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## OCA Recommends Smaller Increase for SourceGas

CHEYENNE, WY – The Wyoming Office of Consumer Advocate is recommending that SourceGas Distribution’s pending rate increase request be cut by about 44%. The OCA made its recommendation in testimony that it filed with the Wyoming Public Service Commission on Monday. In February, SourceGas filed a request with the Commission seeking approval to increase the annual amount of revenue it collects from its Wyoming customers by about \$7.5 million. The OCA is recommending a \$4.2 million annual increase.

According to Bryce Freeman, OCA Administrator, the OCA is recommending adjustments to several categories of investment and expenses as well as the rate of return, or profit, requested by SourceGas. “We believe that some adjustments to the Company’s rate base are warranted and that some of the expense levels claimed by Source Gas are overstated,” Freeman said. “We also believe that the requested rate of return on its equity investment in Wyoming at 12.3% is substantially overstated and we’re recommending that the Commission adopt a 9.6% rate of return,” Freeman added. “This will still allow the Company to attract and maintain investment capital without unfairly rewarding the Company’s shareholders at the expense of ratepayers,” he said.

In its filing, SourceGas also requested approval of four separate mechanisms that would allow the Company to track and automatically pass on the costs of some of the expenses the Company incurs in providing service to Wyoming customers including a Use Per Customer Adjustment rider, an Inflation Adjustment rider, an Uncollectible Accounts Expense Adjustment rider and a Pipeline Infrastructure Cost Adjustment rider. In its testimony, the OCA recommends that the PSC deny approval of any of the mechanisms requested by the Company.

“These cost trackers simply guarantee that SourceGas will collect a certain amount of revenue from customers further insulating the Company and its shareholders from market risks and enhancing its profitability,” Freeman stated. “We see no reason to move away from time tested rate making principles that have fairly apportioned risks and rewards among customers and shareholders for most of the last century,” he added. “Beyond the actual revenue increase needed by the Company, which we dispute, these mechanisms could result in a financial windfall

for the Company in the future if approved by the PSC,” Freeman said. Typically utilities are only allowed to track and pass on large costs that are volatile and beyond their control like the cost of the natural gas purchased to provide to customers. Other costs, such as those proposed for tracking by the Company in this case, are generally handled through rate cases in which the Company bears the burden of proving its costs are reasonable and justifiably recovered from customers.

In its case the Company claims that the Use Per Customer Adjustment rider is necessary to compensate it for revenues it would lose by giving its customers incentives to use natural gas more efficiently. “We understand that the Company has a natural disincentive to encourage energy efficiency if that means it will lose money,” Freeman said. “However, we maintain that the substantially higher monthly customer charge of \$25 per month we are recommending in this case eliminates that concern,” he added. SourceGas requested a \$26 per month customer charge in addition to the four automatic cost adjustment riders. The current monthly customer charge is \$10 for Casper division customers and \$12 for customers in the Torrington and Gillette areas. “Given the level of the monthly customer charge, the additional cost adjustment riders are unreasonable, unnecessary and unfair to customers,” Freeman said. He also noted that “although the monthly customer charge will increase the volumetric, or per therm rate, will go down by about 90% under the OCA’s proposed rates.” Under the rates proposed by the OCA average residential bills would increase by about 9.4% instead of the 11.6% requested by SourceGas.

“I know that increasing the monthly customer charge to this level will be a cause for concern for some customers, but in the end we believe it is the best way to address the disincentive that the Company has to invest in energy efficiency initiatives,” Freeman stated. “If the policy is to encourage energy efficiency, then we ought to be honest with customers regarding which costs can be avoided and which cannot. The costs represented by the monthly customer charge are fixed and can’t be avoided by reducing customer usage. Maintaining an artificially low monthly customer charge and later making up the difference through the Use Per Customer Adjustment rider is simply being dishonest with customers. We prefer to give customers full and factual information about what utility services cost to provide so that they can make informed decisions about how to efficiently use energy in their homes and businesses,” Freeman said.

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The Office of Consumer Advocate is statutorily authorized to appear before the Wyoming Public Service Commission and advocate for the interests of utility ratepayers and citizens of the state in proceedings involving public utilities. SourceGas is a retail natural gas distribution company regulated by the Wyoming Public Service Commission that provides gas distribution service to customers in Torrington, Gillette, Casper, Lander, Riverton, Laramie, Rawlins and surrounding areas.