, performance
14 standards, and other related items. I also do other assignments and tasks, as
15 needed and as assigned by the OCA Administrator.

16

17 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
18 **BACKGROUND?**

19 A. In 1976, I graduated from Michigan State University with a Bachelor of Arts
20 degree with a major in Accounting. I have spent more than twenty-nine years as a
21 regulator of public utilities, having been on the staff of four state utility regulatory
22 commissions and two consumer advocate entities. More than fourteen of those
23 years have been spent as a regulator in Wyoming.

24

25 I have taken classes related to various aspects of public utility regulation,
26 including income taxes, regulatory accounting, capital recovery, cost-of-service,
27 rate design, revenue requirements, separations and allocations, auditing, and other
28 specialized topics. I have taught classes on issues of accounting standards,
29 general ratemaking principles, affiliate transactions, regulatory accounting,
30 financial reporting, rate case auditing, cost allocations and other specialized topics
31 to regulatory professionals.

1 Since 2002, I have been an instructor at the Michigan State University Institute of
2 Public Utilities (CAMP NARUC). I have also worked with the Nigerian
3 Communications Commission on regulatory accounting and reporting matters and
4 have done work for the International Telecommunications Union as a seminar
5 leader. Furthermore, I participated as a presenter at several meetings of the Tariff
6 and Pricing Committee of the Energy Regulators Regional Association (ERRA).

7
8 I am a past chair and current member of the National Association of Regulatory
9 Utility Commissioners' (NARUC) Staff Subcommittee on Accounting and
10 Finance. I am a member of the NARUC Staff Subcommittee on International
11 Relations. I am currently also a member of the National Association of State
12 Utility Consumer Advocates' (NASUCA) Tax and Accounting Committee.
13 Finally, I am a member of the staff of the Federal-State Joint Board on Universal
14 Service.

15
16 **Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?**

17 A. Yes. I have testified more than one hundred twenty-five times as an expert
18 witness. I have testified before the Michigan Public Service Commission, the
19 Colorado Public Utilities Commission, the Colorado District Court, the Arizona
20 Corporations Commission, the Wyoming Public Service Commission, and the
21 Wyoming Legislature's Joint Corporations Committee. I have testified in
22 telecommunications, water, wastewater, electric, and natural gas cases. The
23 subjects upon which I have testified include fuel and purchased power cost
24 adjustment mechanisms, revenue requirements, rate design, cost-of-capital,
25 nuclear decommissioning, accounting deferrals, income taxes, capital recovery,
26 universal service funding, cost allocations, competitive issues, proposed
27 rulemakings, and other specialized topics. In November 2004, I also provided
28 testimony before an *en banc* hearing of the Federal State Joint Board on Universal
29 Service about potential changes to the federal high cost fund.

30
31

1 **Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?**

2 A. As a member of the Office of Consumer Advocate, I represent the interests of
3 Wyoming citizens and all classes of customers in this public utility matter, as
4 required by W.S. § 37-2-401. I do not represent the position of any individual
5 group, municipality, or corporation.

6

7 Individual customers or customer groups are welcome to – and encouraged to—
8 participate in the process at the Commission. This participation may range from
9 becoming in intervenor, separate and apart from the OCA’s intervention, or by the
10 submission of a written or oral public comment.

11

12 **Q. ARE YOU SPONSORING ANY SEPARATE EXHIBITS AS PART OF**
13 **YOUR DIRECT, PREFILED TESTIMONY IN THIS PROCEEDING?**

14 A. No, I am not. All of my discussion of the issues is incorporated into my direct
15 testimony. However, I am presenting, and endorsing on behalf of the OCA, the
16 attached Stipulation and Agreement between Kinder Morgan and the OCA. This
17 Stipulation and Agreement is attached to my testimony to provide ready access to
18 its terms and conditions since I will be referring to it throughout my testimony.
19 However, it was jointly submitted to the Commission prior to the submission of
20 this prefiled testimony.

21

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

23 A. The purpose of my testimony is to present the OCA’s position regarding Kinder
24 Morgan’s request to increase its non-gas rates for natural gas service.
25 Specifically, I discuss the Stipulation and Agreement to which the OCA and
26 Kinder Morgan have agreed. My testimony is presented in conjunction with the
27 testimony of OCA Administrator Bryce Freeman, who discusses the appropriate
28 cost of equity, and OCA Analyst Amy Zamora, who discusses the appropriate rate
29 base and several other specific aspects of the Kinder Morgan application.

30

1 **Q. PLEASE SUMMARIZE THE OCA'S POSITION RELATIVE TO KINDER**
2 **MORGAN'S REQUESTED INCREASE IN NATURAL GAS SERVICE**
3 **RATES.**

4 A. At this time, the OCA is presenting its position as agreed upon with Kinder
5 Morgan, Inc. and documented within the Stipulation and Agreement.

6
7 However, the OCA is specifically requesting the ability to ask for a further
8 hearing or a re-opening of the record, if the Commission does not adopt, without
9 material change, the specifics of the Stipulation and Agreement. The ability to
10 present further evidence, if the Commission chooses not to adopt the Stipulation
11 and Agreement without material change, is important to the OCA. Our support of
12 the Stipulation and Agreement, as it is presented, is based on the entirety of the
13 package, with all of its gives and takes. If that balance is modified, the OCA
14 would have to re-examine whether it could support the result or whether it would
15 have to withdraw from the Stipulation and Agreement. Thus, the OCA's
16 recommendation that the Stipulation and Agreement is in the public interest and
17 should be approved is only applicable to the document as presented.

18
19 The Stipulation and Agreement is different in several important ways from Kinder
20 Morgan's filed case. The list below summarizes several of the key differences,
21 but is not intended to be an all-inclusive list:

- 22 • Kinder Morgan's request for a bad debt tracker will not be approved or
23 implemented at this time. Instead, the test year level of bad debt is
24 included in the revenue requirement and the proposed non-gas rates.
- 25
26 • The Dakota-Lakota cushion gas is removed from rate base, providing a
27 permanent rate reduction to *all* Casper division customers.
- 28
29 • The sales from the Dakota-Lakota cushion gas sales go to Casper division
30 customers as a one-time credit, consistent with Kinder Morgan's proposal
31 for the disposal of the cushion gas in the Dakota-Lakota storage formation.
- 32
33 • The stipulated authorized cost of equity is 11% rather than the originally
34 requested 12.7%.
- 35

- 1 • Kinder Morgan's proposed general inflation factor of 2.5% is removed
2 from the case, and is replaced with a labor and payroll tax increase of
3 3.62%.
4
5 • The rate case expense is adjusted to better reflect the costs associated with
6 a settled case, rather than a fully litigated case, and some of the costs are
7 amortized over a longer period of time than are the costs more typically
8 associated with a rate filing.
9
10 • Certain donations and lobbying fees are removed from the computation of
11 customer rates, and instead, will be absorbed by Kinder Morgan's
12 shareholders.
13
14 • The \$1.00 per customer per month charge associated with the
15 administration of the Choice Gas program remains as a fee paid only by
16 customers who are not Pass-on Rate [Regulated Rate] customers.
17
18 • Kinder Morgan has agreed, at the OCA's request, that it will file another
19 rate case no later than February 28, 2010, which will include an updated
20 depreciation study.
21
22 • Kinder Morgan and the OCA propose an effective date for the new rates
23 of October 1, 2006.
24
25

26 **Q. PLEASE PROVIDE SOME BACKGROUND ON KINDER MORGAN'S**
27 **PROPOSED INCREASE IN NATURAL GAS SERVICE RATES.**

28 A. From the OCA's perspective, this case has been in the making for a number of
29 years. For the past five or six years, I have expressed concern about the level of
30 Kinder Morgan's earnings, particularly in the context of its Pass-on Rate
31 [Regulated Rate] filings.
32

33 This concern was also expressed in Docket No. 30022-GA-01-1, et al. where a
34 settlement with a number of parties (excluding the Consumer Advocate Staff for
35 whom I was a witness) attempted to address the on-going earnings level
36 controversy for Kinder Morgan. The settlement included a provision which stated:

37 KMI shall provide a cost and revenue study to CAS by September
38 1, 2003, or within three months after the conclusion of the first full
39 year of operations under the reorganization of NGC into KMI.
40 Such cost and revenue study will be conducted using data for the
41 annual period from June 1, 2002 through May 31, 2003.

1 Following Commission approval of this stipulation and agreement
2 and through the period ending August 31, 2003, KMI shall not be
3 precluded from filing a rate case with the Commission. The
4 provision shall not affect the Commission's rights to issue a show-
5 cause order during such period.
6

7 In its March 4, 2002, order approving the above-cited stipulation and agreement,
8 the Commission stated at paragraph 89:

9
10 We agree with the Consumer Advocate Staff that the financial
11 results of Kinder Morgan should not go unexamined and that a
12 study, similar to the one described in paragraph 12 of the
13 Stipulation, should be filed with the Commission rather than just
14 the Consumer Advocate Staff. We do not agree with the
15 Consumer Advocate Staff that a filing should be made in the
16 immediate future. Going forward, we will be confronting a
17 merged utility which offers service under a greatly expanded
18 Choice Gas Service Program. ...to obtain data which might
19 resemble the actual data that would be presented by the company
20 in a filing made on its proposed time schedule, set to capture a
21 year's worth of data on the merged entity and the wider operation
22 of the Choice Gas Service Program. To allow the Commission to
23 examine the filing thoroughly and understand its impact, Kinder
24 Morgan must include any rate changes it believes to be necessary
25 and should state why rates left unchanged remain proper. . .
26

27 Kinder Morgan made its requisite filing on August 29, 2003, and included
28 information for the 12 months ending May 31, 2003. The information was filed
29 only for the Casper division. On October 22, 2003, in response to a pleading of
30 the OCA, the Commission issued a written order requiring the filing of cost and
31 revenue data for the Torrington Division and the Gillette Division, on or before
32 February 19, 2004. The OCA spent a significant amount of time trying to wade
33 through the numbers in these compliance filings in an attempt to determine
34 Kinder Morgan's current actual earnings. Before we reached a conclusion
35 regarding Kinder Morgan's actual earnings levels, a new agreement was reached.
36

37 **Q. WHAT INTERVENING EVENT OCCURRED DURING OCA'S REVIEW**
38 **OF THE COST AND REVENUE STUDIES?**

1 A. On November 18, 2004, Kinder Morgan filed its quarterly Pass-on Rate
2 [Regulated Rate] applications in Dockets 30022-GP-04-44 through 46. The OCA
3 intervened, and took issue with Kinder Morgan's then reported earnings levels. In
4 May 2005, the OCA and Kinder Morgan entered into a Stipulation and
5 Agreement which included the following provision:

6
7 KMI agrees to provide a full informational filing to the
8 Commission and OCA (as detailed in Appendix A to this
9 Stipulation) OR to file a rate case with the Commission by
10 December 1, 2005. This filing deadline may be extended, at
11 KMI's option, after November 30, 2005, on a month-to-month
12 basis, for up to an additional three months through February 28,
13 2006, commensurate with any extension of the bill credit described
14 in paragraph 12(d) above. . .
15

16 The Stipulation and Agreement, dated May 12, 2005, also referenced a May 4,
17 2005, letter that Kinder Morgan had received from the Commission. This letter
18 noted the Gillette division rates had not been reviewed since 1983, the Casper
19 division rates were last set in 1988, and the Torrington division rates were
20 established in 1993. Hence, the letter requested Kinder Morgan "to affirmatively
21 prepare a comprehensive general rate case filing" for the Commission's review,
22 but the request was "not seeking a particular outcome regarding raising or
23 lowering Kinder Morgan's rates." The Commission approved the stipulation in a
24 written order dated June 28, 2005.

25
26 On February 28, 2006, Kinder Morgan filed the current case – a traditional rate
27 case that contains all of the usual elements: rate base, current earnings, proposed
28 earnings levels, the requested cost of capital levels, cost of service studies, current
29 and proposed rates, and proposed tariff changes.

30
31 **Q. ARE YOU SATISFIED THAT THE INFORMATION CONTAINED**
32 **WITHIN THE FILING APPROPRIATELY REPRESENTS KINDER**
33 **MORGAN'S WYOMING OPERATIONS AND ASSOCIATED**
34 **EARNINGS?**

1 A. I am reasonably satisfied that the filing represents a “best-effort” on the part of
2 Kinder Morgan to fairly show its current earnings levels in Wyoming. My
3 opinion on this came from hours of discussion with Kinder Morgan personnel
4 about the efforts they undertook to obtain the correct data and weed out the costs
5 that are not Wyoming related. And, while I continue to have a concern that
6 Kinder Morgan’s accounting system is not currently rate-case-preparer-friendly (a
7 matter I will discuss later in my testimony), it appears that Kinder Morgan
8 diligently worked to overcome the accounting records obstacle and prepare a case
9 that is reasonably traditional in form and format.
10

11 **Q. PLEASE DESCRIBE THE ANALYSIS THAT YOU PERFORMED PRIOR**
12 **TO MAKING YOUR RECOMMENDATIONS IN THIS PROCEEDING**

13 A. A number of regulatory and analytical steps were taken prior to preparing and
14 presenting the OCA’s recommendations contained in my testimony and exhibits.

15 While not a comprehensive list, my pre-recommendation activities include:

- 16 • Meeting with Mr. Breland, prior to the filing, to discuss ways to
17 allow all parties to represent their best interests, but still work in a
18 cooperative way to process the filing.
- 19 • Participating in meetings with Kinder Morgan representatives
20 where the overview of the rate application was presented, and the
21 OCA provided input or reactions regarding specific issues.
- 22 • Participating in several days of intense work sessions with Kinder
23 Morgan and OCA representatives where supporting data was
24 requested, workpapers were reviewed, and subject matter experts
25 provided information.
- 26 • Initiating numerous conference calls with Kinder Morgan
27 representatives to discuss and respond to concerns about specific
28 aspects of the application.
- 29 • Obtaining and studying additional source data, such as FERC Form
30 One and prior Commission orders.
- 31 • Recreating portions of the Kinder Morgan models to verify the
32 computations and overall results.
- 33
- 34
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1 Q. AS A RESULT OF THE ANALYTICAL WORK THAT YOU HAVE
2 PERFORMED IN RESPONSE TO THIS FILING, ARE YOU
3 COMFORTABLE REPRESENTING THAT THE STIPULATION AND
4 AGREEMENT IS IN THE PUBLIC INTEREST?

5 A. Yes, I am. However, as I noted before, my comfort with the Stipulation and
6 Agreement, and my recommendation that the public interest would be served by
7 approval of this agreement, is based on my view of the whole package of
8 recommendations, rather than any one recommendation standing alone.

9

10 Q. WHAT IS THE ON-GOING CONCERN THAT YOU HAVE RELATIVE
11 TO KINDER MORGAN'S ACCOUNTING RECORDS AND
12 SUPPORTING DATA?

13 A. Many utilities that the Commission and OCA interact with regularly have
14 established accounting systems that are generally formatted such that accounting
15 and reporting to regulators is easily accommodated. This includes establishing
16 account numbering and content consistent with the established Uniform System of
17 Accounts, recognizing different costs associated with different jurisdictions, and
18 allowing for searches of particular items or batches of items. I am concerned that
19 Kinder Morgan's accounting system was not created to make it regulatory-user
20 friendly.

21

22 It is my understanding that it was an extremely labor intensive process to put
23 together the "book" numbers (the numbers prior to adjustments) found in the
24 application. It was also my own experience that it was difficult to search for
25 monthly or annual trending of the data, given the format in which it was provided
26 to OCA from the accounting department.

27

28 There was testing of the data between the exhibits and the general ledgers for
29 specific accounts. There were conversations to understand the labor intensive
30 process undertaken to compile the data in the application. Workpaper details
31 were reviewed. All of this provides comfort that we can, and should, proceed

1 with the current recommendations. But, honestly, it was not the same level of
2 review that I would like to have done for Kinder Morgan had more user-friendly
3 data been made available. To this end, it would be to everyone's benefit if OCA,
4 Kinder Morgan, and other interested parties entered into discussions, prior to the
5 filing of the next rate case, to discuss ways that better supporting documentation
6 and data may be made available.

7
8 **Q. DOES THE STIPULATION AND AGREEMENT INCORPORATE**
9 **SEVERAL ADJUSTMENTS TO THE RATE BASE COMPARED TO**
10 **KINDER MORGAN'S ORIGINAL REQUEST?**

11 A. Yes. These adjustments are discussed in more detail by Ms. Zamora in her
12 prefiled testimony. Generally, these adjustments include: the removal from rate
13 base of the cushion gas in the Dakota-Lakota storage formation, a minor
14 correction to the Powder River facilities adjustment proposed in the rate filing,
15 and to shift from base rates to the Pass-on Rates [Regulated Rates] of the return
16 on rate base associated with the storage gas.

17
18 **Q. DOES THE STIPULATION AND AGREEMENT RELATE TO OTHER**
19 **ASPECTS OF THE DAKOTA-LAKOTA STORAGE FACILITY**
20 **PROPOSAL?**

21 A. Yes. The OCA supports approval of Kinder Morgan's application in Docket No.
22 30022-79-GA-06, including both the rate base reduction and the crediting to
23 Casper division customers the net benefit of the sale of the cushion gas. The
24 OCA believes that approval would be consistent with the public interest, and we
25 anticipate that the application will ultimately meet with the Commission's
26 approval. While it does not depend on a particular outcome in the Dakota-Lakota
27 storage abandonment docket, the Stipulation and Agreement filed in this case
28 does anticipate that the Dakota-Lakota storage abandonment application will
29 ultimately meet with the Commission's approval.

30

1 **Q. DOES THE STIPULATION AND AGREEMENT ALSO INCLUDE A**
2 **DIFFERENT COST OF CAPITAL THAN THAT ORIGINALLY**
3 **REQUESTED BY KINDER MORGAN?**

4 A. Yes. Kinder Morgan and OCA propose that the Commission authorize a return
5 on equity of 11% instead of the 12.7% requested in the filing. When this 11%
6 return on equity is combined with the cost of debt and the capital structure, the
7 overall recommended return on rate base becomes 8.36%. Currently, the
8 authorized rates of return on rate base are 10.9%, 11.91% and 10.61% for Casper,
9 Gillette, and Torrington respectively.

10

11 Mr. Freeman discusses the details of the derivation of the recommended 11%
12 return on equity. This change in the return on equity results in about a million
13 dollars reduction in the combined revenue requirement reduction for the Casper,
14 Gillette, and Torrington divisions, compared to the filed case.

15

16 **Q. ARE THERE ALSO MODIFICATIONS TO KINDER MORGAN'S ON-**
17 **GOING LEVELS OF OPERATING EXPENSES INCLUDED IN THE**
18 **COMPUTATION OF THE PROPOSED RATES?**

19 A. Yes. The expense adjustment with the largest overall dollar impact is the removal
20 of the 2.5% inflation factor from the revenue requirement. Kinder Morgan made
21 this adjustment in a broad-brush attempt to reflect general expense increases for
22 the time period that rates would be in effect. However, it would be unusual for
23 the Commission to accept such a broad adjustment, as it appears to fail the *known*
24 *and measurable* test that has historically been applied.

25

26 The more commonly acceptable approach to reflecting cost increases is to study
27 individual expense categories or accounts. For example, an adjustment to
28 *insurance* or to *pensions* would not be surprising, as these are accounts that might
29 be expected to increase in today's economy. So, when I realized that I would not
30 be recommending approval of the general inflation adjustment proposed in the

1 case, I suggested to Kinder Morgan that I would be willing to consider the more
2 individualized cost categories for pro forma adjustments.

3
4 **Q. IS THE SALARY, WAGE, AND PAYROLL TAX ADJUSTMENT AN**
5 **INDIVIDUAL COST CATEGORY ADJUSTMENT OF THE TYPE TO**
6 **WHICH YOU JUST REFERRED?**

7 A. Yes, but it was the only one for which I was able to satisfy myself of the known
8 and measurable test. Traditionally, some expenses in addition to labor would be
9 adjusted. To make this wage adjustment, I began with direct labor information
10 taken from Mr. Buck's Exhibit CWB-1, Schedules 1 and 2. From this, the
11 automatic meter readings direct labor savings were subtracted. I then added in the
12 indirect labor test year amounts that I was able to glean from a data response. The
13 indirect labor then had to have a share allocated to Wyoming, and further
14 allocations then had to be done to derive the amount for whichever of the three
15 Wyoming divisions was being computed. To the total of the direct and indirect
16 wages, I then applied the average budgeted base pay percentage increases for
17 Kinder Morgan's retail business units for the past five years, 3.62%. This number
18 also happens to be the average increase that remains for the most typical of the
19 three years, if the high year and low year are dropped from the five year average.
20 And, strangely, it also happens to be very close to the amount budgeted for 2005.
21 Finally, I applied the same percentage increase to the Payroll Tax number for the
22 sake of completeness. The computation for the Casper division is shown below.
23 The computation for Gillette and Torrington are computed using the same
24 computational method as shown below for Casper.

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	<u>Direct</u> <u>Labor</u>	<u>Indirect</u> <u>Labor</u>	<u>Total</u> <u>Labor</u>	<u>Annual</u> <u>Increase</u>	<u>Wage</u> <u>Adjustment</u>
Underground Storage Operations	\$121,773	\$0	\$121,773	3.62%	\$4,408
Underground Storage Maintenance	65,866	0	65,866	3.62%	2,384
Transmission Operations	724,448	28,852	753,300	3.62%	27,269
Transmission Maintenance	69,895	0	69,895	3.62%	2,530
Distribution Operations	1,563,173	399,248	1,962,421	3.62%	71,040
Distribution Maintenance	156,919	1,827	158,746	3.62%	5,747
Customer Accounts	201,915	0	201,915	3.62%	7,309
Customer Service and Information	0	0	0	3.62%	0
Sales	1,077	0	1,077	3.62%	39
Administrative and General Operations	177,741	0	177,741	3.62%	6,434
Administrative and General Maintenance	<u>0</u>	<u>0</u>	<u>0</u>	<u>3.62%</u>	<u>0</u>
TOTAL	\$3,082,806	\$429,928	\$3,512,734		\$127,161
 Payroll Taxes			 \$389,975	 3.62%	 \$14,117

4 **Q. WHAT IS THE NEXT EXPENSE ADJUSTMENT THAT IS INCLUDED IN**
5 **THE STIPULATION AND AGREEMENT?**

6 **A.** The next adjustment relates to rate case expense. In its filing, Kinder Morgan
7 included a total of \$681,022 of rate case expense which was proposed to be
8 amortized over a period of 3 years. It is common for rate case expense (and many
9 other items that are amortized) to be spread over a three year period. However,
10 the three years frequently ties back to the amount of time that a utility and/or the
11 regulator expect the rates to be in effect before another rate change takes effect.
12 But, the overall amount of expense – a very significant amount – is what made
13 this proposed adjustment unusual.

14
15 In deriving the settlement amount of rate case expense, two changes were made to
16 the original proposal. First, the total amount of expense to be collected is reduced
17 by approximately \$190,000. This reduction reflects a more normal level of
18 expense for the nature of the case and reflects the settlement between the OCA

1 and Kinder Morgan – rather than the worst case litigation scenario that the
2 original numbers represented. Second, there is a portion of the cost that we have
3 chosen to amortize over a period longer than three years. These costs relate to
4 reviewing the books and records and preparing certain studies in anticipation of
5 the rate case. However, the OCA believes that these relatively expensive studies
6 were done – and done by outside consultants – because of the lengthy time period
7 between Kinder Morgan rate cases. Therefore, we have chosen a time that is
8 likely to span more than one rate case (12 years) for the recommended
9 amortization period.

10
11 **Q. WHY ARE CERTAIN DONATIONS AND POLITICAL**
12 **EXPENDITURES BEING REMOVED FROM THE TEST YEAR**
13 **EXPENSES?**

14 A. The simplest explanation is that customers should not have to pay for costs
15 incurred by the utility that are not reasonably necessary for providing the utility
16 service. More specifically, customers should not be burdened by shareholders' or
17 management's decision to contribute to a specific charity or cause, or for the
18 purpose of influencing overall public policy. This also seems to be prohibited – at
19 least in spirit, if not more specifically – by Section 248 of the Commission's
20 Procedural Rules and Special Regulations. This section prohibits a utility from
21 recovering the cost of "political advertising" from anyone other than shareholders,
22 and defines political advertising as "any advertising for the purpose of influencing
23 public opinion with respect to legislative, administrative, or electoral matters, or
24 with respect to any controversial issue of public importance."

25
26 Examples of the types of costs being removed include: Wyoming Capital Club
27 dues and Medicine Bow Volunteer Fire Department Fundraising.

28
29 **Q. ARE THERE ANY OTHER COSTS THAT YOU PROPOSE TO ADJUST**
30 **FROM THE OVERALL REVENUE REQUIREMENT FOR ANY OF THE**
31 **THREE WYOMING DIVISIONS?**

1 A. Yes. Income taxes will need to be adjusted to reflect the other changes described
2 above. This is simply a conforming adjustment as there would be no need to
3 adjust it on its own.
4

5 **Q. ARE YOU ALSO REMOVING SOME OF THE COSTS ASSOCIATED**
6 **WITH THE ADMINISTRATION OF THE CHOICE GAS PROGRAM**
7 **FROM THE REVENUE REQUIREMENT?**

8 A. No. While the OCA and Kinder Morgan have agreed to modify the proposal
9 contained in the rate application, none of the costs are being disallowed from
10 recovery. Instead, it is a question of “from whom should these costs be
11 collected?”
12

13 Kinder Morgan requested, in its filing, to roll all of the Choice Gas administration
14 costs into non-gas customer rates – that is, rates paid by all customers regardless
15 of the customer’s gas supplier. This would be a change from the current situation
16 where the estimated cost is only paid by those customers who choose a
17 commodity supply other than the Pass-on Rate [Regulated Rate]. The decision to
18 have only non-Pass-on Rate [Regulated Rate] customers pay this charge was
19 explained in the Commission’s written order, dated March 11, 2003, in Docket
20 No. 30022-GI-02-3, at paragraph 108:

21
22 We find that Kinder Morgan’s data shows that the great majority
23 of the expenses (the “lion’s share”) involved in its administration
24 of the Choice Gas program is not attributable to providing program
25 service to all retail customers but mostly are expended to facilitate
26 the running of the program for the benefit of customers and
27 suppliers already engaged in it. Defaulting customers receive very
28 little from the charge, and those who have chosen the Regulated
29 Rate option appear to receive none at all. Therefore, we find that
30 the \$1 customer charge associated with the Choice Gas program
31 shall not be charged to persons who obtain service under the
32 Regulated Rate option. This fact shall be advertised prominently
33 as an aspect of the Regulated Rate, as renamed below.
34
35

1 **Q. IS THE AGREEMENT TO CONTINUE WITH THE \$1 PER CUSTOMER**
2 **PER MONTH SURCHARGE FOR ALL CUSTOMERS OTHER THAN**
3 **PASS-ON RATE [REGULATED RATE] CUSTOMERS COST BASED?**

4 A. The continuation of the \$1.00 charge to non-Pass-on Rate [Regulated Rate]
5 customers is a compromise that is not derived purely from an examination of the
6 costs or a mathematical formula. While the OCA did request a segregation of the
7 Choice Gas program administration costs, and did receive a response, the data is
8 still subject to some interpretation. For instance, the provided costs include costs
9 from the third party vendor who is under contract for a wide range of duties –
10 including responding to inquiries and processing ballots to sending out bills. The
11 argument has been made that it is difficult to decipher which of the tracked and
12 reported Choice Gas administration costs are truly only incurred because of the
13 program, and which would otherwise be incurred even without customer choice.
14 Therefore, it appeared to be a reasonable decision to compromise, and continue
15 with the current situation.

16
17 Additionally, there is a valid argument that the cost of obtaining commodity
18 supplies for the Pass-on Rate [Regulated Rate] customers should not be paid by
19 customers of other suppliers. The compromise contained in the Stipulation and
20 Agreement takes this into account as well.

21
22 **Q. WHY IS IT IMPORTANT TO THE OCA THAT KINDER MORGAN FILE**
23 **ANOTHER RATE CASE NO LATER THAN FEBRUARY 28, 2010?**

24 A. This is the first case that Kinder Morgan has had in Wyoming since 1993, in spite
25 of the on-going controversy that ensued over its earnings. The 1993 case only
26 addressed the rates in the Torrington division. In Gillette, Kinder Morgan has
27 never had a rate case, since the current rates were set when the operations were
28 owned by a different (unrelated) entity. Since some of these cases are so old, the
29 authorized returns reflect costs of equity and debt costs that were established
30 during economic periods much different than today's. Having such old

1 authorized returns has potentially cost customers real money. Let me try to
2 explain through the use of an example.

3
4 The current authorized return on rate base in the Casper division is 10.9% while
5 the recommended return is 8.63%. Up until late January 2006, the Commission's
6 pass-on rule (Section 249 of its rules) clearly indicated that a commodity pass-on
7 had to be reduced if the utility's earnings were exceeding its authorized rate of
8 return. In its May 2005 filing (Docket No. 30022-GP-05-55) Kinder Morgan
9 states that its statewide earnings level was 9.54% on rate base. If this number had
10 applied strictly to the Casper division, hypothetically, then a stronger argument
11 could have been made that customers were not responsible for a portion of the
12 commodity costs included in the Pass-on Rate [Regulated Rate]. To carry
13 through with the example, if we assume the rate base was around \$65 million
14 (similar to the amount for the Casper division in this case), the overearnings
15 would have been approximately \$910,000 per annum. Customers could have
16 saved money simply through the updating of the authorized return to better reflect
17 current market conditions, based on this example.

18
19 **Q. BUT DON'T RATES INCREASE EACH TIME A RATE INCREASE IS**
20 **FILED?**

21 **A.** While that is frequently true, it is not always the case. Utilities have an incentive
22 to file when they believe that an increase is justified, and no incentive to file a
23 case when a decrease may be warranted. Hence, if a utility is periodically
24 required to file a case documenting its earnings, with the appropriate
25 documentation, there is a better chance of a justified decrease being supported
26 than if the utilities are allowed to file only at their own pace.

27
28 **Q. AREN'T THE FINANCIAL REPORTS FILED ANNUALLY BY THE**
29 **UTILITIES SUPPOSED TO ALLOW THE COMMISSION, AND OTHER**
30 **INTERESTED PARTIES, THE OPPORTUNITY TO DETERMINE IF A**
31 **UTILITY'S EARNINGS AND RATES REMAIN REASONABLE?**

1 A. Yes, that is one of the primary purposes of the report. Yet, this is not always
2 accomplished because of complications with corporate structures (too many
3 common costs that must be allocated), reporting issues (see above discussion of
4 Kinder Morgan's books) and other similar interferences. The more likely
5 opportunity to address inappropriate earnings levels is in periodic pass-on filings,
6 although the Commission's newly adopted rule makes the requirement to refund
7 overearnings discretionary rather than mandatory.

8

9 **Q. NOW THAT YOU HAVE DISCUSSED THE AGREEMENT BETWEEN**
10 **THE OCA AND KINDER MORGAN REGARDING THE OVERALL**
11 **LEVEL OF REVENUES THAT KINDER MORGAN SHOULD BE**
12 **PERMITTED, HOW DO YOU PROPOSE THOSE REVENUES BE**
13 **COLLECTED?**

14 A. The Stipulation and Agreement lists the rates that we proposed be approved by
15 the Commission in this proceeding, for usage on and after October 1, 2006. But,
16 it is important that the Commission understand the derivation of these rates.

17

18 As part of its filing in this case, Kinder Morgan is proposing to restructure its rate
19 design, moving from a primarily volumetric rate to a mix of customer charges and
20 volumetric charges. Additionally, Kinder Morgan is proposing to move from a
21 single, non-transportation rate for each major service area, to separate rates for
22 small, medium, and large customers. The proposal would also eliminate the
23 current declining block rate, and move to a flat volumetric rate. Finally, Kinder
24 Morgan is proposing to update some of its tariffs language, and revise some of its
25 non-recurring service charges.

26

27 While many of the rate levels are different between the original filing and the
28 rates contained within the Stipulation and Agreement, the rate design concepts are
29 the same. The levels of rates have been scaled back to conform to the overall
30 agreed upon revenue increase.

31

1 **Q. HOW WERE THE SMALL, MEDIUM, AND LARGE CATEGORIES**
2 **DERIVED?**

3 A. The process used to derive these categories is described in Mr. Meckling's
4 testimony and is summarized nicely on Exhibit WHM-1, Schedule 3. Essentially,
5 this diagram represents a charting of the customers' usage, along with its natural
6 break points. While one could debate whether there should be more or less break
7 points, or even different break points, the rate design proposed is a good attempt
8 to group like-cost customers together, and to move toward cost-based rates. The
9 OCA is supporting the rate categories as proposed in this filing. However, while
10 rate stability (both in design and levels) is a laudable goal, this is an area that is
11 worth re-examining in the next Kinder Morgan rate proceeding, when more data
12 and additional customer reactions will be available. To clarify, I am not
13 suggesting that the Commission should make changes in the next case. Instead, I
14 am suggesting taking a look at whether the breakpoints that are established in this
15 case still make sense, or need to be adjusted.

16
17 **Q. ONCE THE RATE CATEGORIES WERE DETERMINED, HOW WERE**
18 **THE ACTUAL RATES COMPUTED?**

19 A. The first step was to divide the costs among the rate categories and determine the
20 cost for each class of customer. In the process of divvying up the costs,
21 functional allocations were also made. These functional allocations allow the
22 designer of the rates more options in that monthly customer costs, fixed (or
23 demand) costs, and variable (commodity) costs are all identified by type of
24 service (transmission, distribution, etc.) While not every subcategory resulted in a
25 rate in this case, the model was built to provide options. These functionalized and
26 subcategorized results, for Casper, are shown in Mr. Meckling's Exhibit 2,
27 Schedule 1, Table 1, Page 1.

28
29 Once the costs were all categorized, the identified cost was divided by the
30 associated volume or customer count – depending on the nature of the cost. This
31 process resulted in a per unit rate. But, as in many rate design determinations, the

1 next step involved judgment – not mathematics. For the smaller use customers,
2 Kinder Morgan looked at the customer charge that resulted from the cost driven
3 formula and decided that this rate should be mitigated. The mitigation decision
4 was based on the comparison of the calculated rates to the current rates. The
5 concern arose as to whether customers would tolerate such a large jump all in one
6 step, or whether a phase-in process would be more tolerable. Kinder Morgan
7 decided to look at phasing-in the rates, while still making a healthy move toward
8 cost based rates. The calculated (cost-of-service based) rates compared to the
9 mitigated rates are shown on Attachment 3, page 11 of the Stipulation and
10 Agreement.

11
12 For the Medium and Larger usage customers, no mitigation was deemed to be
13 necessary, and thus, the customer charges are based on costs. However, the
14 volumetric charges are above cost, since the amount by which the smaller-usage
15 customer rates were mitigated still needs to be collected.

16
17 The OCA supports this rate design for this proceeding. But, the issue should be
18 re-examined in the next case to determine whether additional movement can (and
19 should) be made toward a goal of each group of customers paying its own
20 identified costs.

21
22 **Q. ARE THE RATES DESIGNED IN A MANNER TO PROMOTE**
23 **CONSERVATION?**

24 A. Yes and no. The flat volumetric rate is certainly better than the existing rate
25 design, where higher volumes are priced at lower cost. However, the flat rates are
26 driven more by cost than the desire for conservation. Since the fixed costs have
27 been separately identified, the volumetric unit cost simply is designed to cover the
28 cost. The exception, of course, is where the volumetric costs have been set higher
29 because of the rate mitigation for the lower volume users.

30

1 **Q. DOES DECOUPLING HAVE A PLACE IN THIS RATE DESIGN**
2 **DISCUSSION?**

3 A. Again, the answer is yes and no. Decoupling is a topic that arises when there is
4 an intentional program to reduce usage, and that usage impacts the utility's ability
5 to recover its costs, its profits, or both, usually because of the design of the rates.
6 In this case, if usage were to dramatically decline, Kinder Morgan could be in a
7 position of not being able to recover its costs and /or profit, since a portion of the
8 fixed costs is being recovered on a volumetric basis. But, rather than discuss the
9 implementation of a decoupling program, or other revenue assurance program, it
10 would be best to complete the rate transition such that fixed costs are being
11 recovered by means of a fixed charge.

12

13 **Q. DO YOU HAVE ANY COMMENTS ON THE VARIOUS TARIFF**
14 **CHANGES THAT KINDER MORGAN IS PROPOSING, OVER AND**
15 **ABOVE THE RATE DESIGN DISCUSSION THAT YOU HAVE**
16 **OFFERED?**

17 A. As part of the Stipulation and Agreement, the OCA is supporting the various
18 proposed changes. In general, I have reviewed the requested changes, and have
19 worked with Kinder Morgan on some additional housekeeping-type changes. We
20 are supportive of these changes at this time. However, a few of the proposals are
21 based on costs and revenues that can, and do, change over time. Examples of
22 these provisions include the line extension and the non-recurring service charges.
23 Care should be taken that these provisions do not become stale and hence,
24 irrelevant, by periodically reviewing the underlying assumptions.

25

26 **Q. DOES THAT COMPLETE YOUR DIRECT, PREFILED TESTIMONY?**

27 A. Yes it does, I have nothing further to add at this time.

The Stipulation and Agreement has been omitted from this copy.

Please refer to Stipulation and Agreement filed with the Wyoming Public Service Commission on August 7, 2006.

All parties to this proceeding should have received both paper and electronic versions related to that filing.

If you require another copy, please request one by e-mail to cpetri@state.wy.us or call Chris Petrie at (307) 777-5763.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing DIRECT TESTIMONY OF DENISE K. PARRISH ON BEHALF OF THE OFFICE OF CONSUMER ADVOCATE was served as indicated below on this 9th day of August, 2006.

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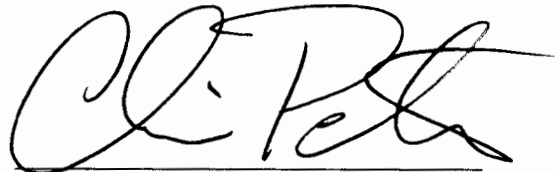
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