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BEFORE THE WYOMING PUBLIC SERVICE COMMISSION **Public Service Commission**
Wyoming

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
AMY J. ZAMORA
ON BEHALF OF
THE OFFICE OF CONSUMER ADVOCATE

TESTIMONY FILED: August 9, 2006

HEARING DATE: September 18, 2006

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS.**

3 A. Amy J. Zamora, Rate Analyst with the Wyoming Office of Consumer Advocate
4 (OCA), 2515 Warren Avenue, Suite 304, Cheyenne, Wyoming, 82002.
5

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
7 **PROFESSIONAL EXPERIENCE.**

8 A. I graduated from the University of Wyoming in 1995 with a Bachelor of Science
9 degree in Accounting. After graduating, I was employed as an accountant with a
10 service company that conducted financial transactions with credit card companies
11 nationwide. My duties included financial analyses for those clients to ensure
12 proper commission payments, internal auditing of costs, application of payments
13 from clients for bills rendered, and payroll. In September 2000, I began working
14 as a Rate Analyst with the Wyoming Public Service Commission where I
15 analyzed numerous regulatory applications filed by electric, natural gas,
16 telecommunications and water utilities. Those applications included wholesale
17 commodity cost pass-on filings, general rate cases, tariff filings, and other routine
18 matters. I transferred to the OCA as a Rate Analyst in July 2003, where I have
19 continued in a similar capacity.
20

21 **Q. HAVE YOU FILED TESTIMONY WITH, OR TESTIFIED BEFORE, THE**
22 **PUBLIC SERVICE COMMISSION IN OTHER PROCEEDINGS?**

23 A. Yes, I have filed testimony and testified as an expert witness in eight previous
24 proceedings regarding the revenue requirement cost of service and rate design in
25 general rate cases, as well as other types of applications such as pass-on filings.
26

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

28 A. As a member of the OCA, I am obligated by statute to represent the interests of
29 Wyoming citizens and all classes of utility customers in matters involving public
30 utilities.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to provide evidence supporting the Stipulation
4 and Agreement between the OCA and Kinder Morgan Incorporated (KMI)
5 regarding the general rate increase that has been requested in this docket for all
6 three of its distribution divisions in Wyoming.

7
8 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

9 A. No, I am not.

10
11 **Q. WHAT AREAS OF THE APPLICATION DID YOU FOCUS ON DURING**
12 **YOUR REVIEW?**

13 A. My review focused on weather normalization, sales volumes, rate base,
14 depreciation and the bad debt tracker mechanism. Ms. Denise Parrish will
15 address the remaining revenue requirement areas as well as rate design. Mr.
16 Bryce Freeman will address the rate of return on equity and rate base.

17
18 **Q. PLEASE DESCRIBE THE RESULTS OF YOUR REVIEW OF THE**
19 **WEATHER NORMALIZATION AND SALES VOLUMES**
20 **INFORMATION.**

21 A. Most gas companies do some sort of weather normalization analysis to adjust the
22 sales volumes to reflect a more normal year since gas sales can be greatly affected
23 by how warm or cold the winter is. If the winter season is colder than normal,
24 customers will use more dekatherms (dth) of gas and revenues will be higher than
25 normal; or vice versa, if the winter season is warmer than normal, then revenues
26 will be lower than normal because customers will use fewer dekatherms.
27 Therefore, the weather during the test year must be compared to some sort of
28 average to see if it was warmer or colder than normal.

29
30 In this case, KMI and its consultants produced a study to show what the best
31 method would be to normalize the test year. The study compared actual heating

1 degree days to the NOAA 30-year normals as well as several multiple-year
2 averages. The results from this study showed that a five-year weighted average of
3 heating degree days would be the best indicator for normal weather.

4
5 The five-year weighted average of heating degree days was then compared to the
6 heating degree days for the test year. The comparison showed that the test year
7 was warmer than normal, which resulted in lower than normal gas sales and
8 revenues.

9
10 KMI then conducted a multiple linear regression analysis to adjust volumes for
11 customer classes whose usage is sensitive to weather conditions. The outcome of
12 this analysis was that the volumes for each class were adjusted upward. Test year
13 revenues were also increased to a normalized level.

14
15 **Q. DOES THE OCA AGREE WITH THE OUTCOME OF THE**
16 **NORMALIZATION STUDY AND THE CHANGES IN VOLUMES?**

17 A. The OCA believes that the use of a five-year weighted average for heating degree
18 days is reasonable. The OCA believes that the resulting changes in volumes and
19 revenues from the weather normalization adjustment are also reasonable.

20
21 **Q. PLEASE DESCRIBE THE FINDINGS FROM YOUR REVIEW OF THE**
22 **RATE BASE THAT WAS INCLUDED IN THE REVENUE**
23 **REQUIREMENT.**

24 A. KMI had made several adjustments to rate base for each of the three divisions.
25 The first set of adjustments were pro-forma adjustments that added plant to the
26 book balances that would be put into service within the next 12 months of the test
27 year (automated meter reading equipment, construction work in progress, and the
28 re-allocation of meters between by state), eliminated plant that was paid for by
29 contributions in aid of construction, and simply reclassifying plant from one
30 account to another. Corresponding adjustments were made to accumulated
31 depreciation.

1
2 The second set of adjustments included allocations from KMI's sister companies.
3 These allocations were for plant that is owned by the sister companies but is used
4 by all of KMI's businesses such as land and buildings. These assets were
5 allocated to the three Wyoming divisions using the company's modified
6 Massachusetts formula. Again, adjustments were made to accumulated
7 depreciation to correspond with those made to plant.
8

9 The third set of adjustments calculated the 13-month average balances of storage
10 working gas and materials and supplies. All three divisions included the average
11 balance of materials and supplies in rate base, but only the Casper and Torrington
12 divisions include an average for storage working gas. The Gillette division does
13 not have access to storage.
14

15 The fourth set of adjustments for all three divisions was to include the deduction
16 for accumulated deferred income tax.
17

18 **Q. DID THE OCA SUGGEST ANY CHANGES TO KMI'S FILED**
19 **ADJUSTED RATE BASE?**

20 A. Yes. The first change that the OCA suggested was to complete an adjustment that
21 had been made by the company. For the Casper division, KMI had made an
22 adjustment to move some plant from transmission and general plant to gathering
23 plant. The net effect of the adjustment should have been zero. However, \$1,320
24 was inadvertently left out of plant. The OCA recommended to the company that
25 that dollar amount be added to plant.
26

27 The only concern the OCA had with rate base was the inclusion of storage
28 working gas for the Casper and Torrington divisions. The working gas that is
29 injected and withdrawn each heating season is part of the gas portfolio that is
30 provided for the Pass-On[Regulated Rate] customers only. Including the storage
31 working gas in rate base would require that *all* customers' rates would include a

1 return on that working gas. Since those customers who chose to purchase gas
2 from other supplier through the Choice Gas Program do not have access to that
3 gas, the OCA does not believe that those customers should pay the return on that
4 gas. Only those customers that choose the Pass-On[Regulated Rate] Customers
5 should pay the return on the storage working gas.

6
7 The OCA recommended to KMI that the storage working gas be eliminated from
8 rate base. The rate base for the Casper division would be reduced by \$1,524,910
9 before any tax effect, and the Torrington division would be reduced by \$142,809
10 before any tax effect.

11
12 The OCA does not believe that the company should never earn any return on the
13 working storage gas. It is an asset that the company owns that is used in
14 providing gas service to its customers. We, therefore, also recommended to KMI
15 that a return component be included in the calculation of its quarterly pass-on
16 filings. This approach would be similar to the methodology used by Montana-
17 Dakota Utilities in its monthly filings.

18
19 Kinder Morgan has agreed to these changes, which are outlined in the stipulation
20 and agreement.

21
22 **Q. WHAT OTHER ADJUSTMENTS TO RATE BASE WERE INCLUDED IN**
23 **THE STIPULATION AND AGREEMENT?**

24 A. Since the filing of this rate case, KMI has filed an application to abandon part of a
25 storage field near the Casper division. The gas that has been stored in the Dakota
26 and Lakota formations of the storage field has not been used since 1972. There is
27 currently 317,194 Mcf of gas remaining in those two formations. The related
28 dollar amount to this gas is \$703,536 before any tax effect.

29
30 The OCA and KMI have agreed that this amount should be deducted from the rate
31 base for the Casper division. The exclusion of this plant from rate base

1 anticipates the authorization from the Commission to abandon these formations.
2 If, however, the Commission did not grant that authorization, this adjustment
3 would reflect the fact that the gas in these formations should not be included in
4 rate base, since it is not “used and useful.” Therefore, if the Commission did not
5 approve the Dakota-Lakota storage abandonment application, this adjustment
6 would still be necessary and appropriate.

7
8 **Q. PLEASE DESCRIBE THE RESULTS OF YOUR REVIEW OF THE**
9 **DEPRECIATION STUDY.**

10 A. The depreciation study that was filed by KMI was completed by its outside
11 consultants. The study used comparable companies’ depreciation rates to
12 compare against KMI’s current depreciation rates. Other historical data could not
13 be used because it was not available at the time the study was being completed.

14
15 By comparing KMI’s rates to other companies’ rates, KMI found that its
16 depreciation rates needed to be adjusted. Because completed historical data was
17 not available, KMI’s consultants used a blend of two methodologies to come up
18 with the rates that were used in this application.

19
20 One method calculates rates based on the whole life of the assets based on the
21 assumption that depreciation would be recovered over the entire life of the asset.
22 The other method, the remaining life rate method, calculates depreciation rates
23 using the remaining life of the asset after some depreciation has already been
24 expensed. KMI’s consultants recommended a blend of both approaches because
25 of the lack of historical data. Using the blended rates would enable KMI to move
26 towards more appropriate depreciation rates, since the data will be available when
27 the next depreciation study is completed. The change in depreciation rates has
28 provided a decrease in annual depreciation expense that has been included in the
29 rate case.
30

1 **Q. DOES THE OCA FIND THAT THE DEPRECIATION RATES ARE**
2 **REASONABLE?**

3 A. The OCA does find that the depreciation rates are reasonable for this case.
4 However, the company has agreed to file a depreciation study with its next rate
5 case by February 28, 2010. Historical data will be available at that time, so that
6 KMI should be able to move completely to remaining life rates.

7
8 **Q. HAS KINDER MORGAN ASKED FOR THESE DEPRECIATION RATES**
9 **TO BE APPROVED BY THE COMMISSION?**

10 A. No, KMI has not asked for explicit approval of these depreciation rates, only that
11 the effect of these rates be included in the revenue requirement.

12
13 **Q. PLEASE DESCRIBE THE OCA'S POSITION RELATIVE TO THE BAD**
14 **DEBT TRACKING MECHANISM THAT WAS PROPOSED BY KMI.**

15 A. The OCA does not believe that a utility company should be guaranteed collection
16 of bad debts through a mechanism such as the one that was proposed. In the past,
17 utilities have been allowed to recover bad debts through general rates and by
18 adjusting the revenue requirement to include a certain percentage of revenues that
19 is comparable to past bad debt levels against the request increase in revenues.

20
21 As the OCA has argued in other cases requesting to include bad debts in pass-on
22 filings, we believe that passing on bad debts in this manner shifts the risk of those
23 expenses from the company to ratepayers. Numerous discussions have been held
24 around the country regarding the pass-on of bad debts to customers. The general
25 consensus holds that three conditions must exist in order to do so. First, the cost
26 must be affected by market conditions that the utility cannot control. Second, the
27 cost must be considered volatile and can change significantly in a short period of
28 time. Third, the cost must make up a sizeable portion of the utility's total rate.

29
30 These conditions are not satisfied with regard to the company's bad debt expense.
31 The balance of bad debts expense is not directly related to any market index.

1 Understandably, the balance increases slightly when rates rise and decreases
2 similarly when rates fall. However, the utility has substantial control over how
3 aggressively it seeks to collect payments from its customers. The level of bad
4 debts expense can change along with any change in rates. However, it tends to
5 change over the course of several months; whereas, commodity costs can change
6 substantially over the course of a few days. In addition, the percentage of bad
7 debts compared to the company's revenues, or total rate, is usually very small as
8 compared to the cost of gas, which is more than half of the company's revenues.
9

10 **Q. HAS THE OCA AND KINDER MORGAN COME TO AN AGREEMENT**
11 **ABOUT THE BAD DEBT TRACKING MECHANISM?**

12 A. Yes, the company has agreed to withdraw its request for the bad debt tracking
13 mechanism.
14

15 **Q. WERE THERE ANY OTHER ISSUES THAT AROSE REGARDING THE**
16 **BAD DEBT TRACKING MECHANISM THAT WILL BE ADDRESSED IN**
17 **THE STIPULATION AND AGREEMENT?**

18 A. Yes. The OCA was concerned that all of the charges that were written-off were
19 being proposed to be collected from only the SGS customers. One of our data
20 requests asked for information about how much the MGS customers contributed
21 to the total amount of bad debts. Upon further review, KMI found that
22 approximately 4.7% of the total was attributable to the MGS class, and therefore,
23 should be reallocated to that class. The company has moved approximately
24 \$20,713 from the SGS class to the MGS class for rate design purposes so that
25 each class will pay for its own share of bad debts through general rates.
26

27 **Q. DO THE OCA BELIEVE THAT THE STIPULATION AND AGREEMENT**
28 **IS CONSISTENT WITH THE PUBLIC INTEREST?**

29 A. Yes. The OCA believes that the stipulated increases of \$4,565,945, \$1,184,377,
30 and \$702,306 in revenues for Casper, Gillette, and Torrington respectively,

1 have been supported and that the approval of the Stipulation and Agreement is in
2 the public interest.

3

4 **Q. DOES THIS COMPLETE YOUR PRE-FILED TESTIMONY?**

5 **A. Yes.**

CERTIFICATE OF SERVICE

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

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PacifiCorp, WY Regulatory Manager	<input type="checkbox"/>	HAND DELIVERY
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James Krebs, CEO	<input checked="" type="checkbox"/>	U.S. MAIL
Seminole Energy Services, LLC	<input type="checkbox"/>	HAND DELIVERY
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Lakewood, CO 80228	<input type="checkbox"/>	E-MAIL

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MGTC, Inc.	<input type="checkbox"/>	HAND DELIVERY
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