

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF

RICHARD WALL

021065-62

ON BEHALF OF

NUI CITY GAS COMPANY OF FLORIDA

FLAT RATE BILLING DOCKET

October 21, 2002

Q. Please state your name and business address.

A. My name is Richard Wall. My business address is 955 East 25th Street, Hialeah, Florida 33013-3498.

Q. By whom are you employed and in what capacity?

A. I am Director of Utility Operations for NUI Utilities, Inc., the parent company of City Gas Company of Florida.

Q. Please describe your qualifications and work experience.

A. I began working for City Gas in 1979. Since that time I have been employed in various capacities, including the installation and service of gas equipment and systems, and the inspection of installations of gas and distribution lines. I have also held the positions of Measurement Superintendent; General Manager of Operations; and Assistant Vice President and General Manager of Operations. In 1989 I assumed the position of Vice President of Operations for City Gas. In 1995 I became the Vice President of Operations of NUI's Southern Division.

1 With the elimination of the Southern Division in 1999, I assumed my present
2 position as Director of Utility Operations for NUI Utilities, Inc.

3

4 My education in the natural gas business includes specialized courses in areas
5 such as Distribution, Regulation, Corrosion Control, Natural Gas Distribution
6 Systems, and Measurement & Engineering conducted by the ASME & Institute
7 of Gas Technology, the Southern Natural Gas Association, the American Gas
8 Association and other professional industry groups. I hold master gas fitter
9 licenses in Dade and Broward Counties. I am a GRI (Gas Research Institute)
10 Technical Advisor and the President of the Florida Natural Gas Association. I
11 formerly sat on the Licensing and Examination Board of Dade County.

12

13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to provide an overview of City Gas' pilot Flat
15 Rate Billing (FRB) proposal and to discuss why the implementation of flat rate
16 billing for residential customers in our Miami Division will provide benefits to
17 both our customers and the Company. Mr. Nikolich will provide more detail on
18 rate design and the customer impact of flat rate billing. Mr. Kaufmann will
19 present the calculation of the initial flat rate and describe how that rate will be
20 adjusted on an annual basis.

21

22 **Q. Are you sponsoring any exhibits in this proceeding?**

23 A. Yes. I am sponsoring Exhibit ___ (RW-1), which provides a residential energy
24 cost comparison for the Company's Miami Division.

25

1 **Q. Please provide an overview of City Gas' FRB proposal.**

2 A. The pilot FRB plan is a proposal to present to virtually every residential
3 customer within the Miami Division (Miami-Dade and Broward Counties) the
4 identical monthly bill, month after month, for 12 months. The plan would be
5 mandatory for all eligible customers, but would be implemented on a pilot basis
6 for 24 months beginning with the May 2003 billing cycle. Eligibility would be
7 determined by the customer's annual consumption level. The consumption
8 range for eligibility would be from zero to 600 therms per year. The monthly
9 flat rate would be adjusted annually to maintain revenue neutrality and to reflect
10 changes in purchased gas costs and the level of other cost recovery factors. For
11 operational purposes, City Gas proposes to read customers' meters once per
12 year. This meter reading would allow the company to monitor the annual
13 throughput for each customer and re-qualify the customer for eligibility under
14 the plan for the following year.

15

16 **Q. What has been your role in the development of the FRB proposal?**

17 A. I have been involved from the conceptual design stage with other cross-
18 functional team members from NUI Utilities, Inc. From the team's inception we
19 worked together to brainstorm ideas, evaluate them and determine the impacts to
20 the customers and the Company. We performed numerous analyses from which
21 we drew conclusions that helped us to determine the direction the program
22 should take. One of my primary responsibilities has been to ensure that all
23 operational and safety issues are appropriately addressed. I also helped to plan
24 focus group sessions conducted by a professional market research firm to
25 present our proposal to existing Miami Residential customers. I attended the

1 sessions and was able to observe first hand the customers' reactions to our
2 proposal. Finally, I was involved with presentations to management. I also will
3 play a key role in the implementation and ongoing operations of the program
4 once approved.

5
6 **Q. What factors led City Gas to propose the pilot FRB program for these**
7 **residential customers?**

8 A. There are a number of factors that went into the Company's decision to file this
9 FRB proposal. First, the FRB program will provide an opportunity to reduce the
10 Company's costs. This is important because City Gas is not earning its allowed
11 rate of return in spite of a recent rate increase granted in 2001 by Order No.
12 PSC-01-0316-PAA-GU. The Company's return as indicated in the July 2002
13 surveillance report was 6.37% as compared to its allowed return of 7.53%, or an
14 annual revenue deficiency of approximately \$2.2 million. There are a couple of
15 ways in which regulated utilities can increase their earned rate of return. One
16 way is to petition the Commission for a rate increase. Another way is to reduce
17 costs. Because the Company operates in a very competitive environment in the
18 residential and small commercial sectors, we strongly believe that reducing costs
19 is the best way for City Gas to attempt to achieve its authorized rate of return
20 without putting the Company at the risk of becoming even less competitive.

21
22 Second, due to the absence of any significant heating load in the Miami
23 Division, many of our residential customers have low volume usage. As Mr.
24 Nikolich will show, the revenues produced by the low usage customers do not
25 cover the Company's cost of providing them service. Implementation of the

1 FRB program will provide a clear price signal to these customers that should
2 encourage the efficient use of natural gas, thereby increasing the Company's
3 overall throughput, and providing a benefit to the overall body of City Gas
4 ratepayers by deferring rate increases. In conjunction with an ECCR outreach
5 program targeted to low usage customers, this price signal should help reduce
6 the Company's rate of attrition by encouraging low usage customers to add gas
7 appliances rather than leave the City Gas system altogether. As discussed below
8 and in the testimony of Dan Nikolich, the FRB proposal should achieve
9 significant cost reductions while at the same time encouraging City Gas'
10 customers to make more economically efficient energy decisions that should
11 improve the Company's return.

12

13 **Q. You stated that the monthly flat rate would be adjusted annually to**
14 **maintain revenue neutrality. Please explain what you mean by revenue**
15 **neutrality.**

16 A. The plan is designed to provide exactly the same total revenues to the Company,
17 and exactly the same total charges to the FRB customers as a group, as would
18 have been charged for the same total gas consumption under the Company's
19 current rates. Since the flat rate is calculated based on projected usage, the rate
20 must be trued-up each year to take into account differences between the
21 estimated usage and the actual consumption. Mr. Kaufmann will describe the
22 mechanics of how this true-up is calculated.

23

1 **Q. You also stated that the monthly flat rate would be adjusted annually to**
2 **take into account changes in purchased gas costs and the level of other cost**
3 **recovery factors. Please explain.**

4 A. The flat rate for each year will be based on projected gas costs and generally
5 will not be adjusted during the year to reflect interim increases or decreases in
6 gas prices. This means the rate must be trued-up annually to take into account
7 the difference between estimated gas costs and actual gas costs for the year
8 attributable to the FRB customers. In addition, the rate will be adjusted for any
9 changes the Commission makes in the purchased gas adjustment (PGA),
10 environmental conservation cost recovery (ECCR) and competitive rate
11 adjustment (CRA) factors that apply to all customers for the upcoming year.
12 Again, Mr. Kaufmann will provide the detailed mechanics for calculating these
13 annual adjustments.

14

15 **Q. How will you know on a monthly basis what the actual level of consumption**
16 **is for customers in the program?**

17 A. We will calculate the actual program consumption by taking the monthly meter
18 reads at the Miami Division city gates, and backing out the specific Miami
19 Division consumption (based on meter reads) for all classes of customers
20 outside the FRB program.

21

22 **Q. How will City Gas bill new and departing customers for partial months of**
23 **usage?**

24 A. The customer's bill will be prorated based on the number of days during the
25 billing period that the premises were occupied. Specifically, the monthly flat

1 rate will be divided by 30 and then multiplied by the number of days the
2 premises were occupied during the billing period.

3

4 **Q. Why is the FRB proposal limited to Miami Division residential customers?**

5 A. The proposal is limited to Miami Division residential customers because of the
6 unique nature of their usage. The key reason is the weather. Since the weather
7 is so warm all year in the South Florida area, there is virtually no heating load.
8 As a result, the Miami Division residential customers represent only 9% of the
9 total City Gas throughput, in spite of representing 57% of the customer base.
10 The average monthly throughput for these customers is only 15 therms, and the
11 usage for any particular customer varies little from month to month. This usage
12 is consistent with the use of gas primarily for cooking, clothes drying, or a
13 limited amount of water heating. For many Miami Division residential
14 customers, the commodity portion of their bill is the smallest component of their
15 bill. Based on the customers' usage pattern, a flat rate bill for Miami Division
16 residential customers would not jeopardize any essential services and would
17 provide a proper price signal to encourage economically efficient energy
18 choices. In contrast, in the Company's northern-most service area in Brevard
19 County, the weather is significantly colder in the winter and a significant
20 percentage of customers have heat load. This makes the consumption among
21 the residential customers sufficiently different so that a flat rate bill in this area
22 would involve fairness issues that are not present in the Miami Division.

23

24 **Q. What are the benefits to the customers from the FRB program?**

1 A. The customers will benefit in numerous ways from the FRB program. First, the
2 rate structure would be more fair, since higher usage customers would no longer
3 be called on to subsidize primarily higher income, low usage customers.
4
5 Second, FRB will provide a clear price signal that should encourage customers
6 to make better, more efficient energy choices. As shown in Exhibit __ (RW-1),
7 all customers who consume less than 50 therms per month (or 600 therms per
8 year) will be encouraged to add efficient gas appliances to take maximum
9 advantage of the flat rate. This is because any increase in usage will not affect a
10 customer's gas utility costs until the flat rate is adjusted at the beginning of the
11 next calendar year. At the same time they will experience decreases in their
12 other utility bills to the extent they are replacing existing appliances with natural
13 gas appliances.
14
15 Third, the customer's bill would be significantly simplified. We are proposing a
16 bill that simply shows a flat amount, eliminating 14 items of information and
17 associated calculations that are unnecessary under the FRB program. Taxes, of
18 course, would be separately stated.
19
20 Fourth, a customer would not have to be home to unlock the gate or to bring the
21 dogs inside for meter reads, with the exception of the one read per year that we
22 are proposing.
23
24 Fifth, the customers will benefit by not having to question their bill each month,
25 since each month the bill will be for the same amount. Fewer disputes means

1 the customer will require fewer calls to the call center and fewer bill
2 investigations by the Company's field staff.

3
4 Sixth, the flat rate bill will also simplify bill payment. Instead of writing a
5 check every month and coming to a pay station to make the payment, customers
6 will be more willing to do an automatic debit to their checking account or a pre-
7 arranged credit card payment since they know in advance the amount of the
8 charge. This will save valuable time every month.

9
10 Finally, all City Gas customers will potentially benefit from the lower cost
11 structure intended to result from FRB. Without FRB, the existing cost structure
12 would put the Company in a position of filing a rate case to increase rates, since
13 we are not currently earning our allowed return. Any resulting increase would
14 affect customers across the board.

15

16 **Q. What are the benefits to the Company from the pilot FRB program?**

17 A. The long-term benefit to the Company should be increased sales of natural gas,
18 which will enable the Company to spread fixed costs over a greater amount of
19 usage. This should occur as customers become familiar with the flat rate and
20 add appliances to take maximum advantage of that rate. For example, the
21 addition of a gas water heater to an account with only a range or a gas dryer will
22 now make economic sense for previously low volume customers.

23

24 More immediately, City Gas should benefit by containing costs and in some
25 cases even reducing costs from current levels. We anticipate that after inception

1 of the FRB program, and once customers become acquainted with the program,
2 call volume to our customer service center will be significantly reduced. Our
3 experience demonstrates that a large percentage of our calls are related to billing
4 (40% of calls in September 2002). When customers see that their bill is simple
5 and consistent from month to month, there will be less reason for them to call.
6 We calculated a potential savings in excess of \$100,000 annually based on
7 avoiding 64,000 calls.

8
9 Our proposal also calls for annual meter reads. Meter reading costs should be
10 reduced by approximately \$340,000 based on a reduction from six to one
11 scheduled reads per year. Billing support would also be reduced by
12 approximately \$60,000.

13
14 Total quantified savings are estimated at \$500,000 annually. In addition, we
15 believe that City Gas will also benefit from reduced collections expenses and
16 possibly lower bad debt expense, since customers who do not dispute their bills
17 are more likely to pay their bills. We could not quantify these potential savings,
18 as we have no data on which to estimate the current levels of bad debt expense
19 and collections expense attributable to disputed bills.

20

21 **Q. In addition to the potential savings described above, are there other benefits**
22 **to the Company?**

23 A. Yes. We anticipate fewer complaints to the Florida Public Service Commission
24 and improved customer satisfaction overall. This program also has the potential
25 to slow the Company's rate of attrition.

1 **Q. How will the pilot FRB Program affect the Company's rate of attrition?**

2 A. By providing more favorable customer experiences and giving a price signal
3 which encourages customers to make more efficient use of energy, the FRB
4 program should reduce customer attrition. Currently City Gas averages
5 approximately 800 account losses in the Miami Division each year. These
6 losses are primarily customers using less than 7 therms per month, for whom it
7 does not make sense economically to pay a customer service charge to both the
8 local electric utility as well as to City Gas.

9
10 The Company's goal is to keep these customers, not to lose them. We plan to
11 market ECCR incentives to these low usage customers as we implement the
12 FRB program. For example, through direct mailings, we will make these
13 customers aware that they are eligible for \$525 toward installation of a gas water
14 heater under our approved ECCR program. With the FRB program in place,
15 customers can take advantage of this incentive and incur no additional cost for
16 gas during the first calendar year. As mentioned above, the addition of a gas
17 water heater to an account with only a range or a gas dryer will now make
18 economic sense for previously low usage customers. By lowering their
19 incremental energy costs, the addition of a gas water heater would encourage
20 these customers to remain on our system. For low usage customers who choose
21 not to add gas appliances, we recognize that the program could cause them to
22 abandon natural gas. However, these are the customers who are leaving the
23 system in any event, and their departure would simply accelerate the impacts
24 that we are already feeling.

25

1 **Q. What steps has City Gas taken to determine customers' likely reaction to**
2 **the introduction of flat rate billing?**

3 A. City Gas commissioned a professional market research firm to conduct focus
4 group studies for residential customers in the Miami Division. The purpose of
5 the study was to gauge customers' reactions to the idea, as well as identify areas
6 of concern to customers. The groups consisted of a broad mix of participants of
7 varying gender, race, income, nationality and number of gas appliances in the
8 home. Four two-hour focus groups were conducted with eight to ten
9 participants in each group. Two groups were conducted with Spanish speakers
10 and two groups with English speakers.

11

12 **Q. What were the results of the focus group sessions?**

13 A. The customers were told that the flat price would be between \$25 and \$30 per
14 month. At this price, most participants considered the plan to provide good or
15 excellent value when given a choice among poor, average, good and excellent.
16 Participants also recognized the benefits of not having estimated bills and being
17 better able to budget their expenses. Some customers expressed a concern about
18 fairness for lower usage customers. This concern was alleviated once they
19 understood that a large portion of their gas bill is based not on the quantities
20 used, but rather on the fixed costs the Company incurs in order to serve each
21 customer. Costs such as billing, meter reading, customer care, meter and service
22 costs, among others, are identical for each customer regardless of the quantities
23 consumed. Only two individuals out of the 34 participants indicated that they
24 would switch to electric as a result of the flat rate program. There were six
25 individuals that had only one appliance, and would be negatively affected by the

1 FRB program. The four that indicated they would not switch to electric said
2 they would take advantage of our incentive programs and add additional
3 appliances. Several customers indicated they would add gas appliances and
4 reduce their electric bills.

5

6 **Q. What steps will City Gas commit to take to increase customer awareness if**
7 **the Commission approves the FRB proposal?**

8 A. The Company plans to begin a customer education and awareness campaign
9 three to four months before the implementation of the program. The focus
10 group process helped us to identify areas we will need to emphasize as part of
11 this campaign. Items we are considering for the campaign include separate
12 mailings to residential customers in the Miami Division, call center scripting to
13 address when customers call in, hold time messaging that the customers will
14 hear while on hold, advertisement of rebates in conjunction with the program,
15 and automated dialing with a recorded message. Other media will be
16 considered, subject to cost. The objective will be to try to reach all affected
17 customers with an extensive blitz to reduce the call volume once the program is
18 implemented and the first bills go out.

19

20 **Q. What are the costs associated with the implementation of the pilot FRB**
21 **program?**

22 A. We anticipate the following one-time incremental costs:

23

24

25

1

<i>Type</i>	<i>Amount (\$)</i>
Programming	15,000
Training for customer care reps & billing support	3,000
Focus group	35,000
Other research	10,000
Customer awareness program	35,000
Legal & regulatory process	50,000
Total	148,000

2

3

Q. How do these one-time costs compare to projected savings over the life of the FRB program?

4

5

A. The annual savings are estimated at \$500,000 and were itemized previously in this testimony. The annual savings are over three times the anticipated costs of implementation and indicate a payback of less than one year.

6

7

8

9

Q. Is the Company requesting approval of FRB as a permanent program?

10

A. No. Due to its innovative nature, City Gas is proposing to implement the FRB program on a pilot basis for twenty-four (24) months beginning with the May 2003 billing cycle. The proposed 24-month time frame would enable Commission and the Company to evaluate the effectiveness of the FRB program in achieving the goals outlined above. This time frame is also necessary for at least one true-up cycle to work itself through the rates.

11

12

13

14

15

16

1 **Q. Is City Gas seeking any rule waivers in connection with its pilot FRB**
2 **program?**

3 A. Yes. For customers subject to FRB, we are asking the Commission to grant a
4 partial waiver of Rule 25-7.084, which requires monthly meter readings, and a
5 partial waiver of Rule 25-7.085, which requires detailed information on
6 customer bills that is not applicable in a flat rate billing environment. These
7 waivers are necessary to enable the Company to achieve the cost savings that are
8 expected to flow from reduced meter reading (\$340,000) and fewer customer
9 bill inquiries from FRB customers (\$100,000). The underlying purposes of the
10 monthly billing rule to ensure that the Company obtains the information
11 necessary to render accurate bills is achieved by requiring one meter reading per
12 year to monitor the annual throughput for each customer and re-qualify the
13 customer for eligibility under the FRB plan for the following year. The purpose
14 of the rule requiring detailed billing information is satisfied because, under the
15 simplified flat rate billing format, customers will still receive all the information
16 they need to understand their flat rate bills. If these rules were not waived in
17 connection with the implementation of FRB, the Company would unfairly suffer
18 a substantial hardship in the form of reduced opportunity for cost savings.

19
20 **Q. What action are you asking the Commission to take?**

21 A. First, City Gas asks the Commission to approve the FRB program to be
22 implemented effective with billings no later than May, 2003. In order to allow
23 for a three to four month customer awareness program, this schedule would
24 require Commission action by January 2003.

25

1 Second, we ask the Commission to approve the initial monthly rate and annual
2 adjustment mechanism described in Mr. Kaufmann's testimony.

3

4 Finally, we ask the Commission to grant City Gas a waiver of Rules 25-7.084
5 and 25-7.085 to the extent those rules require monthly meter readings and
6 require the Company to provide detailed billing information which is not
7 applicable in a flat rate bill environment.

8

9 **Q. Does that conclude your testimony?**

10 A. Yes it does.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

NUI Utilities d/b/a City Gas of Florida Residential Energy Cost Comparison

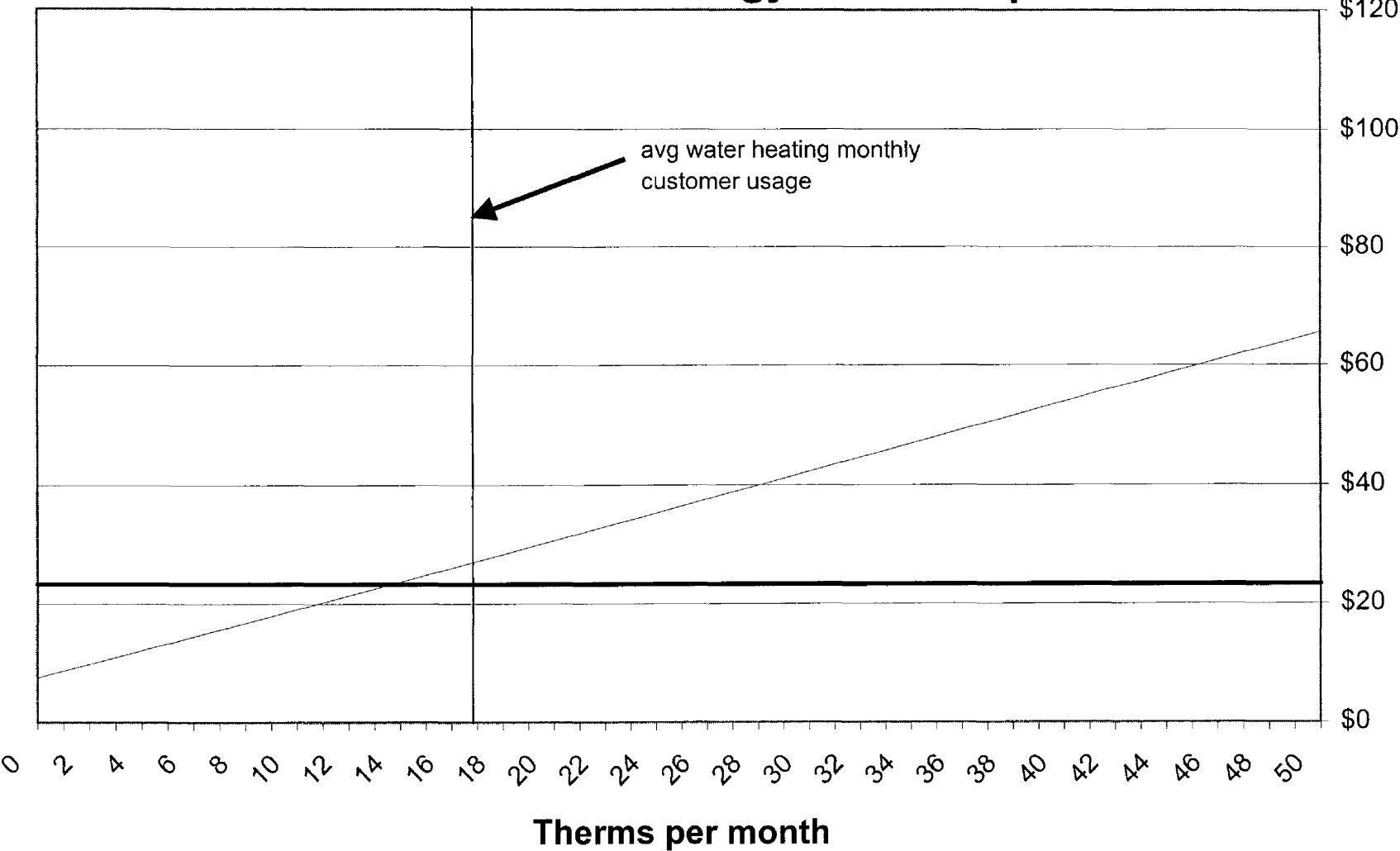


Exhibit (RW-1)
City Gas Witness Wall
Flat Rate Billing Docket

--- Existing Residential Rate — Flat Rate Billing