

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 in Accounting. After graduating, I was employed as an accountant with a service  
10 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 in seven previous proceedings regarding the revenue  
24 requirement, cost of service and rate design in general rate cases. I testified in six  
25 of those proceedings.  
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 discuss the findings of the OCA review of the  
4 pass-on application of Wyoming Gas Company (WGC). We will also make  
5 recommendations to the Commission on how to address our findings.  
6

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

8 A. No, I am not.  
9

10 **Q. WHY DID THE OFFICE OF CONSUMER ADVOCATE INTERVENE IN**  
11 **THIS MATTER?**

12 A. The OCA intervened in this docket because of concerns that we had regarding the  
13 gas purchasing strategy of WGC for its upcoming annual supply. It seemed at the  
14 time of our intervention that WGC had made a significant change to its strategy  
15 that may harm its customers and that WGC's gas purchases may not be the most  
16 economical option available as required by Section 249(f) of the Commission  
17 Procedural Rules and Special Regulation that were in effect at the time this  
18 application was filed.  
19

20 **Q. DOES THE OCA NOW BELIEVE THAT THE CHANGE IN**  
21 **PURCHASING PRACTICE HARMED WGC'S CUSTOMERS?**

22 A. No we do not. After our review, we more fully understand how this particular  
23 change in the company's purchasing strategy actually saved customers from  
24 paying even higher gas costs than if the company would have implemented its  
25 normal plan.  
26

27 **Q. WHAT CONCERNS DO YOU HAVE THEN WITH WYOMING GAS**  
28 **COMPANY'S PASS-ON FILING?**

29 A. Our review brought forth concerns regarding the Company's current purchasing  
30 strategy as well as other areas of its pass-on application and tariffs that relate to

1 interest, the inclusion of bad debt recovery through the gas cost adjustment  
2 (GCA) and irregularities in the billing process.

3  
4 **Q. WHAT CONCERNS DO YOU HAVE WITH WGC'S CURRENT GAS**  
5 **PURCHASING STRATEGY?**

6 A. There are three areas of concern that have come to light with the current  
7 purchasing plan. They include the deviation that was taken from the current or  
8 historical strategy, the time of year when the contract purchases are made, and the  
9 use of the current 80% contract to 20% indexed gas portfolio mix.

10  
11 **Q. PLEASE DISCUSS THE OCA'S CONCERNS WITH THE DEVIATION**  
12 **FROM WGC'S CURRENT OR HISTORICAL GAS PURCHASING**  
13 **STRATEGY.**

14 A. During a typical year, Wyoming Gas purchases 80% of its annual gas supply in  
15 the month of September for the following 12 months beginning in October. The  
16 contract price is based on the *NYMEX futures price* for those months minus an  
17 estimated average basis differential. The basis differential is the difference in  
18 those futures prices and what the gas could sell for on the CIG monthly index.  
19 The remaining 20% of the gas supply is purchased monthly using CIG Index  
20 pricing. However, as discussed in Ms. Capshaw's testimony, WGC did not follow  
21 this purchasing timeline for the 2005/6 season given the unusual prices appearing  
22 at the time.

23  
24 For the 2005/2006 year, the monthly prices for September, October and  
25 November were lower than the NYMEX prices for the annual strip. For example,  
26 Exhibit 5 in Ms. Capshaw's testimony shows that the monthly prices on  
27 September 23, 2005, were less than the NYMEX futures prices for October,  
28 November and December (\$10.50 per mcf versus \$12.32, \$12.69 and \$13.17,  
29 respectively). This is typical for all of the September and October dates in the  
30 spreadsheet. As futures prices started to decline, Wyoming Gas decided to  
31 purchase 80% of its gas supply for the remaining 10 months (December 2005

1 through September 2006) of its annual supply. WGC entered into these contracts  
2 on October 31 with a weighted average cost of \$10.20 per mcf, as filed in the  
3 subsequent pass-on application (Docket No. 30009-42-GP-05).

4  
5 Our concern is that utility companies should not ordinarily change their  
6 purchasing strategies to merely try to beat the market. Careful consideration and  
7 planning needs to be given to changing the strategy before a decision is made to  
8 do so. It appeared at the time of the application that WGC had changed its  
9 strategy based solely on a response to current prices.

10  
11 **Q. DOES THE OCA DISAGREE WITH WGC'S CHANGE IN ITS**  
12 **PURCHASING POLICY?**

13 The OCA does not necessarily disagree with WGC's change in its procurement  
14 policy to try to find the least cost option available. In trying to second guess the  
15 market, the plan may have gone awry. Hind sight shows that WGC's deviation  
16 from its plan saved its customers approximately \$1.82 per mcf (\$1.49 million),  
17 based on the September 23, 2005, CIG daily index price versus the NYMEX  
18 Futures Price for October purchases of \$12.32. Of course, this comparison is  
19 simplified since a weighted average of futures prices is used as a basis for the  
20 year's purchase costs.

21  
22 However, hind sight also shows that had Wyoming Gas waited a few more weeks,  
23 then they could have continued to purchase gas on the spot market and saved  
24 customers even more money. The CIG spot prices were declining along with the  
25 futures prices. The daily prices in November were below those from October.  
26 Exhibit 5 and Exhibit 5b of Ms. Capshaw's testimony show that the daily prices  
27 in November ranged from \$5.79 to \$9.67 per mcf, with an average price for the  
28 month of \$7.36. A comparison of the average November price against the  
29 contract price entered into on October 31 shows that the company could have  
30 saved an additional \$2.84 per mcf (\$277,323) for its November 2005 purchases.  
31 In WGC's case, second guessing the market and the procurement plan did help

1 keep costs down at the beginning of its purchase year, but that altered strategy  
2 also worked against them when the CIG prices continued to decline and stayed  
3 lower than NYMEX prices at which they later contracted at. The following table  
4 shows the average monthly CIG index prices from October 2005 through March  
5 16, 2006.

MONTH (Capshaw Exh. 5 and 5b)	CIG AVERAGE DAILY PRICE/MCF
October 2005	\$10.40
November 2005	\$7.36
December 2005	\$10.91
January 2006	\$7.29
February 2006	\$6.54
Through March 16, 2006	\$5.51

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13  
14 **Q. PLEASE DISCUSS THE OCA'S CONCERNS WITH THE TIME OF**  
15 **YEAR WHEN THE CONTRACT PURCHASES ARE MADE.**

16 A. Wyoming Gas purchases 80% of its annual supply in September for gas to be  
17 delivered starting in October. Exhibit 5a, of Ms. Capshaw's testimony compares  
18 the NYMEX futures prices available each week of the year for the months of  
19 September 2005 through August 2006.

20  
21 The OCA compared an average price for January versus the average price for  
22 September. The OCA found that the prices in January 2005 for gas to be  
23 delivered in October 2005 through September 2006 are less than the prices in  
24 September 2005 for those same months. Because the data may be skewed due to  
25 the hurricane events in September 2005, the OCA requested the same information  
26 for each of the previous four years. Each year shows the same trend: that *the*  
27 *average price in January for gas futures is less than the average price in*  
28 *September for the same months (October through the following September).*

29  
30 **Q. IN MS. CAPSHAW'S TESTIMONY ON PAGE 5, LINES 11-12 SHE**  
31 **STATED THAT "THE FALL HAS THE LOWEST PRICED GAS FOR**

1           **THE YEAR AND WGC SET UP PURCHASING TO COINCIDE WITH**  
2           **THAT TIMING.” DO YOU AGREE WITH THIS STATEMENT?**

3           A.    I agree and disagree. I agree with her statement in that the *monthly CIG index*  
4           prices on which WGC purchases 20% of its gas is cheaper during the fall months  
5           which are considered shoulder months (months immediately before and after the  
6           winter heating season months). However, I disagree with this statement in that  
7           WGC uses this logic to buy gas on contract, which is based on NYMEX pricing.  
8           As I mentioned above, NYMEX pricing for futures contracts appears to be the  
9           lower in January compared to the fall months.

10

11          **Q.    WHAT DOES THE OCA RECOMMEND TO THE COMMISSION**  
12          **REGARDING THE TIMING OF WYOMING GAS COMPANY’S**  
13          **PURCHASES?**

14          A.    The data shows that Wyoming Gas should be ordered to perform an analysis  
15          regarding the timing of its contracted natural gas purchases. Doing such an  
16          analysis will ensure that Wyoming Gas Company is purchasing gas during the  
17          optimal time of year in order to find the most economical option reasonably  
18          available. The results of the analysis should be filed with the Commission as a  
19          compliance filing to this docket within 30 days of the order. In addition, any  
20          changes to its purchasing strategy resulting from this investigation should be  
21          discussed and utilized in subsequent pass-on filings.

22

23          **Q.    PLEASE DISCUSS THE OCA’S CONCERNS WITH THE CURRENT**  
24          **PORTFOLIO MIX OF WGC’S PURCHASES GAS.**

25          A.    This issue relates to the proportion of contract gas that WGC purchases (at  
26          NYMEX prices minus a differential) to gas it buys from monthly index prices.  
27          Currently, that ratio is 80% contract to 20% monthly index. Exhibit 2 of Ms.  
28          Capshaw’s testimony includes a spreadsheet that compares what Wyoming Gas  
29          actually paid versus an estimate of what they would have paid if it had purchased  
30          gas on the monthly spot market only.

31

1 The data in Exhibit 2 shows that for the period of October 2000 – September  
 2 2001, WGC paid less for its gas (based on its 80%/20% strategy) than it would  
 3 have paid if it were to purchase all of its gas on the monthly spot market by  
 4 \$1,531,041 (total of the monthly differences). But, for the next 12 month period  
 5 of October 2001 – September 2002, WGC paid \$2,399,856 more with its current  
 6 strategy than it would have buying 100% of its gas on index. During the first 5  
 7 months of the current contract period, Wyoming Gas has spent \$877,718 more on  
 8 gas than it would have had it purchased all of its gas on monthly index. The table  
 9 below shows the differences in what WGC actually paid compared to what it  
 10 would have paid at CIG index pricing. The negative numbers indicate that  
 11 WGC’s strategy provided for cheaper gas, whereas the positive numbers indicate  
 12 that 100% CIG index pricing was cheaper.

<b>12 MONTH PERIOD</b>	<b>DIFFERENCE IN ACTUAL GAS COST VS. CIG INDEX</b>
January 2000 – September 2000	(\$142,170)
October 2000 – September 2001	(\$1,531,041)
October 2001 – September 2002	\$2,399,856
October 2002 – September 2003	\$117,934
October 2003 – September 2004	(\$346,232)
October 2004 – September 2005	(\$404,988)
October 2005 – February 2006	\$877,718

23 The cumulative effect of these balances indicates that customers have paid more  
 24 for gas using WGC’s strategy than it would have if they had purchased all of its  
 25 requirements on the monthly CIG index.

27 **Q. DOES THIS MEAN THAT THE OCA IS ADVOCATING THAT WGC**  
 28 **PURCHASE ITS ENTIRE GAS SUPPLY VIA INDEX PRICED GAS?**

29 **A.** No, this does not mean that Wyoming Gas should change its strategy to 100%  
 30 index priced gas, because the data also shows years where index priced gas was  
 31 not the most economical choice (negative numbers). Based on this data, the OCA

1 believes that different ratios of contracted gas to index priced gas should be  
2 analyzed by the company. A different portfolio of gas purchases combined with a  
3 change in purchase months could prove to lower overall gas costs and to help  
4 mitigate huge gas cost swings.

5

6 **Q. WHAT DOES THE OCA RECOMMEND TO THE COMMISSION**  
7 **REGARDING WYOMING GAS COMPANY'S GAS PURCHASE**  
8 **PORTFOLIO?**

9 A. The data shows that Wyoming Gas should be ordered to analyze various portfolio  
10 mix options of contracted gas to index priced gas. The results of the analysis  
11 should be filed with the Commission as a compliance filing to this docket within  
12 30 days of the order. In addition, any changes to its purchasing strategy from this  
13 analysis should be discussed and utilized in subsequent pass-on filings.

14

15 **Q. WHAT OTHER CONCERNS HAVE ARISEN FROM THE OCA'S**  
16 **REVIEW OF THE APPLICATION AND THE COMPANY'S TARIFFS?**

17 A. During our review, the OCA found other concerns that are related to the  
18 company's pass-on application and tariffs such as how the company is  
19 compounding interest in the commodity balancing account, including bad debts in  
20 the gas cost recovery mechanism, the change in payments for the budget billing  
21 customers before the new rate went into effect, and the use of bills rendered  
22 versus usage on and after the effective date.

23

24 **Q. PLEASE DISCUSS THE ISSUE REGARDING THE COMPOUNDING**  
25 **INTEREST FOR THE COMMODITY BALANCING ACCOUNT.**

26 A. Historically, interest on over-collected balances in the Commodity Balancing  
27 Account (CBA, or 191 account) has been used as an incentive for gas companies,  
28 and other utilities, to refund over-collections to customers as quickly as possible.  
29 Interest is added to over-collected balances at rates ranging from current money-  
30 market rates to the amount of interest required on deposits to a company's  
31 authorized rate of return on rate base. If interest is not charged, companies may

1 not provide the best possible usage forecast for the upcoming months, to enable it  
2 to keep customers' money longer, providing itself more cash for its operations at  
3 ratepayers' expense.

4  
5 Discussions on how interest should be applied to the Commodity Balancing  
6 Account have come before the Commission in previous cases, including the  
7 appropriate time to add interest to the CBA. This case warrants a Commission  
8 decision on that same subject.

9  
10 Wyoming Gas Company (WGC) is calculating interest every month using 1/12<sup>th</sup>  
11 of the rate that was authorized as its rate of return on Rate Base (10.487%). The  
12 interest is then totaled *for the year*; that total is then credited to the CBA, thereby  
13 increasing the over-collected, or credit, balance. The Company's tariffs, on Sheet  
14 No. 5, second paragraph, state that "the Company shall add interest to the  
15 Commodity Balancing Account at a *simple rate* of 10.847% per annum"  
16 (emphasis added). WGC believes that this statement allows them to calculate  
17 interest in a fashion seen as simple interest and only add once per year. Indeed,  
18 they were instructed to do so by Commission Staff in 2001 during a previous  
19 pass-on application (Docket No. 30009-GP-01-36). At that time, WGC was  
20 adding interest to over-collections on a monthly basis. If the words "*simple rate*"  
21 are interpreted to mean that pure simple interest will be calculated for the 191  
22 account credit balance, then the OCA believes that Wyoming Gas Company's  
23 tariffs are in violation of the Commission's rules since the rules require that all  
24 monthly debits and credits be reflected in the balance, of which interest on over-  
25 collections would be a credit. To understand the OCA's position better, a review  
26 of the definitions of simple and compound interest is needed.

27  
28 **Q. WHAT IS THE DIFFERENCE BETWEEN SIMPLE INTEREST AND**  
29 **COMPOUND INTEREST?**

30 A. To understand the OCA's position better, a review of the definitions of simple and  
31 compound interest is needed. The definition of simple interest is this: The

1 interest cost, for one or more periods, if we assume that *the amount on which the*  
2 *interest is computed stays the same* from period to period. Whereas the  
3 definition of compound interest is: The interest cost, for two or more periods, if  
4 we assume that *after each period the interest of that period is added to the*  
5 *amount on which interest is computed in future periods*; or compound interest is  
6 interest earned on a principal sum that is increased at the end of each period by  
7 the interest of that period. Simple interest assumes that the balances will be paid  
8 back to the lender during a specified period of time, whether the period of time is  
9 months or years, and that that principal balance will not change. Compound  
10 interest takes into consideration that the balance may never be paid, as with the  
11 balances in 191 accounts. Utility companies try, year after year, to bring the  
12 balance in that account to zero. However, changes in the commodity markets  
13 compared to rates used to recover those commodity costs are continually  
14 changing, making it practically impossible to bring the balance to zero.

15  
16 **Q. IS WYOMING GAS COMPANY USING SIMPLE INTEREST OR**  
17 **COMPOUND INTEREST?**

18 In analyzing WGC's calculations of interest for the over-collected balance of its  
19 CBA, we find that they are still using compound interest to add interest to the  
20 credit balance. Instead of compounding it monthly, the period it compounds  
21 interest over is a year. But that interest is still added to the balance for the  
22 following year's calculation of interest; thus the balance is not constant.

23  
24 **Q. DOES COMPOUNDING THE INTEREST ON AN ANNUAL BASIS**  
25 **COMPLY WITH THE COMMISSION'S RULES THEN CURRENTLY IN**  
26 **EFFECT?**

27 A. No, they do not. The OCA believes that Rule 250(c) of the Commission's rules  
28 that were in effect for this pass-on inherently provides for the use of compound  
29 interest on a monthly basis. Rule 250(c) states that, "The Commodity Balancing  
30 Account shall on a current basis reflect all *monthly* credits and debits..."  
31 (emphasis added). Adding the monthly interest credit to the balance, as the rule

1 requires, provides for the compounding of the interest since that interest increases  
2 the principal by which the following month's interest will be calculated.

3  
4 Compounding interest on a monthly basis reinforces the incentive to refund over-  
5 collected balances to customers sooner rather than later. Compounding the  
6 interest on a more frequent basis increases the credit balance faster than if the  
7 interest were compounded on an annual basis.

8  
9 **Q. IF WYOMING GAS CHANGES ITS METHODOLOGY TO CALCULATE**  
10 **INTEREST, WILL THOSE CHANGES BE IN COMPLIANCE WITH THE**  
11 **CURRENTLY APPROVED RULES?**

12 A. Yes, they will. In the newly approved changes to Rule 250(c), the Commission  
13 only requires that the procedure for calculating and paying interest on any over-  
14 collected balances be provided. This general requirement allows the Commission  
15 to still order utility companies to pay interest on over-collections on a monthly  
16 basis and to add those credits to the balance on a monthly basis. Doing so will  
17 continue to incent companies to refund over-collections to customers as soon as  
18 possible, using its best usage forecasts for the upcoming refund period. For  
19 Wyoming Gas Company, the difference in the CBA credit balance is small. But  
20 the Commission has ordered other companies, such as Kinder Morgan Inc.  
21 (Docket No. 30022-GP-04-46) to calculate interest and compound it on a monthly  
22 basis.

23  
24 **Q. DOES COMPOUNDING INTEREST ON AN ANNUAL BASIS COMPLY**  
25 **WITH THE COMPANY'S TARIFF?**

26 A. No it does not. In fact, in his testimony on page 5, beginning on line 17, Mr.  
27 Gordon Neumann explains that compounding interest on an annual basis does not  
28 comply with the company's tariff since the tariff requires that interest be added to  
29 an over-collected balance each month that the balance is in an over-collected  
30 status. However, he continues to explain that the company's tariff also states that  
31 "a simple rate of 10.487% per annum" will be used to calculate interest. To

1 further add to this confusion, Commission Staff has previously recommended that  
2 interest be compounded on an annual basis (Docket No. 30009-GP-01-36).

3

4 **Q. DO YOU AGREE WITH WHAT THE COMMISSION STAFF**  
5 **RECOMMENDED AT THAT TIME? PLEASE EXPLAIN.**

6 A. No I do not. As I previously stated, the Commission's rules require that interest  
7 be added to the balance of the commodity balancing account on a monthly basis.  
8 The company's tariff also required the same process. However, I believe that it is  
9 the words "simple rate" in the tariff that have caused the confusion. In defining  
10 the terms simple interest and compound interest above, we know that simple  
11 interest cannot be added since the balance itself does not have a defined 'pay-off'  
12 date. In addition, the company is still compounding interest, just on an annual  
13 basis. Simple interest is still not being used.

14

15 I believe that the company's tariff contradicts itself. It requires adding interest to  
16 over-collections on a monthly basis, but then may imply that simple interest be  
17 used to calculate the interest once on a balance that will never be brought to zero.

18

19 **Q. WHAT IS THE OCA'S RECOMMENDATION FOR THE COMMISSION**  
20 **REGARDING THE INTEREST AND THE METHODOLOGY USED TO**  
21 **ADD INTEREST TO THE CBA?**

22 A. The OCA recommends that the Commission order Wyoming Gas Company to  
23 recalculate its Commodity Balancing Account from April 2001 (the date the  
24 change was made), by compounding its interest on a monthly basis. The OCA  
25 also recommends that the Commission order Wyoming Gas Company to change  
26 its tariff language to reflect the use of compounded interest on a monthly basis  
27 and to properly reflect the interest rate that is now determined by the Commission  
28 (4.96%).

29

1 **Q. PLEASE DISCUSS THE OCA'S CONCERN WITH INCLUDING**  
2 **UNCOLLECTIBLES OR BAD DEBTS IN THE GAS COST**  
3 **ADJUSTMENT.**

4 A. Utility companies are allowed to recover bad debt expenses through general rate  
5 cases. When a utility files a rate case, it files an income statement showing its  
6 required change in revenue. The income statement usually includes the balance  
7 of bad debts expense within its operating expenses. If the expenses are prudently  
8 incurred, then they are allowed full recovery through rates. In addition, bad debts  
9 expense can be adjusted to allow for the expected increase in unpaid bills from  
10 associated increases in rates.

11  
12 In Wyoming Gas Company's last rate case (Docket No. 30009-GR-93-17), WGC  
13 did not include bad debts expense in its operating expenses, and no adjustment  
14 was made to allow for additional bad debts expense from the increase in revenues.  
15 WGC started to include a percentage of bad debts expense in its commodity  
16 balancing account portion of its gas cost adjustment (GCA) starting in Docket No.  
17 30009-GP-01-36. The percentage that was included represented the commodity  
18 portion of revenues that were not being collected. At the time, the Commission  
19 Staff agreed with the inclusion.

20

21 **Q. DOES THE OCA AGREE WITH THE INCLUSION OF BAD DEBTS IN**  
22 **THE GCA?**

23 A. No we do not. The gas commodity market has changed considerably since the  
24 time of the 2001 pass-on application. Numerous discussions have been held  
25 around the country regarding the inclusion of any bad debts expense in any  
26 portion of a commodity cost adjustment. The general consensus holds that three  
27 conditions must exist in order for a cost to be included in a commodity cost  
28 adjustment. First, the cost must be affected by market conditions that the utility  
29 cannot control. Second, the cost must be considered volatile and can change  
30 significantly in a short period of time. Third, the cost must make up a sizeable

1 portion of the utility's total rate. These conditions are not satisfied with regard to  
2 the Company's bad debt expense.

3  
4 The balance of bad debts expense is not directly related to any market index.  
5 Understandably, the balance increases slightly when rates are increased and vice  
6 versa. But the company has substantial control over how aggressively it seeks to  
7 collect payments from its customers. It could hire more staff, proactively seek  
8 payment arrangements with its non-paying customers, or provide information for  
9 additional funding such as assistance from the Low-Income Energy Assistance  
10 Program.

11  
12 The level of bad debts expense can change along with any change in rates.  
13 However, it tends to change over the course of several months; whereas,  
14 commodity costs can change substantially over the course of a few days, such as  
15 in September 2005. The CIG first of month price for August 2005 was \$5.96 per  
16 MMBTU; in September the price per MMBTU was \$7.84. By October 2005, the  
17 price had risen to \$9.87 per MMBTU. This is an overall change of \$3.91 per  
18 MMBTU or 65.6%. The change in bad debts associated with any of these  
19 increases will not be seen for a few months, and those changes will be smoothed  
20 out by the collection of some of those revenues over the period of another few  
21 months.

22  
23 The percentage of bad debts compared to a company's revenues, or total rate, is  
24 usually very small. WGC's bad debts are only 0.0681% of its total revenues  
25 (Exhibit 11 of the application). In comparison, the cost of gas is 68.815% of total  
26 revenues.

27  
28 **Q. WHAT HARM WOULD BE DONE TO RATEPAYERS IF THE**  
29 **COMPANY WAS ALLOWED TO INCLUDE BAD DEBTS IN THE GCA?**

30 A. Including any portion of bad debts in the commodity cost adjustment mechanism  
31 shifts more risk to the ratepayers who do pay their bills. Although there is no

1 evidence that WGC has done so, a utility can become lax on collection policies  
2 when the possibility exists that the largest portion of non-paying customers' bills,  
3 the commodity portion, will be *automatically* collected through the adjustment  
4 mechanism.

5

6 **Q. DO THE COMMISSION'S RULES ALLOW FOR THE RECOVERY OF**  
7 **BAD DEBTS IN ITS RULES?**

8 A. The inclusion of WGC's gas cost related bad debts expense in its GCA appears to  
9 violate the Commission's rules. Rule 249(a) of the Commission's effective rules  
10 with this pass-on and Rule 249(a)(i) of the newly approved rules states that the  
11 pass-ons are for commodity costs that are not under this Commission's  
12 jurisdiction. Bad debts expenses are under the Commission's jurisdiction and  
13 can be reviewed through general rate cases.

14

15 **Q. DO THE COMPANY'S TARIFFS INCLUDE ANY PROVISION FOR THE**  
16 **RECOVERY OF BAD DEBTS THROUGH THE GCA?**

17 A. There is no reference in the company's tariffs regarding the inclusion of these  
18 costs, or how those costs are to be calculated.

19

20 **Q. WHAT IS THE OCA'S RECOMMENDATION TO THE COMMISSION**  
21 **FOR THE INCLUSION OF BAD DEBTS IN THE GCA?**

22 A. The OCA recommends that the Commission order Wyoming Gas Company to  
23 cease including any bad debts expense in its gas cost adjustment mechanism. The  
24 OCA also recommends that WGC be ordered to recalculate its Commodity  
25 Balancing Account from September 2000, the same month when the company  
26 started including bad debts into the gas cost adjustment and to carry forward the  
27 CBA without the inclusion of bad debts.

28

29 **Q. PLEASE EXPLAIN WYOMING GAS COMPANY'S BUDGET BILLING**  
30 **PROGRAM.**

1 A. Wyoming Gas Company has a budget billing program that runs for 12 months.  
2 Approximately 1,475 customers are currently using the program. Equal payments  
3 are made for 11 months with a true-up payment made in the 12<sup>th</sup> month to make  
4 the balance zero. All of WGC's budget billing customers are on the same 12-  
5 month period of June through May.

6

7 The monthly payments are determined by dividing the previous 12 month's  
8 volume and multiplying that volume by the anticipated rate, dividing by 12, and  
9 then adding the monthly customer charges.

10

11

12 **Q. HOW WERE THE BUDGET BILLING CUSTOMERS AFFECTED BY**  
13 **THIS APPLICATION?**

14 A. Because of the substantial increase in the prices that the company knew it would  
15 be paying for natural gas, WGC recalculated its budget billing customers' *monthly*  
16 *payments* to reflect the anticipated rate increases that it had filed for in this case.  
17 This recalculation was done prior to the Commission approving the company's  
18 request, which was done in open meeting on October 13, 2005. In fact, budget  
19 billing customers paid the increased monthly payment for bills that were rendered  
20 during the first week in October.

21

22 **Q. WERE THE RATES THEMSELVES INCREASED FOR THE BUDGET**  
23 **BILLING CUSTOMERS?**

24 A. No. Only the monthly payments were changed for those customers.

25

26 **Q. IF THE ACTUAL RATES WERE NOT CHANGED FOR THE BUDGET**  
27 **BILLING CUSTOMERS, THEN WHY IS THE CHANGE IN MONTHLY**  
28 **PAYMENTS AN ISSUE FOR THE OCA?**

29 A. The change in payments before the Commission approval of the rates is in direct  
30 contravention to Wyoming Gas Company's tariffs. Sheet 14R, paragraph G, of  
31 the company's tariffs states that, "The monthly payment...may be adjusted up or

1 down to reflect any change in Rates for service *authorized by the Commission*  
2 during the twelve (12) month term of the budget plan” (emphasis added). The  
3 Commission had not approved the increase in rates by which the new monthly  
4 payment had been figured.

5  
6 **Q. WHY DID THE COMPANY CHANGE THE PAYMENTS BEFORE THE**  
7 **NEW RATES WERE APPROVED?**

8 A. At a company visit in November 2005, Ms. Capshaw and Mr. Neuman explained  
9 to the OCA that they thought it would be better to spread out the increase over the  
10 remaining eight months of the plan instead of waiting until after the increased  
11 rates were approved, which would have left only seven months to apply to the  
12 increase, which would have meant higher monthly payments.

13  
14 **Q. DOES THE OCA AGREE WITH THE REASONING BEHIND THE**  
15 **CHANGE IN PAYMENTS?**

16 A. The OCA agrees with the company’s logic, however the process does not comply  
17 with the company’s current tariffs.

18  
19 **Q. PLEASE PROVIDE YOUR RECOMMENDATIONS FOR THE**  
20 **COMMISSION REGARDING THIS SITUATION.**

21 A. The OCA recommends that Wyoming Gas Company be required to change its  
22 tariff to more accurately reflect its budget billing practices to show that monthly  
23 payments will only be changed when it coincides with a filed change in the gas  
24 cost adjustment as was done in this case.

25  
26 **Q. PLEASE EXPLAIN YOUR LAST CONCERN REGARDING EFFECTIVE**  
27 **DATES WITH BILLS RENDERED VERSUS USAGE ON AND AFTER A**  
28 **CERTAIN DATE.**

29 A. During the energy crisis of 2000-2001, gas prices for the winter heating season  
30 spiked to what were then historically high prices. Several gas utility companies at  
31 the time were requesting effective dates for their pass-on applications as bills

1 rendered on and after a certain date. Public outcry opposed this practice because  
2 significantly higher rates were going into effect for the gas that they had already  
3 used. The Commission agreed that this practice did not give customers a proper  
4 price signal to allow them to curb their usage and required effective dates to be on  
5 a usage rendered basis. This winter, the nation saw even higher gas prices than in  
6 the winter of 2000-2001. The same public outcry is happening during this winter  
7 from WGC customers, since they are one of the last companies to use a bills  
8 rendered basis for their effective date.

9

10 In this case for Wyoming Gas Company, customers again did not receive a price  
11 signal to conserve their usage. The pass-on went into effect on November 1,  
12 2005, for bills rendered on and after that date. Any bills that had billing cycles  
13 ending on an early date, such as November 2, had their entire usage for the month  
14 of October at the higher rate without any notice that that rate would be in effect.  
15 In fact, about half of WGC's customers have their billing cycle end by the 10<sup>th</sup> of  
16 each month, with the remaining billing cycles ending by the 18<sup>th</sup>. Therefore,  
17 every customer will pay the new rate for all or some of their past usage without  
18 notice as to what that rate might have been.

19

20 If a customer knows ahead of time that the price of gas will increase significantly  
21 in the next few weeks, that customer can choose to conserve their usage. The  
22 money that the customer will pay on their bill for that extra month or so of notice  
23 may be a good deal less than that usage he may have used when he thought the  
24 price of gas was going to be the same. During the time that the company is  
25 purchasing gas at higher prices, and not recovering costs from customers at  
26 increased rates, the company will incur under-recovered costs that will be entered  
27 into the 191 account, which will be recovered at a later time.

28

29 **Q. WON'T THE DIFFERENCES IN GAS COSTS PAID BY CUSTOMERS**  
30 **EVEN OUT THROUGH THE COMMODITY BALANCING ACCOUNT?**

1 A. If a customer uses the exact same amount of gas for changes that come on a bills  
2 rendered basis as they would on a usage basis, then yes the gas costs paid by that  
3 customer will even out through the CBA. But, if a customer knows that an  
4 increase is coming and they have a chance to curtail their usage because the  
5 changes in gas costs came on a usage basis, then they will save money; or vice  
6 versa, if a customer knows that a decrease is on the way, they may decide to use  
7 more gas because they can afford to.

8

9 **Q. WHY DOES WYOMING GAS STILL REQUEST TO USE A BILLS  
10 RENDERED TYPE OF EFFECTIVE DATE?**

11 A. Wyoming Gas has informed the OCA that it is too cumbersome to pro-rate bills  
12 with their current billing system. The OCA agrees. However, giving customers  
13 notice of a change in rates can still be done using the ‘bills rendered’ type  
14 effective date. For this application, an effective date of bills rendered on and after  
15 December 1, 2005, would have given one month’s notice to customers of the new  
16 rate that would be charged on their upcoming usage.

17

18 **Q. WHAT RECOMMENDATION DOES THE OCA PROVIDE TO THE  
19 COMMISSION FOR THE TYPE OF EFFECTIVE DATE TO USE FOR  
20 WGC?**

21 A. On a going forward basis, the OCA recommends the Commission approve  
22 changes in rates on a bills rendered basis on and after a certain date that will give  
23 Wyoming Gas Company customers one month of notice of the change in WGC’s  
24 gas commodity adjustment rates.

25

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

27 A. Yes.