

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE AMENDED)
APPLICATION OF PINEDALE) DOCKET NO. 30016-38-GP-05
NATURAL GAS, INC., FOR)
AUTHORITY TO PASS ON A GAS) (Record No. 10094)
COST INCREASE OF \$6.40 PER Dth)
THROUGH ITS COMMODITY)
BALANCING ACCOUNT)

RECEIVED

FEB 21 2006

Public Service Commission
Wyoming

WYOMING OFFICE OF CONSUMER ADVOCATE'S

PRE-FILED DIRECT TESTIMONY OF

AMY J. ZAMORA

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

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

4
5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
6 **PROFESSIONAL EXPERIENCE.**

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

18
19 **Q. HAVE YOU FILED TESTIMONY WITH, OR TESTIFIED BEFORE, THE**
20 **PUBLIC SERVICE COMMISSION IN OTHER PROCEEDINGS?**

21 A. Yes, I have filed testimony in six previous proceedings regarding the revenue
22 requirement, cost of service and rate design in general rate cases. I testified in five of
23 those proceedings.

24
25 **Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?**

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

28

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

2 A. To demonstrate that Pinedale Natural Gas, Inc. (PNG) is exceeding its authorized rate of
3 return, to establish the amount of the excessive earnings, to explain the likely causes of
4 PNG's over-earning situation, and to make recommendations about returning the
5 excessive earnings to PNG's customers. And finally, to express several other concerns
6 that have arisen during my review of PNG's application and other relevant information.
7

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

9 A. Yes. I am sponsoring OCA Exhibit AJZ – 1, Pages 1-6 which is the OCA Adjusted
10 Income Statement and its accompanying supporting documents, OCA Exhibit AJZ – 2,
11 Pages 1-3, which is the OCA Adjusted Rate Base and supporting documents, and OCA
12 Exhibit AJZ – 3, pages 1-3, which is the supporting documentation for the decrease in the
13 commodity balancing account.
14

15 **Q. WHY DID THE OFFICE OF CONSUMER ADVOCATE INTERVENE IN THIS
16 MATTER?**

17 A. Because when PNG's application was considered at the Commission's open meeting of
18 October 13, 2005, the Commission Technical Staff (CTS) noted that PNG appeared to be
19 exceeding its authorized rate of return on rate base. After the pass-on rates were approved
20 on an interim basis, the OCA performed an initial review of the relevant available
21 financial information, which also indicated that PNG was over-earning. Over-earning, by
22 definition, indicates that rates are not just and reasonable. Therefore, the OCA intervened
23 to pursue relief from unreasonable rates on behalf of PNG's customers.
24

25 **Q. WHAT IS THE BASIS OF YOUR CONTENTION THAT EXCESS EARNINGS
26 SHOULD BE RETURNED TO CUSTOMERS AS A BILL CREDIT?**

27
28 A. Section 249(b) of the Commission's rule requires that a commodity cost pass on
29 will not increase the utility's rate of return, that the utility's rate of return is at or
30 below that last authorized by the Commission, and that if the rate of return is in
31 excess of that authorized the pass-on amount will be reduced accordingly.

1
2 The rule clearly requires the reduction of a commodity cost increase pass-on if the utility
3 is earning above its authorized return, as PNG is in this case. Since this pass-on increase
4 was approved on an interim basis, the money collected under the interim rates must be
5 returned to ratepayers to the extent necessary to eliminate the excessive earnings. The
6 interim rates are no longer in effect, so the reduction of those rates would have to be
7 accomplished through a bill credit based on each customer's usage volume.
8

9 **Q. DID YOU CONDUCT ANY ADDITIONAL ANALYSIS OF PINEDALE'S**
10 **RESULTS WITH RESPECT TO EARNINGS AFTER THE OCA'S**
11 **INTERVENTION?**

12 A. Yes. And that additional analysis confirmed that PNG was exceeding its authorized rate
13 of return by a 56% margin when the interim rates were approved. That equates to a total
14 over-collection of \$58,587.
15

16 **Q. CAN COMMODITY COST INCREASE PASS-ON AMOUNTS PROPERLY BE**
17 **REDUCED WHEN NON-GAS RATES CAUSE A UTILITY TO OVER-EARN?**

18 A. Yes. In fact, Section 249(b) requires it. A utility's return is based on *all* of its revenues
19 and expenses, which includes the revenues from gas sales as well as the costs to purchase
20 the gas. Wholesale gas costs are an expense that the company pays as part of providing
21 retail natural gas services, and an expense that is deducted from revenues to find the
22 utility's return.
23

24 Sections 249 of the Commission's rules only allows for the expedited recovery of
25 prudently incurred gas costs if the overall rate remains just and reasonable. The purpose
26 of the expedited process is to minimize or eliminate the delay and expense associated
27 with general rate cases. This is necessary to insulate utilities from the potentially ruinous
28 effects of frequent and dramatic commodity cost fluctuations.
29

1 The rules do not require that gas revenues and costs be segregated and that gas costs be
2 guaranteed separate recovery while the utility is earning unreasonable and unauthorized
3 returns. Rather, Section 249 implicitly recognizes that gas costs are included in the
4 calculation of return as an expense, and are therefore subject to adjustment in cases where
5 non-commodity rates are producing an unreasonable and unauthorized rate of return. The
6 pass on reduction mechanism provided by the rules does not prevent the utility from
7 recovering its commodity costs. Rather, the rule prevents ongoing over-earning by
8 forcing a utility that is exceeding its authorized rate of return to apply its excessive
9 earnings to its commodity expense. Thus, rates that allow the utility to recover its
10 commodity costs and earn a reasonable return, but no more, are assured.

11
12 **Q. HAS ANY COMMISSION DECISION TO DECREASE COMMODITY RATES**
13 **BECAUSE A UTILITY WAS EARNING ABOVE ITS AUTHORIZED RETURN**
14 **BEEN OVERTURNED BY A COURT?**

15 A. No. A Commission decision to decrease *non-gas* rates in a pass-on proceeding was
16 reversed by the Wyoming Supreme Court in 1993. The Court overturned the
17 Commission's decision to decrease non-gas rates because notice to the utility was
18 inadequate with regard to the adjustment of non-gas rates.

19
20 **Q. DO PASS-ON RATES ALLOW FOR THE RECOVERY OF GAS COSTS ON A**
21 **DOLLAR-FOR-DOLLAR BASIS?**

22 A. If the rates are calculated using the actual or projected costs to purchase gas, then
23 mathematically, those pass-on rates do allow for recovery on a dollar-for-dollar basis.
24 However, PNG has been recovering more from rates than its cost of gas. I will discuss
25 this issue in detail in the portion of my testimony that addresses the interest on
26 commodity balancing account under-collections.

1 **Q. IF GAS COSTS ARE RECOVERED THROUGH GAS RATES ON A DOLLAR-**
2 **FOR-DOLLAR BASIS, WHY SHOULD THEY BE INCLUDED IN THE**
3 **FINANCIAL RESULTS? WOULDN'T THEY CANCEL EACH OTHER OUT?**

4 A. If gas costs are truly recovered on a dollar-for-dollar basis, then the gas revenues would
5 cancel out the gas costs. However, the information should still be included in financial
6 results to give an accurate portrayal of the Company's financials.
7

8 **Q. WHAT IS PINEDALE'S AUTHORIZED RATE OF RETURN?**

9 A. Pinedale's currently authorized rate of return on rate base is 8.80%. This return was
10 authorized in Docket No. 30016-GR-03-34, with the Commission's approval of a
11 stipulation and agreement in an order issued February 9, 2004. This stipulation also
12 authorized a return on equity of 10.9%, based on a stipulated capital structure with 53%
13 debt and 47% equity.
14

15 **Q. IS PNG'S AUTHORIZED RATE OF RETURN AT ISSUE IN THIS**
16 **PROCEEDING?**

17 A. No. This is a commodity cost increase pass-on proceeding, in which gas costs are passed
18 on if a company is not earning above the rate of return that is currently authorized. There
19 is no basis for adjusting PNG's rate of return in this proceeding. The rate of return is
20 properly considered and adjusted, if necessary, in a general rate case.
21

22 **Q. WHAT IS THE REASON FOR SETTING AN AUTHORIZED RATE OF**
23 **RETURN?**

24 A. Regulation is intended to prevent utilities from abusing their monopoly power at the
25 expense of consumers by simulating the results that would be expected in a competitive
26 environment. Limiting a regulated utility's rate of return by setting an authorized rate of
27 return is necessary to ensure that a monopolist utility's rates are just and reasonable.
28

1 **Q. IS THE AUTHORIZED RATE OF RETURN A CEILING OR A TARGET?**

2 A. The authorized rate of return is a ceiling under traditional rate base, rate of return
3 regulation. When the Commission issues an order in a general rate case, it sets a
4 reasonable rate of return and authorizes corresponding rates that will allow the utility an
5 opportunity to earn at that rate. Setting such a ceiling on the earnings of a monopoly is a
6 basic element of utility regulation. It is intended to ensure that the monopolist utility's
7 rates are just and reasonable.

8
9 There are regulatory arrangements where an authorized rate of return is properly
10 considered a target, and where it is understood that there is a range within which a
11 utility's return is considered reasonable. However, this type of arrangement is only seen
12 in alternative form of regulation (AFOR) schemes. Under AFOR schemes, deviations
13 from the authorized rate of return are contemplated up front, and provisions are included
14 in the AFOR terms to trigger sharing mechanisms when the return exceeds the target
15 range and to allow resetting of rates when returns fall significantly short to the target.
16 Pinedale, however, is not operating under an AFOR mechanism, and no such provisions
17 have been proposed to or approved by the Commission.

18
19 **Q. DO YOU HAVE ANY OBSERVATIONS ABOUT THE TESTIMONY OF**
20 **GILMER MICKEY AS IT PERTAINS TO PNG'S EARNINGS?**

21 A. Yes. Mr. Gilmer Mickey's prefiled direct testimony shows that PNG is over-earning at
22 13.02% when using its actual dekatherm sales from 2005. This is 1.48 times PNG's
23 8.8% authorized rate of return. Mr. Mickey's testimony further shows that this equates to
24 \$51,912 more than was necessary for PNG to earn its authorized return. This excess was
25 paid to PNG by its customers over the year. This amount, divided by the number of
26 meters at the end of the year, shows that on average, customers paid \$60 more per year
27 than necessary for PNG to earn its authorized return. The \$51,912 in excessive earnings
28 also equates to a return on equity of nearly 20% based on the same capital structure that
29 was used in the last rate case. This return on equity far exceeds any amount that has been
30 authorized by the Commission in recent years.

1 **Q. WHAT TEST YEAR DID PNG FILE WITH ITS PREFILED TESTIMONY?**

2 A. PNG filed what I view as a 2005 Test Year, with underlying pro-forma adjustments that
3 were made to produce results to project 2006 operations. The underlying adjustments
4 were not adequately explained in the Company's testimony.

5
6 **Q. DID THE COMMISSION TECHNICAL STAFF AND THE OCA IMPROPERLY
7 MATCH FINANCIAL RESULTS WHEN REVIEWING PNG'S EARNINGS?**

8 A. No. From the memorandum that was provided to the Commission by the CTS prior to
9 the approval of the interim rates, it appears that the CTS used the 2004 Profit and Loss
10 Statement that was filed with the application as a surrogate test year to analyze PNG's
11 earnings. That was the most up-to-date information available to the CTS. Adjustments
12 were made to revenues and expenses to produce pro-forma results. The pro-forma results
13 illustrate PNG's financials for a normal year. The pro-forma test year results were then
14 compared to the rate of return established in the 2003 rate case. This type of analysis is a
15 reasonable and common practice in rate regulation. I do not believe there is any
16 mismatch of financial results in the CTS review of the application as Mr. Mickey claimed
17 in his pre-filed testimony.

18
19 The OCA used the most up-to-date financials that were available, which were actual
20 results from 2005 with adjustments to project 2006 results. The information I received
21 from PNG is almost identical to the financials included with the Company's testimony.
22 This information was also compared to the currently authorized return. Again, based on
23 common rate regulation practice, there is not a mismatch of financial results as presented
24 by the OCA.

25
26 **Q. DID THE OCA'S REVIEW OF THE TEST YEAR RESULT IN ANY
27 ADDITIONAL ADJUSTMENTS ?**

28 A. Yes. The OCA made five adjustments to the income statement. One adjustments was
29 made to revenues, one was made to gas purchases, one to expenses. Two more were
30 made to correctly calculate income taxes for regulatory purposes. The OCA also made
31 two adjustments to rate base. These adjustments were made to reflect a normalized

1 year's income statement and rate base for PNG. Exhibit AJZ – 1, page 1 and OCA
2 Exhibit AJZ – 2, page 1 illustrate these adjustments for the income statement and rate
3 base.

4
5 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU MADE TO REVENUES FOR**
6 **GAS AND NON-GAS SALES AND GAS PURCHASES.**

7 A. My first adjustment to PNG's projected 2006 results was to include the sales receipts of
8 \$1,156,250 that correspond to the estimated sales of 125,000 Dth. These are the estimated
9 sales that were presented in the pass-on application. The detail for this adjustment is
10 shown on OCA Exhibit AJZ – 1, page 2.

11
12 The first part of the adjustment includes the projected receipts from the sale of gas,
13 allocated between the Pinedale schools (20%) and all other customers. (80%) This
14 allocation is the same that was used in the stipulation from the 2003 rate case since PNG
15 did not provide adequate support or documentation for any other allocation. The sales
16 were annualized at the rate from the pass-on that was filed January 11, 2006 (Docket No.
17 30016-39-GP-06), since it is the currently effective rate. These sales should be included
18 in results to give a true representation of Pinedale's revenues. The second part of the
19 adjustment is to annualize the non-gas sales receipts based on the projected Dth (125,000)
20 used in this application.

21
22 The adjustment I made to gas purchases of \$1,156,250 (shown on OCA Exhibit AJZ – 1,
23 Page 3) was to include this expense in the income statement to give a true representation
24 of the Company's earnings. The adjustment is based on the projected 125,000 Dth used
25 in this application. The purchased gas cost was annualized at the gas cost amount used in
26 latest pass-on filing (Docket No. 30016-39-GP-05).

1 **Q. IN HIS EXHIBIT GM-3, MR. MICKEY COMPARED RESULTS ASSOCIATED**
2 **WITH AN AVERAGE SALES VOLUME OF 114,500 DTH TO ACTUAL SALES**
3 **VOLUME RESULTS. DO YOU AGREE WITH USING THIS AVERAGE SALES**
4 **VOLUME LEVEL?**

5 A. No. PNG is a rapidly growing company with substantially more gas being sold every
6 year. Because of the continuous increases in sales, the 12-month moving average is
7 calculated using lower sales volumes from the earlier months with the higher sales
8 volumes from the latter months. This causes the average to be consistently less than
9 actual sales volumes. This in turn will cause estimates for gas and non-gas revenues to
10 be consistently understated.

11
12 The most basic estimate for sales volumes would be to use the actual sales from the
13 previous year, which is still more accurate for a growing company than to use averages.
14 In its pass-on filings, Pinedale goes a step further and provides for some growth in its
15 sales volumes. For example, the annual sales volumes for this docket were projected to
16 be 125,000 Dth, while the annual sales volumes in the subsequent pass-on were projected
17 to be 125,500 Dth. These two examples of estimates are much better predictors for
18 Pinedale's future gas sales than averages.

19
20 **Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE TO EXPENSES RELATED TO**
21 **SALARIES.**

22 A. The OCA made adjustments to moderate increases in officers' and employees' wages
23 The adjustment of \$17,390 was to decrease projected salaries for the officers, Mr. Gilmer
24 Mickey and Mr. Steve Shute. In the 2003 rate case, parties stipulated to a level of
25 \$80,000 in officers' wages. In 2004, those salaries were increased to \$84,000, or by 5%.
26 Now, PNG proposes to increase officers' salaries by \$20,000 (24%) to a total of
27 \$104,000 for 2005 and projects a level of \$110,000 for 2006. These increases are
28 unsupported and unreasonable as *pro forma* adjustments. The OCA allowed for an
29 increase to the 2004 salaries of 5% for 2005 and for an additional increase of 5% for
30 2006. This is illustrated on OCA Exhibit AJZ - 1 at page 4.

1 The decrease in employees' wages of \$8,261 is also to adjust these salaries to a more
2 reasonable level. There is no documentation to support an increase in employees' wages
3 to the \$120,000 used in PNG's Exhibit GM-3. The OCA used the verified amounts from
4 2005 and increased those amounts by 5% for 2006. In Mr. Shute's testimony on page 5,
5 lines 6-8, he states, "The outlook for 2006 is that we will not be as busy as we were in
6 2004-2005." This statement leads us to believe that PNG may not need to hire as much
7 summer help as in previous years and that any additional increase in total employees'
8 wages is unwarranted. The detail for this adjustment is also on OCA Exhibit AJZ - 1,
9 Page 4.
10

11 **Q. THE LAST TWO ADJUSTMENTS MADE TO THE INCOME STATEMENT**
12 **ARE TO CORRECTLY CALCULATE INCOME TAXES FOR REGULATORY**
13 **PURPOSES. PLEASE EXPLAIN THE FIRST OF THOSE ADJUSTMENTS.**

14 **A.** The first adjustment I made was to calculate the income tax effect from interest expense.
15 Interest expense is not included with the other expenses to derive net operating expenses
16 and rate of return for investor-owned utilities like PNG. Interest is recovered with the
17 return that a company is authorized. But interest expense is paid by the company and
18 reduces the amount of income taxes that companies pay. That reduction in income taxes
19 must be included in the utility's revenue requirement calculation.
20

21 The interest expense that is included here is not equivalent to the interest that is actually
22 paid to the bank for the Company's loans. It is normal regulatory practice to synchronize
23 the interest to the capital structure and the rate base. In doing so, we only allow the
24 reasonable amount of debt that is necessary to fund the rate base, not all the other projects
25 that the company might use its debt for. The OCA adjustment increases the amount of
26 interest expense, lowers income taxes which increases net earnings by \$7,418 , the detail
27 of which is shown on OCA Exhibit AJZ - 1, Page 5.
28

1 **Q. PLEASE EXPLAIN THE SECOND OF THESE TWO ADJUSTMENTS.**

2 A. The second adjustment is to reverse a component I had to include in my worksheet to
3 come to the same net operating earnings and return as filed in Mr. Gilmer's testimony.
4 The component is shown on OCA Exhibit AJZ – 1, called Difference in Depreciation for
5 Taxes (an amount of \$81,366), in the bottom section of the spreadsheet. Normally, this
6 component is not included, but PNG does not calculate its income taxes for ratemaking
7 purposes correctly. The difference is allowing PNG to double count its deferred income
8 taxes for the year. The OCA adjustment eliminates this number, but the adjustment has
9 no tax effect. The tax effect has already been included in deferred income taxes. (See
10 OCA Exhibit AJZ-1, page 6.)
11

12 **Q. HOW DOES PNG CALCULATE ITS INCOME TAXES AND WHY IS THIS**
13 **METHOD INAPPROPRIATE FOR RATEMAKING?**

14 A. PNG uses its income tax depreciation in its derivation of income tax expense, which in
15 turn affects the test year return. PNG should use the depreciation used for ratemaking
16 purposes to compute its net taxable income for regulatory purposes. Income taxes would
17 then be calculated based on the level of expenses appropriate for ratemaking and
18 consistent with IRS directives. This is a standard procedure when utilities are computing
19 their ratemaking earnings and returns.
20

21 **Q. HOW DOES THE USE OF TAX DEPRECIATION AFFECT THE TEST YEAR**
22 **RATE OF RETURN?**

23 A. The Internal Revenue Service (IRS) allows for accelerated depreciation in which a higher
24 amount of depreciation expense for income tax purposes than what would be used for
25 ratemaking. In PNG's case, the higher depreciation expense results in overstated
26 expenses and understated earnings and return for PNG's test year. Additionally, IRS
27 regulations prohibit the regulatory recognition of the shorter tax depreciation lives for
28 regulatory purposes, since Congress has approved shorter depreciation lives for the
29 purpose of encouraging investment. If the shorter lives are used for regulatory purposes
30 – thus increasing depreciation in the early years of an asset and reducing the allowed
31 income taxes – the investment incentive is lost, as the benefits are passed on to ratepayers

1 rather than utilities. Instead, the IRS mandates the use of normalized depreciation and
2 taxes, based on average rates over the life of the asset, rather than rates accelerated in the
3 early years.
4

5 **Q. YOU HAVE ALSO MADE TWO ADJUSTMENTS TO RATE BASE. PLEASE**
6 **EXPLAIN THE FIRST ADJUSTMENT.**

7 A. The first adjustment was made to Cash Working Capital (CWC). PNG uses a formula
8 method to calculate its CWC. The formula used is 45/365 of operating costs, excluding
9 taxes, depreciation and gas purchases. I made the adjustment to Cash Working Capital to
10 account for the adjustments that were made to officer and employee compensation. The
11 adjustment is to increase CWC by \$1,844 and is shown on OCA Exhibit AJZ – 2, page 2.
12

13 **Q. WHAT IS THE SECOND OCA ADJUSTMENT TO RATE BASE?**

14 A. The financials filed with Mr. Mickey's testimony included a line labeled "deferred
15 income taxes" under the section titled PSC rate calculations. This amount is related to
16 the deferred income taxes that arise from a difference in income tax depreciation and
17 depreciation for ratemaking purposes. The *current year's deferred income tax expense* is
18 found by taking the difference in the tax depreciation and ratemaking depreciation
19 expense (\$180,000 - \$98,634 = \$81,366) and multiplying that by the income tax rate of
20 28%, which yields \$22,782. The OCA agrees with the amount that is included in the
21 Company's financials.
22

23 However, the differences between tax depreciation and ratemaking depreciation are
24 continuous and ongoing. Annual differences must be accounted for in a separate account
25 (for ratemaking purposes) while that balance is being amortized over a period of years for
26 each plant asset. If that account has a positive balance, it is deducted from rate base.
27 The OCA has created an accumulated deferred income tax account and deducted the
28 balance from rate base.
29

1 **Q. WOULD YOU PLEASE DESCRIBE IN MORE DETAIL HOW THESE**
2 **DIFFERENCES BETWEEN TAX DEPRECIATION AND RATEMAKING**
3 **DEPRECIATION ARISE?**

4 A. Yes. For income tax purposes, PNG is allowed to depreciate assets at a faster rate than is
5 allowed for ratemaking purposes. For example, some assets may have normal
6 depreciable lives of 10 years. For ratemaking purposes, those assets are depreciated on a
7 straight-line basis over 10 years. However, those assets are depreciated over a shorter
8 period of 5 years for tax purposes. As a result, annual depreciation expense for tax
9 purposes will be higher than the depreciation allowed in rates. Eventually, however, the
10 ratemaking depreciation expense will exceed income tax depreciation.

11
12 **Q. CAN YOU GIVE A SIMPLE NUMERICAL EXAMPLE THAT ILLUSTRATES**
13 **THIS PHENOMENON?**

14 A. Yes. Assume a \$3,000 asset with a tax life of 3 years and a book life (for ratemaking
15 purposes) of 5 years, and that PNG's tax rate of 28% applies. The tax depreciation
16 expense for the asset in each year is \$1,000 (\$3,000/3 years); whereas the book
17 depreciation is \$600 (\$3,000/5 years). Table 1, below, shows the annual differences in
18 depreciation through each year of the asset's life

19

YEAR	TAX DEPRECIATION	BOOK DEPRECIATION	ANNUAL DEPRECIATION DIFFERENCE
1	\$1,000	\$600	\$1,000 - \$600 = \$400
2	\$1,000	\$600	\$1,000 - \$600 = \$400
3	\$1,000	\$600	\$1,000 - \$600 = \$400
4	\$0	\$600	\$0 - \$600 = (\$600)
5	\$0	\$600	\$0 - \$600 = (\$600)

20

1 Each year, the difference is applied to the tax rate to derive the current year's deferred
 2 income tax (DIT) expense, which is included in the Company's earnings and return
 3 calculation. In addition, each year's deferred income tax is added to the previous year's
 4 DIT. At the end of the asset's life, the DIT for that asset will be zero. This is shown in
 5 Table 2, below.
 6

TABLE 2			
YEAR	ANNUAL DEPR DIFFERENCE	CURRENT YEAR DEFERRED INCOME TAX	ACCUMULATED DEF INCOME TAX
1	\$400	$\$400 \times .28 = \112	\$112
2	\$400	$\$400 \times .28 = \112	$\$112 + \$112 = \$224$
3	\$400	$\$400 \times .28 = \112	$\$224 + \$112 = \$336$
4	(\$600)	$(\$600) \times .28 = (\$168)$	$\$336 + (\$168) = \$168$
5	(\$600)	$(\$600) \times .28 = (\$168)$	$\$168 + (\$168) = \$0$

7
 8 In years 1-3, there is higher depreciation expense for tax purposes than for ratemaking
 9 purposes. This causes the regulatory/ratemaking taxes to be greater than the income
 10 taxes paid since revenues are netted against a lesser amount of expenses. Therefore, the
 11 company will be recovering more for taxes than they are actually paying, which is a
 12 source of interest-free funds for the company. Until the situation reverses, where book
 13 depreciation is more than tax depreciation (Years 4-5), accumulated DIT should be
 14 treated as a deduction in rate base so that those funds will not earn a return.
 15

16 **Q. HOW HAS PNG TREATED ACCUMULATED DEFERRED INCOME TAX?**

17 A. PNG has never tracked its accumulated deferred income tax. As a simple beginning
 18 point for this case, the OCA has taken the differences in tax and book depreciation as of
 19 the rate case in 2003, and calculated the accumulated DIT since that time. The
 20 adjustment results in a deduction to rate base of \$98,923 which is illustrated in OCA
 21 Exhibit AJZ – 2, Page 3.

1 **Q. WHAT IS THE CUMULATIVE RESULT FROM THE OCA'S ADJUSTMENTS**
2 **TO PNG'S TEST YEAR?A.** The adjustments that I have made take PNG's test

3 year and show the true financial results on a going forward basis for 2006. The overall
4 results show that PNG is earning 13.75%. This is 1.56 times the 8.8% authorized rate of
5 return, which equates to excess earnings of \$58,587.

6
7 **Q. PLEASE DESCRIBE ANY CONCERNS YOU HAVE WITH PNG CHARGING**
8 **INTEREST ON COMMODITY BALANCING ACCOUNT**
9 **UNDERCOLLECTIONS.**

10 A. The OCA believes that PNG has improperly charged \$4,289 in interest on its under-
11 collected balance in the commodity balancing account. From January, 2005 through the
12 estimated balance of the account in December, 2005. The details of this charge are
13 illustrated in OCA Exhibit AJZ-3, pages 1 thru 3.

14
15 **Q. WHY DOES THE OCA BELIEVE THAT PNG IMPROPERLY CHARGED**
16 **CUSTOMERS INTEREST ON UNDER-COLLECTIONS?**

17 A. PNG has never requested or been granted, authority to charge interest on under-collected
18 balances in the 191 account. Section 249(e) of the Commission's rules that were in effect
19 when this application was filed only refers to interest on over-collections. There is no
20 provision for interest on under-collections unless it was determined to be appropriate by
21 the Commission.

22
23 The Commission has allowed some utilities, such as Cheyenne Light, Fuel and Power
24 (CLFP) to charge interest on under-collections. CLFP was granted authority to charge
25 interest on under-collections in Docket No. 30005-GP-99-67. Included in that filing were
26 arguments and supporting documents to support such a practice. PNG does not appear to
27 have ever requested authority to do so.

1 **Q. WHEN DID PNG'S TARIFFS FIRST PROVIDE FOR THE COLLECTION OF**
2 **INTEREST ON UNDER-COLLECTIONS?**

3 A. After reviewing several PNG dockets in the Commission's files, the OCA believes that
4 the tariff language were attached to the end of a tariff compliance filing for a general rate
5 case where interest on under-collections was not requested or specifically authorized by
6 the Commission.

7
8 In Docket No. 30016-GP-03-35, filed November 10, 2003, PNG applied to the
9 Commission to pass-on changes in its commodity balancing account. At that time,
10 Commission staff noted in its memo:

11
12 PNG does not have a tariff that describes its commodity balancing
13 account in its tariffs which renders PNG out of compliance with
14 PSC rule 250(b), Commodity Balancing Account. Staff has talked
15 with Gilmer Mickey, President of PNG about this. Mr. Mickey has
16 agreed to file this tariff.

17
18 During that same time period, PNG had a general rate case (Docket No. 30016-GR-03-
19 34) that went to hearing on November 24, 2003. I reviewed all the pre-filed testimony of
20 both PNG and the OCA and the hearing transcript, and found no discussion of including
21 language in its tariffs regarding a commodity balancing account. Also during the
22 hearing, Mr. Steven Shute, Vice President and co-owner of PNG, testified several times
23 that he did not have the final tariffs for the rate case. The tariffs were filed as a
24 compliance filing on December 9, 2003, and included as the last page was the tariff
25 language for the commodity balancing account, including the never-discussed interest on
26 under-collections language.

27
28 Sections 212 of the Commission's rules requires utilities to file tariff changes for the
29 Commission's approval when the tariff results in a change of rates. Filing a tariff for a
30 CBA surcharge that includes a provision for the collection of interest on commodity cost

1 under collections clearly effects rates by increasing or decreasing the pass-on amounts
2 that customers will pay.

3
4 **Q. YOU PREVIOUSLY STATED THAT PNG IS RECOVERING MORE FROM**
5 **RATES THAN ITS COST OF GAS. PLEASE ELABORATE.**

6 A. When PNG calculates its projected base cost of gas, it only uses its projected purchase
7 costs for gas based on the North West Opal Index (local gas) plus \$0.20. It does not
8 include other any other costs in those calculations.

9
10 In addition, PNG tracks the difference in what it pays for gas and what it recovered from
11 customers on a monthly basis. The revenues that are recovered from customers are based
12 on the projected base cost of gas, described above, and the CBA surcharge. But, when
13 PNG calculates its CBA surcharge, it adds interest to the under-collected balance that
14 essentially increases the costs that it seeks to recover from customers through the pass-on.
15 This, in effect, enables PNG to recover more for its gas than what it paid; it recovers
16 more than a dollar for every dollar spent on gas purchases.

17
18 We can see this effect in a simple example. PNG estimates it will spend \$5 per Dth and
19 purchase 1,000 Dth, making the overall cost of gas \$5,000. The \$5,000 in overall gas
20 costs is then divided by the estimated sales of 1,000 Dth (PNG uses the same estimates
21 for Dth of purchased gas and sales), which results in a base cost of gas of \$5 per Dth.
22 Then during the year, PNG actually pays \$6,000 total for its gas, resulting in an under-
23 recovery of \$1,000.

24
25 PNG then adds interest to this balance to be recovered from ratepayers. For this example,
26 we will assume that a flat interest rate of 10% is added (\$100) bringing the under-
27 collected balance to \$1,100. This is now the amount that will be collected from
28 ratepayers through the commodity balancing account. Based on this simple example,
29 ratepayers will pay \$6,100 for the 1000 Dth of gas that PNG purchased for \$6,000. If the
30 costs were passed through to customers on a dollar-for-dollar basis, then \$6000 would be
31 recovered via the projected base gas cost and the CBA surcharge. Instead PNG would

1 recover \$6,100, or \$1.017 for every dollar it spends on gas. This relatively small amount,
2 when collected on approximately 125,000 Dth of gas produces unauthorized revenue, and
3 it should be discontinued.
4

5 **Q. WHAT ARE THE OCA'S RECOMMENDATIONS TO BRING PNG TO ITS**
6 **AUTHORIZED RETURN?**

7 A. That PNG be ordered to refund its excessive earnings to its customers by reducing the
8 rates charged under this commodity pass on. The OCA also recommends that Pinedale
9 Natural Gas be ordered to recompute their Commodity Balancing Account to exclude
10 interest on under-collections from the point of its inception to the present and that the
11 appropriated surcharge be calculated from the corrected balance. We also recommend
12 that the Commission order Pinedale Natural Gas to amend its tariff to exclude interest on
13 under-collected balances in the Commodity Balancing Account.
14

15 **Q. HOW SHOULD PNG REFUND THE DOLLARS BACK TO RATEPAYERS FOR**
16 **THE AMOUNT THAT THEY ARE OVER-EARNING?**

17 A. The \$58,587 in excessive earnings should be refunded to customers on a volumetric
18 basis, not through a flat rate refund, because customers paid the base cost of gas on a
19 volumetric basis.
20

21 PNG should be ordered to refund the money (\$58,587) based on the months that this
22 pass-on was in effect (October 13, 2005, through January 19, 2006), which would involve
23 the review of each customer's usage during those months. Another option is to stop the
24 base gas cost adjustments on a going forward basis until PNG's gas cost expense has
25 increased enough to bring down its return. This option may prove to be less burdensome
26 for PNG because it only involves dealing with total costs versus individual customer
27 usage. However, with either option, PNG must not be allowed to recover the refunded
28 revenues or the increase in costs through its balancing account.
29

1 **Q. WOULD YOU PLEASE DISCUSS THE CIRCUMSTANCES THAT MAY BE**
2 **CONTRIBUTING TO THE COMPANY'S OVER-EARNING STATUS?**

3 A. PNG is experiencing significant growth. It has grown from 650 meters in the 2003 rate
4 case to an estimated 878 meters for 2006. Its annual sales volume has increased from
5 99,401 Dth in the 2003 rate case to an estimated 125,000 Dth for 2006. The growth is
6 not just based in residential customers. Commercial-type customers have also increased
7 in number. However, Pinedale's rate design only separates its customers into a
8 residential customer class and a class for the school complex. The rate design uses high
9 volumetric rates (\$5.25/Dth and \$4.00/Dth, respectively) for its non-gas rates with a
10 relatively low monthly charge of \$10.

11
12 PNG's rate design is inherently problematic when coupled with its growth. The more
13 customers that PNG's system serves, the more revenues the Company will receive
14 through the volumetric non-gas rates. In addition, some of these customers are higher
15 usage customers (i.e. hotels) that also add to the revenues because of the volumetric non-
16 gas rate. In Pinedale's last rate case, this type of growth was not engineered into the rate
17 design; the rate design currently in use for PNG is more appropriate for a company that is
18 stagnant or experiencing much slower growth.

19
20 PNG should explore the possible division of its residential customer class into true
21 residential customers and commercial customers in its next rate case. It should also re-
22 evaluate the use of a high volumetric rate to recover some of its non-gas costs versus
23 putting more of its non-gas costs into the monthly charge.

24
25 **Q. DOES THIS COMPLETE YOUR PRE-FILED TESTIMONY?**

26 A. Yes.

27

1 **CERTIFICATE OF SERVICE**

2 I hereby certify that on the 21st day of February, 2006, I served a copy of the foregoing Pre-Filed
3 Direct Testimony of Amy J. Zamora by e-mail and U.S. Mail to:

4
5 Bruce Asay
6 Associated Legal Group, LLC
7 1807 Capitol Avenue, Suite 203
8 Cheyenne, WY 82001
9 basay@associatedlegal.com
10



11
Christopher Petrie

PINEDALE NATURAL GAS, INC.
OCA ADJUSTED INCOME STATEMENT
PROJECTED 2006 TEST YEAR

OCA Income Statement

Line No.	Description	OCA ADJUSTMENTS					OCA PRO FORMA	Required Change in Revenue	AFTER REVENUE CHANGE
		1 Pro-Forma Revenues	2 Pro-Forma Gas Costs	3 Decrease in Salaries	4 Include Interest Expense	5 Eliminate Depr. Difference			
1	Operating Revenues								
2	Gas Sales Receipts	1,156,250	-	-	-	1,156,250	(58,587)	1,097,663	
3	Non-Gas Revenue Receipts	628,125	-	-	-	625,000	-	625,000	
4	Monthly Connect Fee Receipts	(3,125)	-	-	-	105,360	-	105,360	
5	Total Operating Revenues	1,781,250	-	-	-	1,866,610	(58,587)	1,828,023	
6	Operating Expenses								
7	Natural Gas Purchases (COGS)	-	1,156,250	-	-	1,156,250	-	1,156,250	
8	Officer Compensation	-	-	(17,390)	-	92,610	-	92,610	
9	Officers' Wages	110,000	-	-	-	15,000	-	15,000	
10	Health/Disability	15,000	-	-	-	27,500	-	27,500	
11	Co. SEPP Officer Contributions	27,500	-	-	-	135,110	-	135,110	
12	Total Officer Compensation	152,500	-	(17,390)	-	111,739	-	111,739	
13	Employee Compensation	120,000	-	(8,261)	-	2,400	-	2,400	
14	Employee Wages	2,400	-	-	-	30,000	-	30,000	
15	Health/Disability	30,000	-	-	-	144,139	-	144,139	
16	Co. Retirement Savings	30,000	-	-	-	2,000	-	2,000	
17	Total Employee Compensation	152,400	-	(8,261)	-	500	-	500	
18	Bad Debt	2,000	-	-	-	33,000	-	33,000	
19	Office Rent	-	-	-	-	75,000	-	75,000	
20	Advertising	500	-	-	-	98,634	-	98,634	
21	Repairs and Maintenance	33,000	-	-	-	547,034	-	547,034	
22	Total Other Taxes and Licensing	33,000	-	-	-	322,875	-	322,875	
23	Total Other Deductions	75,000	-	-	-	(323,750)	-	(323,750)	
24	Depreciation/Amortization	98,634	-	-	-	832,500	-	832,500	
25	Total Operating Expenses Before Taxes	547,034	-	(25,651)	-	1,562,250	-	1,577,633	
26	Federal Income Tax	24,664	-	7,182	(7,418)	23,553	-	23,553	
27	Deferred Income Tax	22,782	-	-	-	22,782	-	22,782	
28	Total Taxes	47,446	-	7,182	(7,418)	46,336	-	46,336	
29	Total Operating Expenses	594,480	-	(18,469)	(7,418)	1,723,969	-	1,723,969	
30	Net Operating Earnings	139,005	-	18,469	7,418	162,641	(58,587)	104,054	
31	Rate of Return	10.86%				13.75%		8.80%	
32	TAX CALCULATION:								
33	Total Operating Revenues	733,485	-	-	-	1,866,610	(58,587)	1,828,023	
34	Less Total Operating Exp Before Taxes	547,034	-	(25,651)	-	1,677,633	-	1,677,633	
35	Less Difference in Depreciation for Taxes	81,366	-	-	-	208,977	(58,587)	150,390	
36	Total Operating Margins	105,085	-	25,651	-	43,492	-	43,492	
37	Interest on LT Debt	17,000	-	-	26,492	252,469	(58,587)	193,882	
38	Income Before Taxes	88,085	-	25,651	(26,492)	70,691	(16,404)	54,287	
39	Federal Income Taxes at 28%	24,664	-	7,182	(7,418)	180,000	-	180,000	
40	DEFERRED INCOME TAX CALCULATION:								
41	Depreciation for Taxes	180,000	-	-	-	98,634	-	98,634	
42	Depreciation for Rates	98,634	-	-	-	81,366	-	81,366	
43	Differential	81,366	-	-	-	22,782	-	22,782	
44	Deferred Tax at 28%	22,782	-	-	-	-	-	-	

**PINEDALE NATURAL GAS, INC.
ADJUSTMENT TO GAS SALES AND
TO ANNUALIZE NON-GAS SALES**

**OCA INCOME STATEMENT
ADJUSTMENT #1**

Projected 2006 Annual Sales in Dth:
Residential/Others (80%)
Schools (20%)
Total Projected 2006 Sales

100,000
25,000
<u>125,000</u>

Projected 2006 Gas Revenue Sales:
Total Projected Sales

125,000
9.25
<u>\$ 1,156,250</u>

Current Projected Cost of Gas per Dth (Docket No. 30016-39-GP-05)
TOTAL GAS RECEIPTS FROM BASE COST OF GAS RATE

This adjustment includes the receipts from Gas Sales using the projected sales from the pass-on and annualizing the revenues with the current base cost of gas rate. The revenues from the CBA surcharge are NOT included since they relate to collecting revenues from a prior period. These revenues reflect what would be collected in a normal period which assumes that all gas costs are collected through the base cost of gas.

Projected Non-Gas Revenue Sales:
Total Projected Sales
Current Rate per Dth (Docket No. 30016-GR-03-34)

	<u>Residential</u>	<u>Schools</u>
100,000	25,000	
\$ 5.25	\$ 4.00	
<u>\$ 525,000</u>	<u>\$ 100,000</u>	

OCA - TOTAL NON-GAS RECEIPTS
PNG - TOTAL NON-GAS RECEIPTS
ADJUSTMENT TO TOTAL NON-GAS RECEIPTS

\$ 625,000
628,125
<u>\$ (3,125)</u>

This adjustment includes the receipts from Non-Gas Sales using the projected 2006 sales from the pass-on at the current non-gas rate. PNG's calculations are based on a different projected sales number. The projected sales sales used in the pass-on should also be used to review its current earnings situation.

PINEDALE NATURAL GAS, INC.
ADJUSTMENT TO ANNUALIZE GAS COSTS

OCA INCOME STATEMENT
ADJUSTMENT #2

Projected 2006 Annual Purchases in Dth	125,000
Projected 2006 Purchased Gas Costs (Docket No. 30016-39-GP-05)	\$ 9.25
TOTAL NATURAL GAS PURCHASES	<u>\$ 1,156,250</u>

This adjustment includes the projected gas purchases from the pass-on filing, annualized at the projected price per Dth.

**PINEDALE NATURAL GAS, INC.
ADJUSTMENT TO SALARIES**

**OCA INCOME STATEMENT
ADJUSTMENT #3**

PNG - Officers' Wages in 2004
Reasonable Increase at 5% (\$84,000 X 5%)
OCA - Officers' Wages in 2005
Reasonable Increase at 5% (\$88,200 X 5%)
OCA - Projected 2006 Officers' Wages

\$	84,000
	<u>4,200</u>
	88,200
	<u>4,410</u>
\$	<u><u>92,610</u></u>

OCA - Officers' Wages
PNG - Officers' Wages

\$	92,610
	<u>110,000</u>
\$	<u><u>(17,390)</u></u>

OCA DECREASE IN OFFICERS' WAGES

The officers' wages have been increased by \$26,000 (31%) since 2004. The amount of this increase is unreasonable. The OCA has estimated the wages for 2006 at a more reasonable level with an appropriate increase of 5% for 2005 and 5% for 2006.

PNG - Employee Wages in 2005
Reasonable Increase at 5% (\$106,418 X 5%)
OCA - Projected 2006 Employee Wages

\$	106,418
	<u>5,321</u>
\$	<u><u>111,739</u></u>

OCA - Total Wages
PNG - Total Wages

\$	111,739
\$	<u>120,000</u>
\$	<u><u>(8,261)</u></u>

OCA DECREASE IN EMPLOYEES' WAGES

The OCA has verified the wages paid to its employees for 2005. PNG has not provided documentation as to why employees' wages need to be increased to \$120,000. The OCA has used 5% as a reasonable increase to employees' wages for 2006.

PINEDALE NATURAL GAS, INC.
SYNCHONIZE INTEREST ON RATE BASE
FOR INCOME TAX CALCULATION

OCA INCOME STATEMENT
ADJUSTMENT #4

OCA - Rate Base for 2006	\$ 1,182,430
Stipulated Weighted Average Cost of Debt	3.68%
OCA - Interest Expense	<u>\$43,492</u>
OCA - Interest Expense	\$ 43,492
PNG - Interest Expense	17,000
OCA ADJ. TO INCREASE INTEREST EXPENSE FOR TAXES	<u>\$ 26,492</u>

The Interest Expense associated with PNG's rate base must be included in the calculation of the company's income tax calculation. Not including the expense would overstate income taxes and would likewise understate earnings.

PINEDALE NATURAL GAS, INC.
ELIMINATE DIFFERENCE IN DEPRECIATION FOR TAXES
FOR INCOME TAX CALCULATION

OCA INCOME STATEMENT
ADJUSTMENT #5

ELIMINATE THE DEPRECIATION DIFFERENCE

(\$81,366)

PNG incorrectly used tax depreciation in its calculations for income taxes for ratemaking purposes. The difference was allowing PNG to double count its deferred income taxes for the year. This adjustment eliminates the difference, It has no tax implications since that is already included in DIT.

PINEDALE NATURAL GAS, INC.
OCA ADJUSTED RATE BASE
PROJECTED 2006 TEST YEAR

OCA Rate Base

Line No.	Description	PNG 2006 PROJECTED	OCA ADJUSTMENTS		OCA PRO FORMA	Required Change in Revenue	AFTER REVENUE CHANGE
			1 Update CWC	2 Include Accum. DIT			
1	Utility Plant in Service - 2006	2,361,186	-	-	2,361,186	-	2,361,186
2	CWIP	-	-	-	-	-	-
3	Gross Plant in Service	2,361,186	-	-	2,361,186	-	2,361,186
4	Accumulated Depreciation - 2006	(1,182,771)	-	-	(1,182,771)	-	(1,182,771)
5	Net Utility Plant in Service	1,178,415	-	-	1,178,415	-	1,178,415
6							
7	Materials and Supplies	60,000	-	-	60,000	-	60,000
8	Prepayments	-	-	-	-	-	-
9	Cash Working Capital	51,000	1,844	-	52,844	-	52,844
10	Accumulated Deferred Income Tax	-	-	(98,923)	(98,923)	-	(98,923)
11	Customer Deposits	(9,905)	-	-	(9,905)	-	(9,905)
12	Customer Advances for Construction	-	-	-	-	-	-
13	Customer Prepayments	-	-	-	-	-	-
14							
15	Total Rate Base	1,279,510	1,844	(98,923)	1,182,430	-	1,182,430

PINEDALE NATURAL GAS, INC.
ADJUSTMENT TO UPDATE CASH WORKING CAPITAL

**OCA RATE BASE
ADJUSTMENT #1**

OCA O&M Expenses Included in Cash Working Capital:	
Total Officer Compensation	\$ 135,110
Total Employee Compensation	144,139
Bad Debt	2,000
Advertising	500
Repairs and Maintenance	33,000
Total Taxes (Others) and Licenses	33,000
Other Deductions	75,000
OCA Total O&M Expenses Included in CWC	<u>\$ 422,749</u>
OCA Cash Working Capital	52,844
Formula: $1/8 * \text{O\&M Expenses}$	
OCA Cash Working Capital	\$ 52,844
PNG Reported Cash Working Capital	<u>51,000</u>
INCREASE IN CASH WORKING CAPITAL	<u>1,844</u>

This adjustment is to update Cash Working Capital with the adjustments that were made to related expense accounts.

**PINEDALE NATURAL GAS, INC.
ADJUSTMENT TO INCORPORATE
ACCUMULATED DEFERRED INCOME TAX**

OCA RATE BASE
ADJUSTMENT #2

	<u>Tax</u>	<u>Rate</u>	<u>Difference</u>	<u>Tax</u>	<u>Current Yr</u>	<u>Accum.</u>
	<u>Depreciation</u>	<u>Depreciation</u>		<u>Rate</u>	<u>Def. Inc. Tax</u>	<u>Def. Inc. Tax</u>
2003	161,042	63,993	97,049	0.28	27,174	27,174
2004	160,344	80,741	79,603	0.28	22,289	49,463
2005	186,412	91,134	95,278	0.28	26,678	76,140
proj. 2006	180,000	98,634	81,366	0.28	22,782	98,923

This adjustment incorporates a balance for accumulated deferred income taxes (DIT). DIT is used to recognize the differences in depreciation that is used for tax purposes (accelarated) and depreciation that is used for ratemaking purposes (straight-line).

PINEDALE NATURAL GAS, INC.
REFUND OF INTEREST ON UNDER-COLLECTIONS

OCA INTEREST

CBA - Over/(Under) Recovered Balance:

Without Interest on Under-Collections	\$ (34,133)
With Interest on Under-Collections	<u>(38,422)</u>
Total Difference Owed to Ratepayers	<u>\$ (4,289)</u>

Interest on under-collected balances in the CBA account was never requested by PNG, nor was it approved by the Commission. This adjustment decreases revenue by the amount that was collected for interest on the under-collected balance.

Total Owed to Ratepayers	\$ (4,289)
Projected Sales Over 12 Months	125,500
Decrease in CBA Surcharge/Dth (informational purposes only)	(0.03418)

This calculation shows what the impact would be to the CBA Surcharge/Dth rate if the CBA balance was decreased by \$4,289; this is for informational purposes only.

PINEDALE

**COMMODITY BALANCING ACCOUNT
WITHOUT INTEREST ON UNDER-COLLECTION
January 6, 2006 (Docket No. 30016-39-GP-05)**

**OCA INTEREST
DETAIL**

MONTH/YEAR	1	2	3	4	5	6	7	8	9	10	11	13
	PURCH GAS COST \$	SALES VOL (Dth)	RECOV OF GAS COST (3 x 13)	O/U RECOV COST (4 - 1)	CUMUL O/U RECOV	INT ^ AT 7.0% ((5 x .07)/12)	COMMODITY BAL. ACCT.	CURRENT MONTH (5 + 7)	CUMULATIVE	BASE GAS COST	GAS COST RECOV. RATES (\$/Dth)	TOTAL (10+11)
2003												
Carryforward						75	(5,481)		(5,406)			
January	41,081	13,957	28,193	(12,888)	(18,294)	-	(12,888)	(12,888)	(18,294)	2,380,000	(0.36000)	2,020,000
February	37,208	13,665	27,603	(9,605)	(27,899)	-	(9,605)	(9,605)	(27,899)	2,380,000	(0.36000)	2,020,000
March	55,066	10,407	47,456	(7,610)	(35,509)	-	(7,610)	(7,610)	(35,509)	4,210,000	0.35000	4,560,000
April	26,140	7,770	41,570	15,430	(20,079)	-	15,430	15,430	(20,079)	5,000,000	0.35000	5,350,000
May	24,340	7,170	38,360	14,020	(6,060)	-	14,020	14,020	(6,060)	5,000,000	0.35000	5,350,000
June	17,028	3,063	16,387	(641)	(6,701)	-	(641)	(641)	(6,701)	5,000,000	0.35000	5,350,000
July	11,396	2,671	14,290	2,894	(3,807)	-	2,894	2,894	(3,807)	5,000,000	0.35000	5,350,000
August	9,851	2,286	12,230	2,379	(1,428)	-	2,379	2,379	(1,428)	5,000,000	0.35000	5,350,000
September	16,625	4,358	23,315	6,690	5,263	-	6,690	6,690	5,263	5,000,000	0.35000	5,350,000
October	26,240	4,883	26,124	(116)	5,147	31	(85)	(85)	5,178	5,000,000	0.35000	5,350,000
November	63,777	12,789	62,155	(1,622)	3,556	30	(1,593)	(1,593)	3,585	4,850,000	0.10000	4,860,000
December	68,328	16,382	79,617	11,289	14,874	21	11,310	11,310	14,895	4,850,000	0.10000	4,860,000
2004												
January	84,189	15,696	76,283	(7,906)	6,988	88	(7,818)	(7,818)	7,077	4,850,000	0.10000	4,860,000
February	72,154	14,633	71,116	(1,038)	6,039	39	(999)	(999)	6,078	4,850,000	0.10000	4,860,000
March	51,787	11,506	55,919	4,132	10,210	36	4,168	4,168	10,246	4,850,000	0.10000	4,860,000
April	33,779	7,677	37,310	3,531	13,777	59	3,590	3,590	13,836	4,850,000	0.10000	4,860,000
May	23,227	5,830	28,334	5,107	18,943	82	5,189	5,189	19,025	4,850,000	0.10000	4,860,000
June	16,305	4,561	21,254	4,949	23,974	109	5,058	5,058	24,083	4,800,000	(0.14000)	4,660,000
July	13,529	3,198	14,903	1,374	25,457	143	1,516	1,516	25,599	4,800,000	(0.14000)	4,660,000
August	16,819	2,969	13,836	(2,983)	22,616	151	(2,832)	(2,832)	22,767	4,800,000	(0.14000)	4,660,000
September	21,128	5,412	25,220	4,092	26,859	130	4,222	4,222	26,989	4,800,000	(0.14000)	4,660,000
October	35,128	8,117	37,825	2,697	29,686	160	2,857	2,857	29,846	4,800,000	(0.14000)	4,660,000
November	75,730	12,231	56,996	(18,734)	11,113	171	(18,563)	(18,563)	11,283	4,800,000	(0.14000)	4,660,000
December	94,379	11,638	54,233	(40,146)	(28,863)	66	(40,080)	(40,080)	(28,797)	4,800,000	(0.14000)	4,660,000
2005												
January	98,469	16,862	78,577	(19,892)	(48,689)	-	(19,892)	(19,892)	(48,689)	5,000,000	0.28000	5,780,000
February	90,020	16,328	94,376	4,356	(44,333)	-	4,356	4,356	(44,333)	5,000,000	0.28000	5,780,000
March	74,448	11,777	68,071	(6,377)	(50,710)	-	(6,377)	(6,377)	(50,710)	5,000,000	0.28000	5,780,000
April	67,113	11,881	68,672	1,559	(49,151)	-	1,559	1,559	(49,151)	5,000,000	0.28000	5,780,000
May	49,134	6,901	39,888	(9,246)	(58,397)	-	(9,246)	(9,246)	(58,397)	5,000,000	0.28000	5,780,000
June	31,550	5,915	34,189	2,639	(55,758)	-	2,639	2,639	(55,758)	5,000,000	0.28000	5,780,000
July	22,284	3,132	18,103	(4,181)	(59,939)	-	(4,181)	(4,181)	(59,939)	5,000,000	0.28000	5,780,000
August	24,362	3,482	20,126	(4,236)	(64,175)	-	(4,236)	(4,236)	(64,175)	5,000,000	0.28000	5,780,000
September	49,030	6,255	36,154	(12,876)	(77,051)	-	(12,876)	(12,876)	(77,051)	5,000,000	0.28000	5,780,000
October	89,337	8,154	70,940	(18,397)	(95,448)	-	(18,397)	(18,397)	(95,448)	8,120,000	0.58000	8,700,000
November	150,511	13,223	161,056	10,545	(84,903)	-	10,545	10,545	(84,903)	11,250,000	0.93000	12,180,000
* December	172,513	18,332	223,284	50,771	(34,133)	-	50,771	50,771	(34,133)	11,250,000	0.93000	12,180,000

^ = Interest was calculated on over-collected balances only, at the rate of 4.75% through September 2003; after this date, interest was increased to 7% on over- and under-collected balances.
* = projected; all other months are actual

PINEDALE

**OCA INTEREST
DETAIL**

**COMMODITY BALANCING ACCOUNT
WITH INTEREST ON UNDER-COLLECTION
January 6, 2006 (Docket No. 30016-39-GP-05)**

MONTH/YEAR	1	2	3	4	5	7	6	8		9		10		11	13
	PURCH GAS COST \$		SALES VOL (Dth)	RECOV OF GAS COST (3 x 13)	O/U RECOV COST (4 - 1)	CUMUL O/U RECOV (5,481)	INT ^ AT 7.0% ((5 x .07)/12) 75	D A Y S	CURRENT MONTH (5 + 7)	COMMODITY BAL. ACCT.	BASE GAS COST	GAS COST RECOV. RATES (\$/Dth)	GAS COST PASS ON	TOTAL (10+11)	
2003	Carryforward														
January	41,081		13,957	28,193	(12,888)	(18,294)	-	31	(12,888)	(5,406)	2,38000	(0.36000)		2,02000	
February	37,208		13,665	27,603	(9,605)	(27,899)	-	28	(9,605)	(18,294)	2,38000	(0.36000)		2,02000	
March	55,066		10,407	47,456	(7,610)	(35,509)	-	31	(7,610)	(27,899)	4,21000	0.35000		4,56000	
April	26,140		7,770	41,570	15,430	(20,079)	-	30	15,430	(35,509)	5,00000	0.35000		5,35000	
May	24,340		7,170	38,360	14,020	(6,060)	-	31	14,020	(20,079)	5,00000	0.35000		5,35000	
June	17,028		3,063	16,387	(641)	(6,701)	-	30	(641)	(6,060)	5,00000	0.35000		5,35000	
July	11,396		2,671	14,290	2,894	(3,807)	-	31	2,894	(6,701)	5,00000	0.35000		5,35000	
August	9,851		2,286	12,230	2,379	(1,428)	-	31	2,379	(3,807)	5,00000	0.35000		5,35000	
September	16,625		4,358	23,315	6,690	5,263	-	30	6,690	(1,428)	5,00000	0.35000		5,35000	
October	26,240		4,883	26,124	(116)	5,147	-	31	5,147	5,263	5,00000	0.35000		5,35000	
November	63,777		12,789	62,155	(1,622)	3,556	30	30	(1,593)	5,178	4,85000	0.01000		4,86000	
December	68,328		16,382	79,617	11,289	14,874	21	31	11,310	14,895	4,85000	0.01000		4,86000	
2004	84,189		15,696	76,283	(7,906)	6,988	88	31	(7,818)	7,077	4,85000	0.01000		4,86000	
January	72,154		14,633	71,116	(1,038)	6,039	39	29	(999)	6,078	4,85000	0.01000		4,86000	
February	51,787		11,506	55,919	4,132	10,210	36	31	4,168	10,246	4,85000	0.01000		4,86000	
March	33,779		7,577	37,310	3,531	13,777	59	30	3,590	13,836	4,85000	0.01000		4,86000	
April	23,227		5,830	28,334	5,107	18,943	82	31	5,189	19,025	4,85000	0.01000		4,86000	
May	16,305		4,561	21,254	4,949	23,974	109	30	5,058	24,083	4,80000	(0.14000)		4,66000	
June	13,529		3,198	14,903	1,374	25,457	143	31	1,516	25,599	4,80000	(0.14000)		4,66000	
July	16,819		2,969	13,836	(2,983)	22,616	151	31	(2,832)	22,767	4,80000	(0.14000)		4,66000	
August	21,128		5,412	25,220	4,092	26,859	130	30	4,222	26,989	4,80000	(0.14000)		4,66000	
September	35,128		8,117	37,825	2,687	29,686	160	31	2,857	29,846	4,80000	(0.14000)		4,66000	
October	75,730		12,231	56,996	(18,734)	11,113	171	30	(18,563)	11,283	4,80000	(0.14000)		4,66000	
November	94,379		11,638	54,233	(40,146)	(28,863)	66	31	(40,080)	(28,797)	4,80000	(0.14000)		4,66000	
December	98,469		16,862	78,577	(19,892)	(48,689)	172	31	(20,064)	(48,860)	4,80000	(0.14000)		4,66000	
2005	90,020		16,328	94,376	4,356	(44,504)	(261)	28	4,094	(44,766)	5,50000	0.28000		5,78000	
January	74,448		11,777	68,071	(6,377)	(51,143)	(265)	31	(6,642)	(51,407)	5,50000	0.28000		5,78000	
February	67,113		11,881	68,672	1,559	(49,848)	(294)	30	1,265	(50,142)	5,50000	0.28000		5,78000	
March	49,134		6,901	39,888	(9,246)	(59,389)	(296)	31	(9,543)	(59,685)	5,50000	0.28000		5,78000	
April	31,550		5,915	34,189	2,639	(57,046)	(342)	30	2,297	(57,388)	5,50000	0.28000		5,78000	
May	22,284		3,132	18,103	(4,181)	(61,569)	(339)	31	(4,520)	(61,908)	5,50000	0.28000		5,78000	
June	24,362		3,482	20,126	(4,236)	(66,144)	(366)	31	(4,602)	(66,510)	5,50000	0.28000		5,78000	
July	49,030		6,255	36,154	(12,876)	(79,386)	(381)	30	(13,257)	(79,767)	5,50000	0.28000		5,78000	
August	89,337		8,154	70,927	(18,410)	(98,177)	(472)	31	(18,882)	(98,649)	8,12000	0.58000		8,70000	
September	150,511		13,223	161,056	10,545	(88,104)	(565)	30	9,980	(88,669)	11,25000	0.93000		12,18000	
October	172,513		18,332	223,284	50,771	(37,898)	(524)	31	50,247	(38,422)	11,25000	0.93000		12,18000	
November															
December															

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