

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION)
OF ATMOS ENERGY CORPORATION) Docket No.
FOR REVIEW AND ADJUSTMENT OF ITS) 19-ATMG-525-RTS
NATURAL GAS RATES)

REBUTTAL TESTIMONY OF PAUL H. RAAB

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Paul H. Raab.

3 **Q. ARE YOU THE SAME PAUL H. RAAB WHO HAS FILED DIRECT**
4 **TESTIMONY IN THIS PROCEEDING?**

5 A. Yes.

6 **I. PURPOSE OF REBUTTAL TESTIMONY**

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 A. The purpose of my rebuttal testimony is to respond to portions of the direct
9 testimony that have been filed in this docket that relate to the Company's class cost
10 of service study, implied class revenue responsibility and proposed rate design.
11 Specifically, I will respond to portions of the direct testimonies of Staff witnesses
12 Justin W. Prentiss and Robert H. Glass and the Citizens' Utility Ratepayer Board
13 ("CURB") witness Glenn A. Watkins.

14 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

15 A. Even though Staff witnesses Glass and Prentiss recognize the lack of a "correct"
16 allocation of costs to classes, in my view they violate their own precautions on the
17 limitations of class cost of service analysis by relying solely on only one of three

1 equally valid studies in evidence in this proceeding. CURB Witness Watkins voices
2 the same skepticism of a method that correctly allocates costs to classes but, like
3 Staff, advocates for a single method, different from the Staff method, to do so. In
4 my view, reliance on only one approach leads to a very narrow perspective of what
5 constitutes fair rates. I believe that the Commission should reject these results-
6 driven approaches and consider all the credible evidence when determining a proper
7 cost allocation in this case.

8 With respect to the class revenue deficiency allocations proposed by Staff
9 and CURB in this case, there is general agreement on the classes that should bear
10 responsibility for the deficiency. Mr. Watkins goes so far as to indicate that the
11 Company's "proposed class revenue distribution is fair and reasonable."

12 Finally, with respect to rate design, Dr. Glass and Mr. Watkins recommend
13 movement away from cost-based rates by setting facilities charges to levels
14 significantly below the levels identified by all the class cost of service studies filed
15 in this case. This recommendation is in conflict with the attributes of a sound rate
16 structure and should be rejected by the Commission.

17 II. ORGANIZATION OF TESTIMONY

18 Q. HOW IS YOUR TESTIMONY ORGANIZED?

19 A. My testimony is organized into three additional sections. Section III contains my
20 rebuttal to the class cost of service testimonies of Staff Witnesses Prentiss and Glass
21 and CURB Witness Watkins. Section IV contains my rebuttal to the revenue
22 allocation recommendations contained in the direct testimonies of Staff Witness
23 Glass and CURB Witness Watkins. Section V contains my rebuttal to the rate

1 design recommendations contained in the direct testimonies of Staff Witnesses
2 Glass and CURB Witness Watkins.

3 **III. CLASS COST OF SERVICE**

4 **Q. WHICH OF THE WITNESSES FILING DIRECT TESTIMONY IN THIS**
5 **PROCEEDING ADDRESS THE COMPANY’S CLASS COST OF SERVICE**
6 **ANALYSIS?**

7 A. Those witnesses who address the Company’s class cost of service (“CCOS”)
8 studies are Justin Prentiss and Robert H. Glass for Staff and Glenn A. Watkins for
9 CURB.

10 **Q. WHAT IS MR. PRENTISS’S PRIMARY CONCLUSION WITH RESPECT**
11 **TO THE CLASS COST OF SERVICE ANALYSIS FILED IN THIS CASE?**

12 A. On page 12, lines 8-9 of his direct testimony, Witness Prentiss recommends that
13 “the Commission find Staff’s CCOS study provides a reasonable basis for the
14 allocation of Atmos’ revenues and costs.”

15 **Q. HOW DO YOU RESPOND?**

16 A. I do not disagree that Staff’s CCOS study provides a reasonable basis for the
17 allocation of Atmos Energy’s revenues and costs as I have used the Staff approach
18 as one piece of information that forms the basis for my revenue requirement
19 allocation in the Company’s direct case. However, it is important to recognize that
20 it is not the only CCOS study or methodology proposed in this case that provides a
21 reasonable basis for the allocation of Atmos Energy’s revenues and costs. Indeed,
22 as Mr. Prentiss himself notes in the following question and answer at page 5, lines
23 13-19 of his testimony:

1 **Q. Is there only one accepted method to classify and allocate the**
2 **utility's cost of service to specific customer classes?**

3
4 A. No. There is no universally accepted method for classifying and
5 allocating costs to customer classes. There are significant
6 opportunities for independent judgement and subjective decision
7 making which can affect the final results. Although these
8 judgements must have a reasonable basis, individual methodologies
9 are complex and have encouraged numerous debates.

10 Mr. Prentiss's position is also supported by the testimony of Staff Witness
11 Glass, whose position with respect to CCOS studies generally appears to be
12 summed up by the following question and answer that appear in the Direct
13 Testimony of Robert H. Glass, page 15, lines 1-16:

14 **Q. Do CCOS studies have any limitations?**

15
16 A. Yes. First, CCOS studies are an art, they are not a science. A
17 substantial number of subjective judgments must go into the
18 production of any CCOS study. Second, because all CCOS studies
19 are based on allocation mechanisms that are approximations of
20 structural relationships, the CCOS studies must themselves be
21 viewed as approximations. Third, the approximations of the
22 structural relationships are not based on statistical theory for the
23 most part, so determining a confidence interval using statistic
24 techniques is not possible. Further, because of the size and
25 complexity, only crude sensitivity analysis is possible. Therefore, it
26 is difficult to get a handle on the accuracy of the approximation
27 using sensitivity analysis. Thus we are left knowing that the cost
28 allocation from a CCOS study is an approximation, but we cannot
29 know precisely the numerical bounds of the approximation. Fourth,
30 a CCOS is a static snapshot of a dynamic process. Over time the
31 structural cost relationships have changed and are expected to
32 change in the future.

33
34 Thus, a rate analyst should be cautious when using a CCOS
35 study to help determine class revenue allocations. The limitations of
36 CCOS studies are important factors to consider when using a CCOS
37 study to allocate the revenue requirement to the rate classes.

1 **Q. DO YOU AGREE WITH THESE ASSESSMENTS?**

2 A. Yes. My position on this matter is well-documented in various testimonies that I
3 have filed with this Commission, as noted by Dr. Glass in his footnote 4 on page
4 15 of his direct testimony and, in fact, my class cost of service presentation in this
5 case is a recognition of the fact that a class cost of service range may be better for
6 revenue allocation purposes than a point estimate:

7 I believe that the three class cost of service analyses filed in this case
8 place bounds on reasonable class cost responsibility and these
9 bounds should be considered when recommending a movement in
10 the direction of cost based rates. Direct Testimony of Paul H. Raab,
11 page 22, lines 13-15.

12 My primary issue with both Staff witnesses on this point is that they violate
13 their own precautions on the limitations of class cost of service analysis by relying
14 solely on only one of three equally valid studies in evidence in this proceeding. In
15 the past, Dr. Glass has explicitly recognized the lack of a “correct” allocation of
16 costs to classes:

17 **Q. Is there only one acceptable method to classify and allocate the**
18 **utility’s cost of service to specific classes?**

19
20 A. No. There is no single universally accepted method for classifying
21 and allocating costs to customer classes. Even with an apparently
22 impartial standard, such as cost based rates, there is significant
23 opportunity for independent reasoning and subjective decision
24 making to affect the final result. Individual costing methodologies
25 are complex and have encouraged numerous debates on application,
26 assumptions, and data. Additionally, the role of cost in ratemaking
27 is itself not without controversy. The *Gas Distribution Rate Design*
28 *Manual*, prepared by National Association of Regulatory Utility
29 Commissioners (NARUC) Staff Subcommittee on Gas, states, “...
30 there is no one correct cost of service, but rather a range of
31 reasonable alternatives.” Direct Testimony of Robert H. Glass in
32 KCC Docket No. 16-ATMG-079-RTS, page 8, line 14 - page 9, line
33 6.

1 Based on this position, which appears not to have changed based on the
2 Staff presentation in this case, I do not think it is a reasonable conclusion that Staff's
3 CCOS study is the only reasonable method for allocating costs in this case. Not
4 only are the other two methods presented in my direct testimony supported by the
5 NARUC Manual referenced by Dr. Glass, but my approach of considering a range
6 of reasonable alternatives would appear to address Staff's concern about relying on
7 a single cost of service to allocate revenue requirements. Relying on only one
8 approach leads to a very narrow perspective of what constitutes fair rates and, in
9 the case of the Staff CCOS study, a general bias in favor of smaller customers. I
10 believe that the Commission should reject Staff's results-driven approach and
11 consider all the credible evidence when determining a proper cost allocation in this
12 case.

13 **Q. DO YOU HAVE ANY ADDITIONAL, SPECIFIC CONCERNS WITH**
14 **RESPECT TO THE TESTIMONIES OF EITHER OF THE STAFF**
15 **WITNESSES RELATED TO COST ALLOCATION?**

16 A. Yes. Staff Witness Prentiss makes two statements in his testimony that are incorrect
17 or misleading, regardless of whether the Commission chooses to rely on only one
18 cost study or all three for purposes of guiding its revenue requirement allocation
19 decision in this case. First, Witness Prentiss's CCOS study classifies distribution
20 mains as 100% demand-related, with the following rationale:

21 As mains increase in size, the marginal cost of the additional
22 capacity declines. In order to properly align these returns to scale
23 with the underlying cost drivers, mains should be allocated based on
24 the relative demand customers place on the system. Conversely,
25 because residential customers represent about 90% of customers but
26 only about 60% of demand, allocating the cost of mains using

1 Atmos' zero-intercept method-about 60% for customer-related and
2 40% for demand-related-the benefits of the returns to scale are offset
3 by the disproportionate amount of the cost of a theoretical zero-inch
4 main that is allocated to residential customers. Direct Testimony of
5 Justin Prentiss, page 10, lines 12-20.

6 It is somewhat misleading to characterize the zero-intercept method as
7 "Atmos' zero-intercept method". The zero-intercept method that I apply in this case
8 is referenced by the NARUC Manual as a recognized method for classifying
9 distribution mains costs and is not specific to Atmos Energy or any other Company.
10 It is also misleading to state that the benefits of returns to scale are offset by a
11 disproportionate amount of the cost of a theoretical zero-inch main that is allocated
12 to residential customers, as this reflects a value judgment that is not expressed in
13 the NARUC Manual. Whatever relationship derives between the demand-related
14 and customer-related costs from the application of the zero-intercept method is a
15 result of applying that method and not the result of any judgments that the Company
16 exercised in its application.

17 Second, Staff's study uses a non-coincident peak ("NCP") allocator to
18 allocate distribution costs to classes, which Staff Witness Prentiss describes as
19 follows:

20 Staff's NCP methodology allocates costs across customer classes
21 based on the non-coincident peak demand of the specific customer
22 class, regardless of when that peak occurs. This means that customer
23 classes that have peak demands occurring outside of the system peak
24 would be assigned their appropriate share of the distribution mains
25 cost. Direct Testimony of Justin Prentiss, page 9, line 21 - page 10,
26 line 2.

27 I would agree that, under Staff's NCP methodology, customer classes that
28 have peak demands occurring outside of the system peak would be assigned a share

1 of the distribution mains cost. However, it does not follow from this that allocating
2 costs across customer classes based on the coincident peak (“CP”) demand of the
3 specific customer class would not also assign those classes a share of the
4 distribution mains cost. It also does not follow that only the use of NCP as an
5 allocator results in an appropriate allocation of the distribution mains cost, as this
6 reflects a value judgment that cannot be supported objectively.

7 **Q. PLEASE TURN NOW TO THE DIRECT TESTIMONY OF GLENN A.**
8 **WATKINS. WHAT ARE MR. WATKINS’ RECOMMENDATIONS WITH**
9 **RESPECT TO THE COMPANY’S CLASS COST OF SERVICE**
10 **PRESENTATION?**

11 A. Mr. Watkins overall recommendation related to cost allocation in this case can be
12 found at page 2, lines 13-21 of his direct testimony:

13 Although Company witness Paul Raab and I have fundamental
14 differences of opinion regarding how costs are incurred and how
15 costs should be reasonably allocated, he and I both agree that
16 CCOSS should serve as a guide in developing class revenue
17 responsibility and that different approaches can produce
18 significantly different results. In these regards, Mr. Raab has
19 considered multiple CCOSS in developing his recommended class
20 revenue distribution. I have also evaluated individual class
21 profitability based on various CCOSS results and have concluded
22 that Mr. Raab’s proposed class revenue distribution is fair and
23 reasonable.

24 I think this statement is noteworthy in that it recognizes the value in the
25 Company’s approach of presenting a range of alternatives that represent the cost
26 allocation preferences of all parties in this case and using all the alternatives to
27 develop a recommended revenue deficiency allocation. This approach has been
28 presented specifically to assist the Commission in making the decisions it is

1 required to make (What is the appropriate revenue deficiency allocation to customer
2 classes?) while avoiding the issues that it need not, indeed cannot, decide (What is
3 the best way to allocate costs to customer classes?).

4 In view of this, I simply cannot understand why Mr. Watkins devotes almost
5 one-third of his testimony to supporting his preferred method of allocating costs.
6 In my view, cost allocation is a means to an end, and not an end in and of itself. In
7 other words, it serves as a tool that will allow the Commission to fairly and
8 reasonably allocate the revenue requirement in this case. If the Commission has
9 before it a fair and reasonable allocation (at least as perceived by the Company and
10 by CURB), it is simply unnecessary to decide which method should be used to
11 make that allocation.

12 **Q. BUT COULDN'T THE COMMISSION DECIDE THIS ISSUE AND END**
13 **THE CONTROVERSY ONCE AND FOR ALL?**

14 A. Of course, the Commission has broad latitude to make precedential decisions
15 supported by the record. However, such a decision is unlikely in this case for at
16 least two reasons. First, there is no "correct" answer, as all parties to this
17 proceeding acknowledge and as the Commission has itself found when it
18 investigated cost allocation in Docket No. 12-KCPE-764-RTS. Second, the
19 NARUC Gas Rate Design Manual, referenced by both Staff and CURB, was
20 published in 1981, almost 40 years ago. The Manual notes the controversy
21 associated with the classification and allocation of distribution mains costs, stating
22 that, on this matter, "the analyst finds himself between the devil and the deep blue
23 sea." Furthermore, Bonbright's Principles of Public Utility Rates, first published

1 in 1961, also discusses the difficulty in classifying utility cost of service. Bonbright
2 makes the following observation with respect to just one component of utility costs,
3 capacity costs:

4 We come now to that category of costs, capacity, ready to serve or
5 demand costs, the treatment of which has made a nightmare of utility
6 cost analysis... Bonbright at 494.

7 As this “nightmare” has been haunting utility cost analysts for almost 60 years, I
8 find it unlikely that it will be finally resolved in Kansas in this case.

9 For the reasons provided above, I think that pages 3 to 23 of Mr. Watkins
10 direct testimony can be largely ignored--they simply do not affect Mr. Watkins’
11 overall conclusion that the Company’s recommended revenue deficiency allocation
12 is “fair and reasonable.” There are, however, misleading and factually incorrect
13 statements in his testimony that should be corrected to protect the integrity of the
14 record. First, on page 9, lines 8-10 of his testimony, Mr. Watkins states, “Mr. Raab
15 is of the opinion that the Customer/Demand method is preferred over the Peak
16 Responsibility or P&A methods.” While this is a true statement, it should be
17 emphasized that this preference has no impact on my proposed revenue allocation
18 in this case. I weight each of the three studies equally when determining my
19 proposed revenue allocation.

20 Second, on page 10, line 20 - page 11, line 21, Mr. Watkins mischaracterizes
21 my testimony by inappropriately inserting the phrase “Peak & Average” in the
22 quotation from my testimony. The testimony to which Mr. Watkins is referring is
23 not referring to the Peak & Average methodology employed by Mr. Watkins, but to
24 the utilization of “energy use in a class cost of service to distribute capital costs to

1 classes,” as stated clearly on lines 16 and 17 in the same paragraph as the misquoted
2 sentence. This mischaracterization leads to the false conclusion on page 11, lines
3 1-2 and at page 13, lines 7-12, that “Mr. Raab’s statement is factually incorrect.”
4 While I would agree that the Peak & Average approach develops an allocation
5 factor that is a weighted average of peak demands and energy usage, I never said
6 that it did not, as Mr. Watkins falsely claims.

7 Third, Mr. Watkins’ testimony contains the following question and answer
8 at page 18, lines 8-12:

9 **Q. Is there a simple way to show the bias and over-assignment of**
10 **costs to small volume user classes under Mr. Raab’s cost**
11 **allocation approach?**
12

13 A. Yes. Mr. Raab’s classification process results in an ultimate
14 allocation of two- thirds (67.06%) of the Company’s total requested
15 non-gas revenue requirement based simply on number of customers.

16 This statement is telling in that it is completely devoid of any analysis and
17 underscores my point that Mr. Watkins, as an advocate for a particular constituency,
18 is driven by a desire to achieve an objective that benefits that constituency.

19 **Q. ARE THERE ANY AREAS WHERE YOU AND MR. WATKINS AGREE?**

20 A. Yes, although I relied on non-coincident peak as an allocator for the demand-related
21 distribution costs on the Atmos Energy system, I agree with Mr. Watkins that
22 coincident peak is a better allocator for this purpose.

23 **Q. WHY THEN DID YOU RELY ON NON-COINCIDENT PEAK?**

24 A. It was my intention in this case to avoid controversy over the CCOS Study so that
25 attention could be focused on more important issues. Therefore, the starting point
26 for my allocation study was Staff’s traditional allocation factors. However, as I

1 stated in my direct testimony at page 34, line 20 - page 35, line 7 in Docket No. 16-
2 KGSG-491-RTS:

3 **Q. WHY DO YOU FAVOR THE USE OF CP DEMANDS**
4 **RATHER THAN NCP DEMANDS TO ALLOCATE**
5 **DEMAND-RELATED DISTRIBUTION INVESTMENTS AND**
6 **EXPENSES?**

7
8 A. I completely disagree with the use of each class' non-coincident
9 peak to allocate demand-related distribution costs. It is not logical
10 and does not reflect the cost causer relationship, in that it treats
11 interruptible and irrigation customers as if they impose the same
12 costs on the system as firm heating customers. It does not recognize
13 that natural gas facilities are built 1 and sized to meet winter heating
14 loads. As a result, Staff's class cost of service approach distorts the
15 cost responsibility of these customers because it does not recognize
16 that these customers utilize the system when there is significant
17 excess capacity. The logical consequence of such a cost allocation is
18 to force these customers off of the system entirely (requiring the
19 remaining customers to absorb an additional share of common
20 costs). This is in no one's interest.

21 Because this position received no support from parties other than irrigators
22 in the 16-491 case, including CURB, I did not maintain that position in the current
23 case, although I continue to believe that CP is the better allocator for these costs.
24 To the extent that the Commission chooses to rely on a CP allocator, my
25 recommended revenue deficiency allocation would change so that the Irrigation
26 Sales and Irrigation Transport customers are assigned none of the proposed
27 increase.

28 **Q. DO YOU AGREE WITH THE OTHER CHANGES THAT MR. WATKINS**
29 **PROPOSES TO YOUR DEMAND/ENERGY STUDY AND SUMMARIZES**
30 **IN TABLE 2 ON PAGE 20 OF HIS DIRECT TESTIMONY?**

31 A. I have re-evaluated my CCOS studies making the changes recommended by Mr.
32 Watkins in Table 2 on page 20 of his direct testimony. These changes do not alter

1 my proposed revenue deficiency allocation, a result that is consistent with my direct
2 testimony at page 4, lines 21-24 where I state, “it has been my experience that
3 because of this level of granularity, alternative classifications and allocations of the
4 amounts recorded in most of the accounts that comprise the Company’s CCOS
5 studies do not have a significant impact on the class results.”

6 **Q. PLEASE SUMMARIZE YOUR REBUTTAL OF THE DIRECT**
7 **TESTIMONY OF STAFF WITNESSES PRENTISS AND GLASS AND**
8 **CURB WITNESS WATKINS AS IT RELATES TO CLASS COST OF**
9 **SERVICE.**

10 A. My conclusions with respect to the testimonies of Staff witnesses Prentiss and Glass
11 are as follows:

- 12 1. Staff’s CCOS study is not the only study or methodology proposed in this
13 case that provides a reasonable basis for the allocation of Atmos Energy’s
14 revenues and costs.
- 15 2. My primary issue with the positions of both Staff witnesses in this case as
16 they relate to CCOS analysis is that they violate their own precautions on
17 the limitations of class cost of service analysis by relying solely on only one
18 of the three equally valid studies in evidence in this proceeding.
- 19 3. Staff Witness Prentiss makes two statements in his testimony that are
20 incorrect or misleading, regardless of whether the Commission chooses to
21 rely on only one cost study or all three for purposes of guiding its revenue
22 requirement allocation decision in this case:
 - 23 a. the Company’s application of the zero-intercept method in the
24 Customer/Demand CCOS study is not affected by any judgments
25 that the Company exercised in its application; and
 - 26 b. allocating costs across customer classes based on the coincident
27 peak (“CP”) demand of the specific customer class would also
28 assign those classes a share of the distribution mains cost.

1 My conclusions with respect to the testimony of CURB Witness Watkins
2 are as follows:

3 4. Mr. Watkins concludes that the Company's proposed allocation of the
4 revenue deficiency is "fair and reasonable."

5 5. CURB Witness Watkins makes three misleading and factually incorrect
6 statements in his testimony that should be corrected to protect the integrity
7 of the record:

8 a. my expressed preference for the Customer/Demand treatment of
9 distribution mains investments has no impact on my proposed
10 revenue allocation in this case, as I weight each of the three studies
11 equally when determining my proposed revenue allocation;

12 b. Mr. Watkins mischaracterizes my testimony by inappropriately
13 inserting the phrase "Peak & Average" in the quotation from my
14 testimony; and

15 c. Mr. Watkins' conclusion about alleged bias and over-assignment of
16 costs to small volume user classes under the Customer/Demand cost
17 allocation approach is devoid of any analysis and underscores my
18 point that Mr. Watkins, as an advocate for a particular constituency,
19 is driven by a desire to achieve an objective that benefits that
20 constituency.

21 6. I agree with Mr. Watkins that coincident peak is a better allocator than non-
22 coincident peak for the purpose of allocating demand-related distribution
23 costs on the Atmos Energy system; and

24 7. I have re-evaluated my CCOS studies making the changes recommended by
25 Mr. Watkins in Table 2 on page 20 of his direct testimony and these changes
26 do not alter my proposed revenue deficiency allocation in this case.

27 **IV. ALLOCATION OF THE CLASS REVENUE DEFICIENCY**

28 **Q. WHICH OF THE WITNESSES FILING DIRECT TESTIMONY IN THIS**
29 **PROCEEDING ADDRESS ALLOCATION OF THE CLASS REVENUE**
30 **DEFICIENCY?**

31 A. Staff Witness Robert H. Glass and CURB Witness Glenn A. Watkins address this
32 issue. As discussed above, Mr. Watkins finds the Company's allocation of the

deficiency to be “fair and reasonable.” While Dr. Glass relies on a different approach to developing his proposed allocation of the revenue deficiency, his final allocation is similar to the Company’s allocation.

V. RATE DESIGN

Q. WHAT ARE THE PRIMARY ISSUES WITH RESPECT TO RATE DESIGN RAISED BY THE PARTIES TO THIS PROCEEDING?

A. The rate design issues identified by Robert H. Glass on behalf of Staff and Glenn A. Watkins on behalf of CURB primarily relate to the level of facilities charges of the proposed rates.

Q. WHAT ARE STAFF'S PROPOSED RATE DESIGNS?

A. Staff's proposed rate designs appear in Table 8 on page 23 of Dr. Glass's testimony and are the result of a continuing deliberate effort on the part of Staff to slow the increase in the facilities charge relative to past rate adjustments.

Q. DO YOU AGREE WITH DR. GLASS' EFFORT TO SLOW THE INCREASE IN FACILITIES CHARGES?

A. I do not, and Dr. Glass provides no reason for doing so, other than the fact that facilities charges have risen by a greater percentage than commodity rates over the Company's last five base rate adjustments. I believe that Dr. Glass's own evidence undermines the appropriateness of this effort.

First, Dr. Glass states that “The reason for the emphasis on increasing the facilities charge was because most of the costs that Atmos incurs in providing service to customers is fixed in nature.” Direct Testimony of Robert H. Glass, page 21, lines 16-18. This fact certainly has not changed. Based on Staff’s own class

1 cost of service study, filed as Exhibit JWP-1 to the direct testimony of Staff Witness
2 Justin W. Prentiss, fixed costs represent 99.66% of the costs of delivering natural
3 gas to customers. Second, Dr. Glass goes on to a state that “A rate design tenet is
4 that fixed costs should be recovered from fixed charges.” Direct Testimony of
5 Robert H. Glass, page 21, lines 19-20. And yet, as shown on Table 9 of his direct
6 testimony, Dr. Glass’s rate design collects only about 55% of fixed costs from fixed
7 charges. Dr. Glass provides no valid reasons for violating the cited basic rate design
8 tenet and not moving to a rate structure that collects fixed costs in fixed charges.

9 **Q. ARE THERE OTHER DEFICIENCIES IN THE STAFF RATE DESIGN?**

10 A. Yes. As Bonbright notes in Principles of Public Utility Rates, there are certain
11 attributes of a sound rate structure that regulators should seek to “compel through
12 edict,” and Staff’s proposed rate design violates a number of those attributes. One
13 of the critical features of a mismatch between cost incurrence and cost recovery of
14 the type exhibited by the Staff rate structure is that it builds subsidies into the prices
15 faced by consumers for the delivery of natural gas. Specifically, by collecting costs
16 that have been identified as fixed in volumetric rates, it is a mathematical certainty
17 that larger users of the natural gas distribution system will pay more than the
18 identified cost to serve them and subsidize smaller users; and all consumers will
19 pay more than the identified cost to serve them in the heating season. Thus, Staff’s
20 rate structure can be said to violate Bonbright’s static efficiency standard (attribute
21 4), his fairness standard (attribute 6) and his avoidance of undue discrimination
22 standard (attribute 7). Bonbright, Principles of Public Utility Rates, pages 383-
23 384.

1 **Q. WHAT IS CURB’S PROPOSED RESIDENTIAL RATE DESIGN?**

2 A. Mr. Watkins recommends a residential customer charge of \$15.00/customer/month,
3 which he justifies on the basis of a customer cost analysis provided in his Schedule
4 GAW-3. He supports his recommendation on the basis of gradualism and his belief
5 that the lower customer charge will provide residential customers with better
6 natural gas price signals. Direct Testimony of Glenn A. Watkins, page 37, line 7 -
7 page 38, line 1.

8 As an initial matter, this proposal suffers from the same deficiency as the
9 Staff proposal. Shifting revenue responsibility from facilities charges to
10 commodity charges flies in the face of all of the cost of service studies in this case,
11 which identify over 98% of the cost of service as fixed. If this conflict between
12 cost incurrence and cost recovery is left in place, the resulting rate designs will
13 continue the subsidies that undermine energy efficiency and conservation
14 initiatives, continue the subsidies between higher- and lower-usage consumers of
15 natural gas (and perhaps from low income to high income consumers of natural
16 gas) and continue the seasonal subsidies so that summer usage is subsidized by
17 winter bills that are larger than is cost-justified.

18 **Q. WILL MR. WATKINS’ RATE DESIGN PROPOSAL PROMOTE**
19 **GRADUALISM?**

20 A. Not for all members of the residential class. Those residential consumers who use
21 more than the system average amount of natural gas will see larger bill increases
22 under Mr. Watkins’ proposal than they will see under the Company proposal.

1 **Q. WILL MR. WATKINS' RATE DESIGN PROPOSAL PROVIDE**
2 **RESIDENTIAL CUSTOMERS WITH BETTER NATURAL GAS PRICE**
3 **SIGNALS?**

4 A. No, because Mr. Watkins' proposal moves rates farther away from the identified
5 cost of providing service and will actually discourage conservation.

6 **Q. HOW CAN A RATE STRUCTURE WITH RELATIVELY LOWER**
7 **FACILITIES CHARGES AND RELATIVELY HIGHER USAGE CHARGES**
8 **ACTUALLY DISCOURAGE CONSERVATION?**

9 A. When a utility is forced to collect its fixed costs in volumetric charges, it must
10 increase consumption to maintain its financial health. Rate structures such as the
11 one proposed by the Company provide a stronger incentive for utilities to promote
12 conservation because they make the utility's profitability less dependent on
13 volumetric sales. Thus, the utility is not penalized in the form of decreased earnings
14 for encouraging the efficient use of natural gas. This "conservation penalty"
15 associated with traditional rate structures has been recognized by the NARUC,
16 State Regulatory Authorities throughout the country (including the KCC), the
17 American Gas Association and the Natural Resources Defense Council.

18 **Q. WHY IS IT IMPORTANT THAT A RATE DESIGN PROVIDE**
19 **CONSUMERS WITH A MORE ACCURATE PRICE SIGNAL OF THE**
20 **CONSEQUENCES OF THEIR CONSUMPTION DECISIONS TO USE**
21 **MORE OR TO USE LESS?**

22 A. There are those who believe that less use of natural gas is an unqualified good thing.
23 However, as an economist, I am trained to believe that conservation for

1 conservation's sake is not the answer. It is the job of a rate structure to provide the
2 correct price signal. Consumers can then use the cost information contained in the
3 rate and make consumption trade-offs between the cost of energy and the costs of
4 durable goods to make economically efficient consumption decisions, which may
5 even result in more consumption of natural gas. In my opinion, signaling
6 consumers that the consumption of more distribution service has significant cost
7 consequences is misleading and unwise when all cost bases for all economic time
8 horizons indicate this not to be the case.

9 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY AT THIS**
10 **TIME?**

11 A. Yes, it does.

VERIFICATION

STATE OF MARYLAND

§
§
§

COUNTY OF MONTGOMERY

Paul H. Raab, being duly sworn upon his oath, deposes and states that he is an Independent Consultant with Economic Consulting for Atmos Energy Corporation; that he has read and is familiar with the foregoing Rebuttal Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.



Paul H. Raab

Subscribed and sworn before me this 12th day of November, 2019.



Notary Public

My appointment expires: 10/31/2022

Seamus Feeney
Notary Public, State of Maryland
Montgomery County
My Commission Expires 10/31/2022