APPENDIX B
PREVIOUSLY FILED TESTIMONY

GAS UTILITIES DOCKET NO. _____

BLUEBONNET NATURAL GAS, INC.	§	**BEFORE THE**
STATEMENT OF INTENT TO	§	**RAILROAD COMMISSION**
CHANGE RATES	§	**OF TEXAS**

DIRECT TESTIMONY

OF

KARL J. NALEPA

ON BEHALF OF

BLUEBONNET NATURAL GAS, INC.

JULY 16, 2008

DIRECT TESTIMONY OF KARL J. NALEPA

TABLE OF CONTENTS

APPENDICES

ATTACHMENTS

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I. INTRODUCTION AND QUALIFICATIONS

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

A. My name is Karl J. Nalepa. I am a Managing Director with RJ Covington Consulting, an independent utility consulting company. My business address is 11044 Research Blvd., Suite A-325, Austin, Texas 78759.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am presenting testimony on behalf of Bluebonnet Natural Gas, Inc. ("BNG").

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I hold a Bachelor of Science degree in Mineral Economics and a Master of Science degree in Petroleum Engineering, and am a certified mediator. My professional experience includes eight years in the reservoir engineering department of an exploration company affiliated with a major interstate pipeline company, then four

years as a Fuels Analyst with the Texas Public Utility Commission ("PUC"). This was followed by five years with two different consulting firms providing expert advice regarding a broad range of natural gas and electric industry issues. Immediately prior to my current position, I served for more than five years as an Assistant Director with the Texas Railroad Commission ("RRC"). In this position, I was responsible for overseeing the economic regulation of natural gas utilities in Texas. I joined RJ Covington Consulting, LLC in June of 2004. My Statement of Qualifications is attached as Appendix A.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSISON?

A. Yes, I have testified a number of times before both the Texas PUC and the Texas RRC on a variety of regulatory issues. In addition, I supervised the staff case in proceedings before the RRC and served as a Technical Rate Examiner on behalf of the RRC. A summary of my previously filed testimony is provided as Attachment B.

II. PURPOSE AND SCOPE

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

A. The purpose of my testimony is to present and support the gas sales weather adjustment, class cost of service study, and proposed rate design for BNG.

Q. WHEN DID BNG LAST CHANGE ITS RATES?

A. BNG purchased the gas distribution system from Panther Natural Gas Company, Ltd. ("PNG" or "Panther") on January 1, 2008 and the rates charged by PNG were

adopted by BNG. Panther Purchased the Raywood, Devers, Nome and Hull systems from the Southern Union Company on December 18, 1997. The Wildwood system was purchased by Panther form the City of Kountze, Texas on May 1, 2001. The Mt. Enterprise and Douglass systems were purchased by Panther from the City of Huntington, Texas on September 1, 1999. Panther adopted the existing rates in each purchase and did not apply for a rate change during its ownership. BNG does not have information about how long these rates were in effect prior to the purchase by Panther. Therefore, to the best of our knowledge rates have not changed since 1997.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. Section I summarizes my experience, education, and qualifications. Section II of my testimony provides the scope and purpose of my direct testimony and describes the exhibits that I am sponsoring as part of this filing. Section III describes the customer usage data and weather adjusted sales by customer class. Section IV provides an explanation of the allocations and results of the gas class cost of service study. Section V of my direct testimony describes and presents the BNG' proposed rates for gas service. Finally, Section VI summarizes my recommendations.

Q. ARE YOU SPONSORING ANY EXHIBITS TO BNG' APPLICATION?

A. Yes, I am sponsoring the entire application which consists of twelve exhibits.

Q. PLEASE DESCRIBE EXHIBIT KJN-1.

A. Exhibit KJN-1 provides a summary of revenue by customer classification. This exhibit identifies the MCF commodity sales and associated revenues per the Company's books, year-end customer and weather adjusted sales and revenue, and the proposed revenue for each retail customer class. The proposed percent change in revenue and the average cost per MCF are also provided on this Exhibit.

Q. PLEASE DESCRIBE EXHIBIT KJN-2.

A. Exhibit KJN-2 provides typical bill comparisons for the proposed rate schedules. The bill comparisons set forth the dollar and percentage change associated with various levels of use for customers.

Q. PLEASE DESCRIBE EXHIBIT KJN-3.

A. The development of proposed rates by class is detailed on Exhibit KJN-3.

Q. PLEASE DESCRIBE EXHIBIT KJN-4.

A. Exhibit KJN-4, the class cost of service analysis, provides the adjusted class cost of service study for the test year ending March 31, 2008. The class cost of service study is used to determine the level of revenues necessary for each class to support its allocated revenue requirement.

Q. PLEASE DESCRIBE EXHIBIT KJN-5.

A. Exhibit KJN-5 provides the billing units and present rates by rate schedule and provides the calculation of adjusted revenues under present rates. The billing determinants employed are fully adjusted customers and MCF sales levels.

Q. PLEASE DESCRIBE EXHIBIT KJN-6.

A. Exhibit KJN-6 is the bill frequency model which provides the monthly unadjusted billing determinants by customer class. This exhibit also develops the year-end and weather adjusted billing determinants which will be discussed in detail in section III of my direct testimony.

Q. PLEASE DESCRIBE EXHIBIT KJN-7.

A. Exhibit KJN-7 sets forth the weather normalization adjustments. The weather normalization adjustment was made to eliminate the effects of atypical historical temperature conditions that cannot reasonably be anticipated to reoccur. The Exhibit includes a calculation of the 10 year normal heating degree days using data collected at Intercontinental Airport Houston.

Q. PLEASE DESCRIBE EXHIBIT KJN-8.

A. Exhibit KJN-8 provides the rate of return calculation based on the test year end debt and estimated equity values.

Q. PLEASE DESCRIBE EXHIBIT KJN-9.

A. Exhibit KJN-9 provides the calculation of federal income tax at the proposed rates, based on a 15% Federal Tax rate.

Q. PLEASE DESCRIBE EXHIBIT KJN-10.

A. Exhibit KJN-10 provides the calculation of allowed interest on customer deposits. The interest rate of 4.68% used in this calculation is per the Railroad Commission of Texas, Gas Services Division, Gas Utilities Information Bulletin No. 833, dated December 10, 2007.

Q. PLEASE DESCRIBE EXHIBIT KJN-11.

A. Exhibit KJN-11 provides the calculation of allowable advertising expenses pursuant to Commission rule 7.5414.

Q. PLEASE DESCRIBE EXHIBIT KJN-12.

A. Exhibit KJN-12 provides a summary of the annual Depreciation Expense.

Q. WERE THESE EXHIBITS THAT YOU SPONSOR PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

Q. ARE THESE EXHIBITS TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes, they are.

III. BILLING DETERMINANTS

Q. PLEASE DESCRIBE BLUEBONNET NATURAL GAS COMPANY'S CUSTOMER CLASSES.

A. BNG served 1,196 residential, 72 commercial and 10 farm customers at the end of the test year. Booked commodity sales were 61,678.3 MCF in the test year, 65% of which is attributed to residential sales. Exhibit KJN-6 details by customer class the number of customers, MCF sales and sales revenue for each month of the test year.

Q. IS BNG PROPOSING ANY ADJUSTMENTS TO TEST YEAR BILLING DETERMINANTS?

A. Yes, BNG is proposing growth and weather normalization adjustments. Each of these adjustments is described in more detail below.

Growth Normalization Adjustment

Q. WHY ARE YOU PROPOSING A GROWTH NORMALIZATION ADJUSTMENT?

A. BNG is using test year end plant in service to determine its cost of service. For consistency, booked commodity sales and revenue need to be adjusted to show a full years' billing for all customers receiving service at the end of the test year. This adjustment synchronizes the test year-end revenue with the year-end investment.

Q. PLEASE DESCRIBE HOW THIS ADJUSTMENT IS CALCULATED.

A. This adjustment in calculated on Exhibit KJN-6, lines 461 through 1028. The adjustment to commodity sales is calculated on a monthly basis as the ratio of the test year end number of customers minus the historic number of customers in each month of the test year divided by the historic number of customers in each month of the test year. This ratio is multiplied by the monthly unadjusted MCF sales to determine the adjustment to commodity sales. This adjustment to sales is multiplied by the applicable commodity charge to calculate the impact on revenues.

Q. WHAT IS THE ANNUAL IMPACT OF THIS ADJUSTMENT?

A. As a result of this growth normalization adjustment, sales increase by 929 MCF and base rate revenue is adjusted upward by $4,521. The base rate revenue adjustment is comprised of a $1,572 adjustment to Customer Charges and a $2,949 adjustment to Commodity Charges.

Weather Normalization Adjustment

Q. WHY ARE YOU PROPOSING A WEATHER NORMALIZATION ADJUSTMENT?

A. The weather normalization adjustment was necessary to ensure that sales volumes were neither over-stated nor under-stated relative to normal temperatures. Failure to adjust for abnormal temperature conditions would result in BNG under- or over-recovering its allowed revenue requirement under temperature conditions that are normally expected to occur. The weather normalization adjustment submitted in BNG' rate filing adjusts only the effects of abnormal heating degree days (HDD). The

weather normalization adjustment is provided in Exhibit KJN-7 of the rate application.

Q. PLEASE DESCRIBE HOW THE TEST YEAR SALES BY CLASS OF SERVICE WERE WEATHER NORMALIZED.

A. The procedure for adjusting for abnormal temperature conditions involves determining the temperature sensitive portion of monthly usage and dividing that temperature sensitive usage by the actual degree days for the billing month. The weather normalization for gas customers is made for HDD only since there is little or no effect of cooling degree days (CDD) upon gas usage. HDD are calculated as the difference between the actual average temperature and a base temperature of 65 degrees. For example, a day with a high temperature of 55 degrees and a low temperature of 35 degrees has an average temperature of 45 degrees and thus 20 HDD (65°- 45°). This is the common practice used to calculate HDD and is the practice employed by the National Oceanic and Atmospheric Administration (NOAA), the source of the temperature data I employed and the temperature information resource most frequently relied upon by the utility industry.

NOAA degree day data were revised so that the data consistently match BNG' billing cycle. Because customer usage occurs over portions of two calendar months while degree days are recorded on a calendar month basis, it is necessary to restate the calendar month degree days on the basis of a billing month to ensure that usage and temperatures are properly matched. The temperature sensitive usage per MCF for the revenue month calculated as described above is then multiplied by the normal (i.e.

the expected or average) number of degree days for the revenue month to derive the normal level of temperature sensitive usage per customer. This normalized temperature sensitive usage per month per customer is then added back to the non-temperature sensitive usage to produce the total normalized usage per customer. Each month's normalized use per customer is multiplied by the year end number of customers to obtain total weather normalized MCF sales for the month.

Q. WOULD YOU PLEASE PROVIDE AN EXAMPLE OF THIS CALCULATION?

A. Yes. The following example illustrates the calculation of the weather normalization adjustment for the Residential gas customers located in the Hull Environs for the month of January 2008. Note that the revenues booked in January are derived from consumption in December and January.

Actual HDD (Billing Cycle Adjusted)	245
Normal HDD (Billing Cycle Adjusted)	315
Difference	70
Actual Use Per Customer	8.06
Less: Non-Temperature Sensitive Use Per Customer	0.90
Equals: Temperature Sensitive Use Per Customer	7.16
Divided by: Actual Heating Degree Days	245
Equals: Temperature Sensitive User Per Customer Per HDD	0.0292
Times: Degree Day Difference	70
Equals:Weather Adjustment Per Customer	2.03
Times: Year-end Number of Customers	130
Equals: Weather Normalization Adjustment	264.3

First, in order to calculate actual and normal HDD for a billing month, it is necessary to synchronize calendar month HDD data with the billing months over which sales are recorded. For example, BNG reads customer meters in the Wildwood

Environs on the 1st of the month and at other locations, including Hull, between the 23rd and the 26th day of the month. Therefore, the sales amounts booked in any given month reflect consumption that actually occurs during the book month as well as the calendar month preceding the book month. For example, in the Hull Environs 19.35 percent of the January sales actually occurred during the month of December. For purposes of calculating the weather normalization adjustment, it was necessary to adjust the HDD that are recorded on a calendar month basis to match the billing month sales.

Residential Hull Environs year-end customer adjusted sales booked in January were 1,047.2 MCF and the bill cycle weighted HDD for the month were 245. Bill cycle weighted normal HDD for the month are 315, indicating that actual sales were understated relative to normal conditions. Average use per customer was 8.06 MCF. The non-temperature portion of Residential use was determined to be the average use per month experienced by Residential customers during the non-heating summer months. This amount was 0.90 MCF per customer. Therefore, the temperature sensitive portion of load was 7.16 MCF per customer (i.e. 8.06 – 0.90 = 7.16). This temperature sensitive portion of load was divided by the number of HDD and resulted in a temperature sensitive use per customer per degree day of 0.029168. Multiplying this amount by the normal number of HDD results in an adjustment of 2.03 MCF per customer which, when added back to the actual average use per customer produces a normal use per customer of approximately 10.09 MCF. Multiplying this normal use per customer by the test year end number of customers of 130 produces and adjusted class sales amount of 1,311.4 MCF, an increase of 264.3 MCF from the year-end

customer adjusted sales amount of 1,047.2. This process was repeated for each month for Residential, Commercial and AG Farm customers using information specific to each month and class. Note that some rounding may have occurred in the calculations set forth above, but that all numbers were carried out to a greater number of decimals in the actual calculations used to develop the weather normalization adjustment set forth on Exhibit KJN-7.

Q. WHAT HISTORICAL PERIOD DID YOU EMPLOY AS THE BASIS FOR COMPUTING NORMAL HEATING DEGREE DAYS?

A. For purposes of this filing, BNG used the most recent 10 year average to calculate normal heating degree days. The use of the 10 year average was recently litigated and approved by the Commission in Atmos Energy Corp., GUD 9670. The Final Order in Hughes Natural Gas, GUD 9731 also approved a 10 year average in the calculation of its weather normalization adjustment.

Q. WHY DID YOU APPLY THE WEATHER NORMALIZATION ADJUSTMENT TO YEAR-END CUSTOMER ADJUSTED SALES INSTEAD OF BOOKED SALES?

A. The Railroad Commission of Texas "Natural Gas Rate Review Handbook" dated June 2007 states on page 45 that when performing the weather normalization adjustment, *"All figures should have already been adjusted for customer growth"*.

IV. GAS CLASS COST OF SERVICE STUDY

Q. WHAT IS A CLASS COST OF SERVICE STUDY?

A. A class cost of service study is an analysis that develops dollar revenue requirements by customer class utilizing causal relationships between cost components and customer characteristics as the basis for assigning costs. A class cost of service study uses the cost elements of the total Company revenue requirements and distributes these elements to BNG' various customer classes either by allocating costs or by direct assignment if appropriate. Any costs that can be specifically identified as being incurred for the benefit of or as a result of an individual customer or group of customers are directly assigned to that specific customer(s) rate class. Costs that cannot be specifically assigned are allocated to classes of customers using allocation factors that reflect the manner in which costs arise.

To a large extent, the reasonableness of the results of a cost of service study depends upon the reasonableness of the methods by which costs are allocated to classes. When allocating costs, it is important that the most appropriate cost driver for each individual cost is used to allocate that cost. Selecting the most appropriate cost driver is essential to ensuring that costs are allocated to the classes for which the costs are incurred. For this reason, class cost of service studies are said to be based upon the principle of "cost causation." Once the costs are allocated to the various rate classes, the total costs of serving each class can be ascertained. By comparing the costs of service by class to the revenues received from each class, rates can be designed for each class as appropriate.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY THE TERMS "ALLOCATE" AND "ALLOCATION"?

A. "Allocate" and "allocation," in the context of class cost of service and rate design, are terms used to describe the process by which BNG' rate base items, expenses, taxes, and revenues are apportioned among the various rate classes. This allocation is based on various causal parameters. The choice of the parameter to be used is primarily based upon the notion that "cost responsibility follows cost causation." Apportionment of cost responsibility is accomplished by allocating or assigning various investments or costs among the rate classes on a basis that represents the usage and, thus, the cost causation of these rate classes.

Q. PLEASE DESCRIBE EXHIBIT KJN-4 WHICH CONTAINS THE ADJUSTED CLASS COST OF SERVICE STUDY.

A. Exhibit KJN-4 is the class cost of service study using adjusted pro-forma amounts. In this schedule each component of the system revenue requirement is set forth in rows and the allocated portion of the various cost components for each class is set forth in the column associated with the class. Allocation factors and the underlying information from which the allocation factors are calculated are provided in the first two pages of Exhibit KJN-4. Following the allocation factor information, plant and other rate base items are allocated to classes. Next, operation and maintenance expenses are allocated to classes using either the input allocation factors or allocation factors that were developed based upon previously allocated plant or rate base items. Following the allocation of operation and maintenance expenses is the allocation of

depreciation expense and taxes other than income. Next, income is either allocated to classes (as in the case of other revenue) or directly assigned to classes (as in the case of revenues from gas sales) and operating income is calculated using the previously allocated revenues and expenses by class of service. Once operating income is calculated, federal income taxes are calculated. From this information, return by class under present rates is calculated. Finally, using the rate base, expenses, taxes and revenues that have already been allocated to classes, the cost of service study determines the dollars of return for each customer class under BNG' proposed rate of return and the revenue deficiencies by class of service are calculated.

Q. PLEASE IDENTIFY THE RATE CLASSES USED IN THE CLASS COST OF SERVICE AND RATE DESIGN STUDY.

A. The rate classes used in the current gas filing include:

- Residential Service
- Commercial Service
- AG Farm Service

Costs are not allocated to ARG rice drying customer which is served under a contract that charges the Houston Ship Channel cost of gas plus $0.28 per CCF. In lieu of allocating costs to these customers, contract revenue from the ARG rice drying customer is credited back to each class.

Q. PLEASE EXPLAIN YOUR REASONS FOR NOT ALLOCATING COSTS TO THE ARG RICE DRYING CUSTOMER.

A. The rationale underlying this procedure is that the charges relating to this customer is established by contract between the Company and this customer and, accordingly, cannot be adjusted as part of this general rate proceeding. In lieu of allocating costs to this customer, test year revenue is credited to the retail sales classes. The credit decreases costs to these other rate classes.

Q. PLEASE DESCRIBE THE ALLOCATION METHODOLOGIES YOU EMPLOYED IN THE CLASS COST OF SERVICE STUDY TO ALLOCATE COSTS.

A. There are numerous specific allocations made in the cost of service study. The specific allocation of each revenue requirement component is identified by the allocation factor set forth next to the total column. The allocation factors contained in the cost of service study are either externally developed allocation factors (independent) or internally developed allocation factors (dependent). Externally developed allocation factors are calculated using information that is developed externally to the cost of service study, such as sales volumes or number of customer allocation factors. Internally developed allocation factors are calculated within the cost of service study based upon the results of previously allocated items, such as total plant in service.

Commodity sales volumes were used to allocate measurement and regulatory station plant, and distribution mains. BNG does not possess the design-day nor peak day send-out data required to calculate demand related allocation factors.

Q. PLEASE DESCRIBE THE OTHER ALLOCATION FACTORS EMPLOYED IN THE GAS COST OF SERVICE STUDY.

A. Customer related costs such as meters, services, and house regulators were allocated to classes using the number of customers by class weighted by the relative costs of meters and house regulators. Distribution expenses related to plant accounts were allocated to classes on previously allocated distribution plant. Administrative and general expenses were allocated to classes on the basis of previously allocated items. For example, labor related A&G was allocated on the sum of non-labor related distribution expenses, customer accounting and sales-related expenses, and non-labor related A&G expenses. Non-labor related A&G expenses were allocated on the sum of distribution related expenses, customer accounting and sales-related expenses.

Q. PLEASE DESCRIBE THE RESULTS OF THE GAS COST OF SERVICE STUDY.

A. The results of the class cost of service study indicate that the Commercial and Farm classes require increases greater than the system average percentage increase. The Residential class requires an increase less than the system average.

V. RATE DESIGN

Q. PLEASE SUMMARIZE THE RATES YOU PROPOSE FOR BLUEBONNET NATURAL GAS, INC.

A. BNG's current rates were implemented prior to the distribution system purchases by Panther in 1997 through 2001. Different rates are currently in effect in each territory

served and BNG proposes to consolidate these rates so that only one rate applies to each class of service in all territories served. BNG proposes no structural changes to the existing gas service rates however; BNG proposes to increase the levels of the Customer and Commodity Charges for its gas rates to better recover their costs of service and to provide for revenue stability.

The Customer Charge for Residential customers was increased from a range of $8.00 to $10.00 per month to a single charge of $15.00 per month. The Customer Charge for Commercial customers was increased from a range of $10.00 to $17.00 per month to a single charge of $25.00 per month. The Customer Charge for AG Farm service customers was increased from $17.00 to $25.00 per month.

The Commodity Charge for Residential customers was changed from a range of $4.30 to $10.45 per MCF to a single charge of $6.98 per MCF. The Commodity Charge for Commercial customers was changed from a range of $4.30 to $10.45 per MCF to a single charge of $6.98 per MCF. The Commodity Charge for AG Farm service customers was increased from $2.75 to $3.50 per MCF.

The following table provides a comparison of the present and proposed rates by class within each territory served by BNG:

Line No.	Location	Present Rates Class	Customer Charge $/Month	Commodity Charge $/MCF	Proposed Rates Class	Customer Charge $/Month	Commodity Charge $/MCF
1	Devers	Residential - Incorporated	$8.00	$5.2960	Residential - Incorporated	$15.00	$6.9800
2		Residential - Environs	$8.00	$5.2960	Residential - Environs	$15.00	$6.9800
3		Commercial - Incorporated	$10.00	$5.7460	Commercial - Incorporated	$25.00	$6.9800
4		Commercial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
5		Industrial - Incorporated	$10.00	$5.7460	Commercial - Incorporated	$25.00	$6.9800
6		Industrial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
7		Public Authority - Incorporated	$10.00	$5.8620	Commercial - Incorporated	$25.00	$6.9800
8		Public Authority - Environs	$10.00	$5.8620	Commercial - Environs	$25.00	$6.9800
9							
10	Douglass	Residential - Environs	$9.00	$4.3000	Residential - Environs	$15.00	$6.9800
11		Small Commercial - Environs	$17.00	$4.3000	Commercial - Environs	$25.00	$6.9800
12		Large Commercial - Environs	$17.00	$2.7500	AG Farm- Environs	$25.00	$3.5000
13		School and Church - Environs	$14.00	$4.3000	Commercial - Environs	$25.00	$6.9800
14							
15	Hull	Residential - Environs	$8.00	$5.2960	Residential - Environs	$15.00	$6.9800
16		Commercial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
17		Industrial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
18		Public Authority - Environs	$10.00	$5.8620	Commercial - Environs	$25.00	$6.9800
19							
20	Nome	Residential - Incorporated	$8.00	$5.2960	Residential - Incorporated	$15.00	$6.9800
21		Residential - Environs	$8.00	$5.2960	Residential - Environs	$15.00	$6.9800
22		Commercial - Incorporated	$10.00	$5.7460	Commercial - Incorporated	$25.00	$6.9800
23		Commercial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
24		Industrial - Incorporated	$10.00	$5.7460	Commercial - Incorporated	$25.00	$6.9800
25		Industrial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
26		Public Authority - Incorporated	$10.00	$5.8620	Commercial - Incorporated	$25.00	$6.9800
27		Public Authority - Environs	$10.00	$5.8620	Commercial - Environs	$25.00	$6.9800
28							
29	Mt. Enterprise	Residential - Incorporated	$9.00	$4.3000	Residential - Incorporated	$15.00	$6.9800
30		Residential - Environs	$9.00	$4.3000	Residential - Environs	$15.00	$6.9800
31		Small Commercial - Incorporated	$17.00	$4.3000	Commercial - Incorporated	$25.00	$6.9800
32		Small Commercial - Environs	$17.00	$4.3000	Commercial - Environs	$25.00	$6.9800
33		Large Commercial - Incorporated	$17.00	$2.7500	Commercial - Incorporated	$25.00	$6.9800
34		Large Commercial - Environs	$17.00	$2.7500	AG Farm- Environs	$25.00	$3.5000
35		School and Church - Incorporated	$14.00	$4.3000	Commercial - Incorporated	$25.00	$6.9800
36		School and Church - Environs	$14.00	$4.3000	Commercial - Environs	$25.00	$6.9800
37							
38	Raywood	Residential - Environs	$8.00	$5.2960	Residential - Environs	$15.00	$6.9800
39		Commercial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
40		Industrial - Environs	$10.00	$5.7460	Commercial - Environs	$25.00	$6.9800
41		Public Authority - Environs	$10.00	$5.8620	Commercial - Environs	$25.00	$6.9800
42							
43	Wildwood	Residential - Environs _1/	$10.82	$10.4500	Residential - Environs	$15.00	$6.9800
44		Commercial - Environs _2/	$12.32	$10.4500	Commercial - Environs	$25.00	$6.9800

_1/ Present Customer Charge Includes 7.5 CCF
_2/ Present Customer Charge Includes 8.5 CCF

Q. DOES BNG PROPOSE ANY CHANGES TO THE PURCHASED GAS ADJUSTMENT (PGA)?

A. No, BNG does not propose any changes to the Purchased Gas Adjustment.

Q. WHERE ARE THE DEVELOPMENT OF BNG' PROPOSED RATES SUMMARIZED?

A. Exhibit KJN-3 provides the billing units and proposed rates by rate schedule and provides the calculation of adjusted revenues under proposed rates. The billing determinants employed to develop the proposed revenues are fully adjusted customers and weather adjusted MCF sales levels. Exhibit KJN-2, Typical Bill Comparisons, provides bill impact analyses for the proposed rate schedules on each of the Company's service territories. The bill impact analyses set forth the dollar and percentage increases associated with various levels of use for customers.

Q. DOSES BNG PROPOSE ANY CHANGES TO THE MISCELLANEOUS SERVICE CHARGES?

A. No, BNG is not proposing any changes to Miscellaneous Service Charges at this time.

VI. CONCLUSION

Q. WHERE ARE THE PROPOSED REVENUE BY CUSTOMER CLASS SUMMARIZED?

A. Exhibit KJN-1 provides an overall summary of the impact of the adjustments proposed by BNG and the impact of rate changes on each of the retail customer classes. The impact of the proposed rate design is shown both with and without the cost of gas. The total revenue increase, including the cost of gas, is 19.62 percent.

While the increase in base rates only (excluding the cost of gas) is 49.48 percent. To put this increase in perspective, the base rate increase represents an average 4.5 percent increase per year since Panther purchased these systems. We do not have information about how long these rates were in effect prior to the purchase by Panther.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE CLASS BILLING DETERMINANTS.

A. BNG is using test year end plant in service to determine its cost of service. For consistency, booked commodity sales and revenue need to be adjusted to show a full years billing for all customers receiving service at the end of the test year. This adjustment synchronizes the test year-end revenue with the year-end investment.

The weather normalization adjustment was necessary to ensure that gas sales volumes were neither over-stated nor under-stated in terms of normal temperatures. Failure to adjust for abnormal temperature conditions would result in BNG under- or over-recovering the allowed revenue requirements under temperature conditions that are normally expected to occur.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE CLASS COST OF SERVICE STUDY THAT YOU SPONSOR.

A. The cost of service study provides the allocated revenue requirements by class of service. The allocation methods employed to assign costs to customer classes vary depending upon the particular cost item being allocated using the best data available.

For example, mains investment and storage costs were allocated to classes on the basis of the sales volumes method. Customer related costs were allocated on the basis of the number of meters or customers weighted by the relative costs of the assets or expenses being allocated (e.g., meters, regulators, customer accounting expense, etc.).

The class cost of service study employs allocation methods that are commonly employed in work of this nature and the results of the allocations appear to be fair and reasonable.

Q. PLEASE SUMMARIZE YOUR RATE DESIGN RECOMMENDATIONS.

A. The rate design proposed by BNG reflects a continuation of the current rate structure and a consolidation of historically diverse rate levels. The Customer and Commodity Charges have been increased to better reflect the costs of providing service.

Q. IN YOUR OPINION, ARE THE ADJUSTED BILL FREQUENCIES, THE CLASS COST OF SERVICE STUDY, AND THE RATE DESIGN PROPOSED BY BLUEBONNET NATURAL GAS IN ITS RATE FILING APPLICATION FAIR AND REASONABLE?

A. Yes, they are.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

APPENDIX A

STATEMENT OF QUALIFICATIONS

KARL J. NALEPA

Mr. Nalepa is an energy economist with more than 25 years of private and public sector experience in the electric and natural gas industries. He has extensive experience analyzing utility rate filings and resource plans with particular focus on fuel and power supply requirements, quality of fuel supply management, and reasonableness of energy costs. Mr. Nalepa developed peak demand and energy forecasts for municipal and electric cooperative utilities and has forecast the price of natural gas in ratemaking and resource plan evaluations. He led a management and performance review of the Texas Public Utility Commission, and has conducted performance reviews and valuation studies of a number of municipal utility systems. Mr. Nalepa previously directed the Railroad Commission of Texas' Regulatory Analysis & Policy Section, with responsibility for preparing timely natural gas industry analysis, managing ratemaking proceedings, mediating informal complaints, and overseeing consumer complaint resolution. He has prepared and defended expert testimony in both administrative and civil proceedings, and has served as a technical examiner in natural gas rate proceedings.

EDUCATION

1998	Certificate of Mediation Dispute Resolution Center, Austin
1989	NARUC Regulatory Studies Program Michigan State University
1988	M.S. - Petroleum Engineering University of Houston
1980	B.S. - Mineral Economics Pennsylvania State University

PROFESSIONAL HISTORY

2003 -	R.J. Covington Consulting, LLC Managing Director
1997 – 2003	Railroad Commission of Texas Asst. Director, Regulatory Analysis & Policy
1995 – 1997	Karl J. Nalepa Consulting Principal
1992 – 1995	Resource Management International, Inc.

Supervising Consultant

1988 – 1992 Public Utility Commission of Texas
Fuels Analyst

1980 – 1988 Transco Exploration Company
Reservoir and Evaluation Engineer

AREAS OF EXPERTISE

Regulatory Analysis

Natural Gas: Directed the economic regulation of gas utilities in Texas for the Railroad Commission of Texas. Was responsible for monitoring, analyzing and reporting on conditions and events in the natural gas industry. Managed Commission staff representing the public interest in contested rate proceedings before the Railroad Commission, and acted as technical examiner on behalf of the Commission. Mediated informal disputes between industry participants. Oversaw utility compliance filings and staff rulemaking initiatives. Served as a policy advisor to the Commissioners.

Electric Power: Analyzed electric utility rate, certification, and resource forecast filings. Assessed the quality of fuel supply management, and reasonableness of costs recovered from ratepayers. Projected the cost of fuel and purchased power. Estimated the impact of environmental costs on utility resource selection. Participated in regulatory rulemaking activities. Provided expert staff testimony in a number of proceedings before the Texas Public Utility Commission.

Utility System Assessment

Led a management and performance review of the Public Utility Commission. Conducted performance reviews and valuation studies of municipal utility systems. Assessed ability to compete in the marketplace, and recommended specific actions to improve the competitive position of the utilities. Provided comprehensive support in the potential sale of a municipal gas system, including preparation of a valuation study and all activities leading to negotiation of contract for sale and franchise agreements.

Energy Supply Analysis

Reviewed system requirements and prepared requests for proposals (RFPs) to obtain natural gas and power supplies for both utility and non-utility clients. Evaluated submittals under alternative demand and market conditions, and recommended cost-effective supply proposals. Assessed supply strategies to determine optimum mix of available resources.

Econometric Forecasting

Prepared econometric forecasts of peak demand and energy for municipal and electric cooperative utilities in support of system planning activities. Developed forecasts at the rate class and substation levels. Projected price of natural gas by individual supplier for Texas electric and natural gas utilities to support review of utility resource plans.

Litigation Support

Retained to support litigation in natural gas contract disputes. Analyzed the results of contract negotiations and competitiveness of gas supply proposals considering gas market conditions contemporaneous with the period reviewed. Provided expert witness testimony in administrative and civil court proceedings.

Reservoir Engineering

Managed certain reserves for a petroleum exploration and production company in Texas. Responsible for field surveillance of producing oil and natural gas properties, including reserve estimation, production forecasting, regulatory reporting, and performance optimization. Performed economic evaluations of oil and natural gas exploration prospects in Texas and Louisiana.

PROFESSIONAL MEMBERSHIPS

Society of Petroleum Engineers
International Association for Energy Economics

SELECT PUBLICATIONS, PRESENTATIONS, AND TESTIMONY

"Natural Gas Regulatory Policy in Texas," Hungarian Oil and Gas Policy Business Colloquium, U.S. Trade and Development Agency, Houston, May 2003

"Railroad Commission Update," Texas Society of Certified Public Accountants, Austin, April 2003

"Gas Utility Update," Railroad Commission Regulatory Expo and Open House, October 2002

"Deregulation: A Work in Progress," Interview by Karen Stidger, *Gas Utility Manager*, October 2002

"Regulatory Overview: An Industry Perspective," Southern Gas Association's Ratemaking Process Seminar, Houston, February 2001

"Natural Gas Prices Could Get Squeezed," with Commissioner Charles R. Matthews, *Natural Gas,* December 2000

"Railroad Commission Update," Texas Society of Certified Public Accountants, Austin, April 2000

"A New Approach to Electronic Tariff Access," Association of Texas Intrastate Natural Gas Pipeline Annual Meeting, Houston, January 1999

"A Texas Natural Gas Model," United States Association for Energy Economics North American Conference, Albuquerque, 1998

"Texas Railroad Commission Aiding Gas Industry by Updated Systems, Regulations," *Natural Gas,* July 1998

"Current Trends in Texas Natural Gas Regulation," Natural Gas Producers Association, Midland, 1998

"An Overview of the American Petroleum Industry," Institute of International Education Training Program, Austin, 1993

Direct testimony in PUC Docket No. 10400 summarized in *Environmental Externality,* Energy Research Group for the Edison Electric Institute, 1992

"God's Fuel - Natural Gas Exploration, Production, Transportation and Regulation," with Danny Bivens, Public Utility Commission of Texas Staff Seminar, 1992

"A Summary of Utilities' Positions Regarding the Clean Air Act Amendments of 1990," Industrial Energy Technology Conference, Houston, 1992

"The Clean Air Act Amendments of 1990," Public Utility Commission of Texas Staff Seminar, 1992

"The Industrial End-Use Model," Chapter Three, *End Use Modeling Project: Interim Report,* Public Utility Commission of Texas, 1989

Filed written staff testimony in thirteen docketed proceedings before the Public Utility Commission of Texas, 1989-1992

APPENDIX B

PREVIOUSLY FILED TESTIMONY

TESTIMONY FILED

DKT NO.	DATE	UTILITY	PHASE	ISSUES
Railroad Commission of Texas				
9797	Apr 08	Universal Natural Gas	Cost of Service	Cost of Service/Rate Design
9670	Oct 06	Atmos Energy Corp.	Cost of Service	Affiliate Transactions/ O&M Expenses/GRIP
9667	Nov 06	Oneok Westex Transm.	Abandonment	Abandonment
9598	Sep 05	Atmos Energy Corp.	GRIP Appeal	GRIP Calculation
9530	Apr 05	Atmos Energy Corp.	Gas Cost Review	Natural Gas Costs
9400	Dec 03	TXU Gas Company	Cost of Service	Affiliate Transactions/ O&M Expenses/Capital Costs
Public Utility Commission of Texas				
16705	May 97	Entergy Texas	Fuel Reconciliation	Natural Gas/Fuel Oil/
10694	Jan 92	Midwest Electric Coop	Revenue Requirements	Depreciation/ Quality of Service
10473	Sep 91	HL&P	Notice of Intent	Environmental Costs
10400	Aug 91	TU Electric	Notice of Intent	Environmental Costs
10092	Mar 91	HL&P	Fuel Reconciliation	Natural Gas/Fuel Oil
10035	Jun 91	West Texas Utilities	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas/Fuel Oil/Coal
9850	Feb 91	HL&P	Revenue Req. Fuel Factor	Natural Gas/Fuel Oil/ETSI Natural Gas/Coal/Lignite
9561	Aug 90	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas
9427	Jul 90	LCRA	Fuel Factor	Natural Gas
9165	Feb 90	El Paso Electric	Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas
8900	Jan 90	SWEPCO	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas
8702	Sep 89 Jul 89	Gulf States Utilities	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas/Fuel Oil Natural Gas/Fuel Oil
8646	May 89 Jun 89	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas
8588	Aug 89	El Paso Electric	Fuel Reconciliation	Natural Gas

GAS UTILITIES DOCKET NO. _____

UNIVERSAL NATURAL GAS, INC.	§	**BEFORE THE**
STATEMENT OF INTENT TO	§	**RAILROAD COMMISSION**
CHANGE RATES	§	**OF TEXAS**

DIRECT TESTIMONY

OF

KARL J. NALEPA

ON BEHALF OF

UNIVERSAL NATURAL GAS, INC.

APRIL 21, 2008

DIRECT TESTIMONY OF
KARL J. NALEPA

TABLE OF CONTENTS

SECTION **PAGE**

APPENDICES

APPENDIX A – Statement of Qualifications
APPENDIX B – Previously Filed Testimony

ATTACHMENTS

KJN–1 - Revenue by Customer Classification
KJN–2 - Typical Bill Comparisons
KJN–3 - Development of Proposed Rates
KJN–4 - Class Cost of Service Analysis
KJN–5 - Proof of Revenue
KJN–6 – Bill Frequency Model
KJN-7 – Weather Adjustment
KJN-8 – Rate of Return
KJN-9 – Federal Income Taxes
KJN-10 – Interest on Customer Deposits
KJN-11 – Compliance with Commission Rule 7.5414
KJN-12 – Gain on Sale of Assets
KJN-13 – Depreciation Expense

WORKPAPERS – ProForma Adjustments A through H

GAS UTILITIES DOCKET NO. ___

UNIVERSAL NATURAL GAS, INC.	**§**	**BEFORE THE**
STATEMENT OF INTENT TO	**§**	**RAILROAD COMMISSION**
CHANGE RATES	**§**	**OF TEXAS**

DIRECT TESTIMONY OF KARL J. NALEPA

I. INTRODUCTION AND QUALIFICATIONS

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

A. My name is Karl J. Nalepa. I am a Managing Director with RJ Covington Consulting, an independent utility consulting company. My business address is 11044 Research Blvd., Suite A-325, Austin, Texas 78759.

Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS PROCEEDING?

A. I am presenting testimony on behalf of Universal Natural Gas, Inc. ("UniGas").

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I hold a Bachelor of Science degree in Mineral Economics and a Master of Science degree in Petroleum Engineering, and am a certified mediator. My professional experience includes eight years in the reservoir engineering department of an exploration company affiliated with a major interstate pipeline company, then four

years as a Fuels Analyst with the Texas Public Utility Commission ("PUC"). This was followed by five years with two different consulting firms providing expert advice regarding a broad range of natural gas and electric industry issues. Immediately prior to my current position, I served for more than five years as an Assistant Director with the Texas Railroad Commission ("RRC"). In this position, I was responsible for overseeing the economic regulation of natural gas utilities in Texas. I joined RJ Covington Consulting, LLC in June of 2004. My Statement of Qualifications is attached as Appendix A.

Q. HAVE YOU PREVIUOSLY TESTIFIED BEFORE THIS COMMISSISON?

A. Yes, I have testified a number of times before both the Texas PUC and the Texas RRC on a variety of regulatory issues. In addition, I supervised the staff case in proceedings before the RRC and served as a Technical Rate Examiner on behalf of the RRC. A summary of my previously filed testimony is provided as Attachment B.

II. PURPOSE AND SCOPE

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

A. The purpose of my testimony is to present and support the gas sales weather adjustment, class cost of service study, and proposed rate design for UniGas.

Q. WHEN DID UNIGAS LAST CHANGE ITS RATES?

A. UniGas' current rates were approved on June 1, 1999 or approximately 9 years ago.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. Section I summarizes my experience, education, and qualifications. Section II of my testimony provides the scope and purpose of my direct testimony and describes the exhibits that I am sponsoring as part of this filing. Section III describes the customer usage data and weather adjusted sales by customer class. Section IV provides an explanation of the allocations and results of the gas class cost of service study. Section V of my direct testimony describes and presents the UniGas' proposed rates for gas service. Finally, Section VI summarizes my recommendations.

Q. ARE YOU SPONSORING ANY EXHIBITS TO UNIGAS' APPLICATION?

A. Yes, I am sponsoring the entire application which consists of twelve exhibits.

Q. PLEASE DESCRIBE EXHIBIT KJN-1.

A. Exhibit KJN-1 provides a summary of revenue by customer classification. This exhibit identifies the MCF commodity sales and associated revenues per the Company's books, year-end customer and weather adjusted sales and revenue, and the proposed revenue for each retail customer class. The proposed percent change in revenue and the average cost per MCF are also provided on this Exhibit.

Q. PLEASE DESCRIBE EXHIBIT KJN-2.

A. Exhibit KJN-2 provides typical bill comparisons for the proposed rate schedules. The bill comparisons set forth the dollar and percentage change associated with various levels of use for customers.

Q. PLEASE DESCRIBE EXHIBIT KJN-3.

A. The development of proposed rates by class is detailed on Exhibit KJN-3.

Q. PLEASE DESCRIBE EXHIBIT KJN-4.

A. Exhibit KJN-4, the class cost of service analysis, provides the adjusted class cost of service study for the test year ending September 30, 2007. The class cost of service study is used to determine the level of revenues necessary for each class to support its allocated revenue requirement.

Q. PLEASE DESCRIBE EXHIBIT KJN-5.

A. Exhibit KJN-5 provides the billing units and present rates by rate schedule and provides the calculation of adjusted revenues under present rates. The billing determinants employed are fully adjusted customers and MCF sales levels.

Q. PLEASE DESCRIBE EXHIBIT KJN-6.

A. Exhibit KJN-6 is the bill frequency model which provides the monthly unadjusted billing determinants by customer class. This exhibit also develops the year-end and weather adjusted billing determinants which will be discussed in detail in section III of my direct testimony.

Q. PLEASE DESCRIBE EXHIBIT KJN-7.

A. Exhibit KJN-7 sets forth the weather normalization adjustments. The weather normalization adjustment was made to eliminate the effects of atypical historical temperature conditions that cannot reasonably be anticipated to reoccur. The Exhibit includes a calculation of the 10 year normal heating degree days using data collected at Intercontinental Airport Houston.

Q. PLEASE DESCRIBE EXHIBIT KJN-8.

A. Exhibit KJN-8 provides the rate of return calculation based on the test year end debt and estimated equity values.

Q. PLEASE DESCRIBE EXHIBIT KJN-9.

A. Exhibit KJN-9 provides the calculation of federal income tax at the proposed rates, based on a 35% Federal Tax rate.

Q. PLEASE DESCRIBE EXHIBIT KJN-10.

A. Exhibit KJN-10 provides the calculation of allowed interest on customer deposits. The interest rate of 4.68% used in this calculation is per the Railroad Commission of Texas, Gas Services Division, Gas Utilities Information Bulletin No. 833, dated December 10, 2007.

Q. PLEASE DESCRIBE EXHIBIT KJN-11.

A. Exhibit KJN-11 provides the calculation of allowable advertising expenses pursuant to Commission rule 7.5414.

Q. PLEASE DESCRIBE EXHIBIT KJN-12.

A. Exhibit KJN-12 identifies the cost of service adjustments associated with the sale of certain pipeline assets.

Q. PLEASE DESCRIBE EXHIBIT KJN-13.

A. Exhibit KJN-13 provides the calculation of annual Depreciation Expense.

Q. WERE THESE EXHIBITS THAT YOU SPONSOR PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

Q. ARE THESE EXHIBITS TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes, they are.

III. BILLING DETERMINANTS

Q. PLEASE DESCRIBE UNIVERSAL NATURAL GAS COMPANY'S CUSTOMER CLASSES.

A. UniGas served 4,814 residential, 81 commercial customers and 7 schools at the end of the test year. Booked commodity sales were 313,341 MCF in the test year, 78% of which is attributed to residential sales. Exhibit KJN-6 details by customer class the number of customers, MCF sales and sales revenue for each month of the test year.

Q. IS UNIGAS PROPOSING ANY MODIFICATIONS TO THE CUSTOMER CLASSES?

A. Yes, the present rates do not differentiate between commercial customers and schools. UniGas proposes that the schools be served under a separate rate than the general commercial class. During the test year, the average consumption of the 81 commercial customers was approximately 28 MCF per month and the 7 schools average consumption was approximately 500 MCF per month.

Q. IS UNIGAS PROPOSING ANY ADJUSTMENTS TO TEST YEAR BILLING DETERMINANTS?

A. Yes, UniGas is proposing growth and weather normalization adjustments. Each of these adjustments is described in more detail below.

Growth Normalization Adjustment

Q. WHY ARE YOU PROPOSING A GROWTH NORMALIZATION ADJUSTMENT?

A. UniGas is using test year end plant in service to determine its cost of service. For consistency, booked commodity sales and revenue need to be adjusted to show a full years billing for all customers receiving service at the end of the test year. This adjustment synchronizes the test year-end revenue with the year-end investment.

Q. PLEASE DESCRIBE HOW THIS ADJUSTMENT IS CALCULATED.

A. This adjustment in calculated on Exhibit KJN-6, lines 77 through 124. The adjustment to commodity sales is calculated on a monthly basis as the ratio of the test year end number of customers minus the historic number of customers in each month of the test year divided by the historic number of customers in each month of the test year. This ratio is multiplied by the monthly unadjusted MCF sales to determine the adjustment to commodity sales. This adjustment to sales is multiplied by the applicable commodity charge to calculate the impact on revenues.

Q. WHAT IS THE ANNUAL IMPACT OF THIS ADJUSTMENT?

A. As a result of this growth normalization adjustment, sales increase by 16,782 MCF and base rate revenue is adjusted upward by $85,629. The base rate revenue adjustment is comprised of a $18,502 adjustment to Customer Charges and a $67,127 adjustment to Commodity Charges.

Weather Normalization Adjustment

Q. WHY ARE YOU PROPOSING A WEATHER NORMALIZATION ADJUSTMENT?

A. The weather normalization adjustment was necessary to ensure that sales volumes were neither over-stated nor under-stated relative to normal temperatures. Failure to adjust for abnormal temperature conditions would result in UniGas under- or over-recovering its allowed revenue requirement under temperature conditions that are normally expected to occur. The weather normalization adjustment submitted in UniGas' rate filing adjusts only the effects of abnormal heating degree days (HDD).

The weather normalization adjustment is provided in Exhibit KJN-7 of the rate application.

Q. PLEASE DESCRIBE HOW THE TEST YEAR SALES BY CLASS OF SERVICE WERE WEATHER NORMALIZED.

A. The procedure for adjusting for abnormal temperature conditions involves determining the temperature sensitive portion of monthly usage and dividing that temperature sensitive usage by the actual degree days for the billing month. The weather normalization for gas customers is made for HDD only since there is little or no effect of cooling degree days (CDD) upon gas usage. HDD are calculated as the difference between the actual average temperature and a base temperature of 65 degrees. For example, a day with a high temperature of 55 degrees and a low temperature of 35 degrees has an average temperature of 45 degrees and thus 20 HDD (65°- 45°). This is the common practice used to calculate HDD and is the practice employed by the National Oceanic and Atmospheric Administration (NOAA), the source of the temperature data I employed and the temperature information resource most frequently relied upon by the utility industry.

NOAA degree day data were revised so that the data consistently match UniGas' billing cycle. Because customer usage occurs over portions of two calendar months while degree days are recorded on a calendar month basis, it is necessary to restate the calendar month degree days on the basis of a billing month to ensure that usage and temperatures are properly matched. The temperature sensitive usage per MCF for the revenue month calculated as described above is then multiplied by the

normal (i.e. the expected or average) number of degree days for the revenue month to derive the normal level of temperature sensitive usage per customer. This normalized temperature sensitive usage per month per customer is then added back to the non-temperature sensitive usage to produce the total normalized usage per customer. Each month's normalized use per customer is multiplied by the year end number of customers to obtain total weather normalized MCF sales for the month.

Q. WOULD YOU PLEASE PROVIDE AN EXAMPLE OF THIS CALCULATION?

A. Yes. The following example illustrates the calculation of the weather normalization adjustment for the Residential gas customers in the consumption month of January 2007. Note that the revenues derived from consumption in January are booked in February.

Actual HDD (Billing Cycle Adjusted)	348
Normal HDD (Billing Cycle Adjusted)	362
Difference	14
Actual January 2007 Use Per Customer	14.2
Less: Non-Temperature Sensitive Use Per Customer	1.6
Equals: Temperature Sensitive Use Per Customer	12.6
Divided by: Actual Heating Degree Days	348
Equals: Temperature Sensitive User Per Customer Per HDD	0.03621
Times: Degree Day Difference	14
Equals:Weather Adjustment Per Customer	0.51
Times: Year-end Number of Customers	4,814
Equals: Weather Normalization Adjustment for January	2,468

First, in order to calculate actual and normal HDD for a billing month, it is necessary to synchronize calendar month HDD data with the billing months over which sales are recorded. UniGas reads customer meters between the 1st and the 8th

day of the month. Therefore, the sales amounts booked in any given month reflect consumption that actually occurs during the book month as well as the calendar month preceding the book month. For example, 74.2 percent of the January sales actually occurred during the month of December. For purposes of calculating the weather normalization adjustment, it was necessary to adjust the HDD that are recorded on a calendar month basis to match the billing month sales.

Residential year-end customer adjusted sales in January 2007 (which are booked in February) were 68,154 MCF and the actual HDD for the January billing month were 348. Normal HDD for the billing month are 362, indicating that actual sales were understated relative to normal conditions. Average use per customer in January 2007 was 14.2 MCF. The non-temperature portion of Residential use was determined to be the average use per month experienced by Residential customers during the non-heating summer months. This amount was 1.6 MCF per customer. Therefore, the temperature sensitive portion of load was 12.6 MCF per customer (i.e. 14.2 – 1.6 = 12.6). This temperature sensitive portion of load was divided by the January number of HDD and resulted in a temperature sensitive use per customer per degree day of 0.03621. Multiplying this amount by the normal number of HDD results in an adjustment of 0.51 MCF per customer which, when added back to the actual average use per customer in January produces a normal use per customer of approximately 14.7 MCF. Multiplying this normal use per customer by the test year end number of customers of 4,814 produces and adjusted class sales amount of 70,622 MCF, an increase of 2,468 MCF from the year-end customer adjusted sales amount of 68,154. This process was repeated for each month for Residential,

Commercial and School customers using information specific to each month and class. Note that some rounding may have occurred in the calculations set forth above, but that all numbers were carried out to a greater number of decimals in the actual calculations used to develop the weather normalization adjustment set forth on Exhibit KJN-7.

Q. WHAT HISTORICAL PERIOD DID YOU EMPLOY AS THE BASIS FOR COMPUTING NORMAL HEATING DEGREE DAYS?

A. For purposes of this filing, UniGas used the most recent 10 year average to calculate normal heating degree days. The use of the 10 year average was recently litigated and approved by the Commission in Atmos Energy Corp., GUD 9670. The Final Order in Hughes Natural Gas, GUD 9731 also approved a 10 year average in the calculation of its weather normalization adjustment.

Q. WHY DID YOU APPLY THE WEATHER NORMALIZATION ADJUSTMENT TO YEAR-END CUSTOMER ADJUSTED SALES INSTEAD OF BOOKED SALES?

A. The Railroad Commission of Texas "Natural Gas Rate Review Handbook" dated June 2007 states on page 45 that when performing the weather normalization adjustment, *"All figures should have already been adjusted for customer growth"*.

IV. GAS CLASS COST OF SERVICE STUDY

Q. WHAT IS A CLASS COST OF SERVICE STUDY?

A. A class cost of service study is an analysis that develops dollar revenue requirements by customer class utilizing causal relationships between cost components and customer characteristics as the basis for assigning costs. A class cost of service study uses the cost elements of the total Company revenue requirements and distributes these elements to UniGas' various customer classes either by allocating costs or by direct assignment if appropriate. Any costs that can be specifically identified as being incurred for the benefit of or as a result of an individual customer or group of customers are directly assigned to that specific customer(s) rate class. Costs that cannot be specifically assigned are allocated to classes of customers using allocation factors that reflect the manner in which costs arise.

To a large extent, the reasonableness of the results of a cost of service study depends upon the reasonableness of the methods by which costs are allocated to classes. When allocating costs, it is important that the most appropriate cost driver for each individual cost is used to allocate that cost. Selecting the most appropriate cost driver is essential to ensuring that costs are allocated to the classes for which the costs are incurred. For this reason, class cost of service studies are said to be based upon the principle of "cost causation." Once the costs are allocated to the various rate classes, the total costs of serving each class can be ascertained. By comparing the costs of service by class to the revenues received from each class, rates can be designed for each class as appropriate.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY THE TERMS "ALLOCATE" AND "ALLOCATION"?

A. "Allocate" and "allocation," in the context of class cost of service and rate design, are terms used to describe the process by which UniGas' rate base items, expenses, taxes, and revenues are apportioned among the various rate classes. This allocation is based on various causal parameters. The choice of the parameter to be used is primarily based upon the notion that "cost responsibility follows cost causation." Apportionment of cost responsibility is accomplished by allocating or assigning various investments or costs among the rate classes on a basis that represents the usage and, thus, the cost causation of these rate classes.

Q. PLEASE DESCRIBE EXHIBIT KJN-4 WHICH CONTAINS THE ADJUSTED CLASS COST OF SERVICE STUDY.

A. Exhibit KJN-4 is the class cost of service study using adjusted pro-forma amounts. In this schedule each component of the system revenue requirement is set forth in rows and the allocated portion of the various cost components for each class is set forth in the column associated with the class. Allocation factors and the underlying information from which the allocation factors are calculated are provided in the first two pages of Exhibit KJN-4. Following the allocation factor information, plant and other rate base items are allocated to classes. Next, operation and maintenance expenses are allocated to classes using either the input allocation factors or allocation factors that were developed based upon previously allocated plant or rate base items. Following the allocation of operation and maintenance expenses is the allocation of depreciation expense and taxes other than income. Next, income is either allocated to classes (as in the case of other revenue) or directly assigned to classes (as in the case

of revenues from gas sales) and operating income is calculated using the previously allocated revenues and expenses by class of service. Once operating income is calculated, federal income taxes are calculated. From this information, return by class under present rates is calculated. Finally, using the rate base, expenses, taxes and revenues that have already been allocated to classes, the cost of service study determines the dollars of return for each customer class under UniGas' proposed rate of return and the revenue deficiencies by class of service are calculated.

Q. PLEASE IDENTIFY THE RATE CLASSES USED IN THE CLASS COST OF SERVICE AND RATE DESIGN STUDY.

A. The rate classes used in the current gas filing include:

- Residential Service
- Commercial Service
- Independent School Districts (ISD)

As previously indicated, the schools are currently included in the Commercial Service Class. UniGas proposes to offer a separate rate to the independent school districts. Costs are not allocated to Sales for Resale customers. In lieu of allocating costs to these customers, revenue from the Sales for Resale customers is credited back to each class.

Q. PLEASE EXPLAIN YOUR REASONS FOR NOT ALLOCATING COSTS TO THE SALES FOR RESALE CUSTOMERS.

A. The rationale underlying this procedure is that the charges relating to this customer class is established by contract between the Company and these customers and, accordingly, cannot be adjusted as part of this general rate proceeding. In lieu of allocating costs to this customer class, all Sales for Resale revenue from this class are credited to the retail sales classes. The credit decreases costs to these other rate classes.

Q. PLEASE DESCRIBE THE ALLOCATION METHODOLOGIES YOU EMPLOYED IN THE CLASS COST OF SERVICE STUDY TO ALLOCATE COSTS.

A. There are numerous specific allocations made in the cost of service study. The specific allocation of each revenue requirement component is identified by the allocation factor set forth next to the total column. The allocation factors contained in the cost of service study are either externally developed allocation factors (independent) or internally developed allocation factors (dependent). Externally developed allocation factors are calculated using information that is developed externally to the cost of service study, such as sales volumes or number of customer allocation factors. Internally developed allocation factors are calculated within the cost of service study based upon the results of previously allocated items, such as total plant in service.

Commodity sales volumes were used to allocate measurement and regulatory station plant, and distribution mains. UniGas does not possess the design-day nor peak day send-out data required to calculate demand related allocation factors.

Q. PLEASE DESCRIBE THE OTHER ALLOCATION FACTORS EMPLOYED IN THE GAS COST OF SERVICE STUDY.

A. Customer related costs such as meters, services, and house regulators were allocated to classes using the number of customers by class weighted by the relative costs of meters, services, and house regulators. Expenses related to plant accounts, such as maintenance of mains or meter expense were allocated to classes on previously allocated plant associated with the expense or on the same basis as the related plant allocations. Administrative and general expenses were allocated to classes on the basis of previously allocated items. For example, property insurance was allocated to classes on the basis of previously allocated plant accounts.

Q. PLEASE DESCRIBE THE RESULTS OF THE GAS COST OF SERVICE STUDY.

A. The results of the class cost of service study indicate that the Residential class requires an increase of slightly more than the system average percentage increase. The present total Commercial class, which includes the ISD customers, requires an increase slightly less than the system average. UniGas is proposing that the ISD customers be served under a separate rate having the same Customer Charge as the standard Commercial class, but a 5% discount on the commodity charge.

V. RATE DESIGN

Q. PLEASE SUMMARIZE THE RATES YOU PROPOSE FOR UNIVERSAL NATURAL GAS, INC.

A. The Company proposes that all classes' revenues be changed to a level that would more reasonably reflect the costs of providing service. In addition, UniGas proposes to increase the levels of the Customer Charges for its gas rates. UniGas proposes no structural changes to the existing gas service rates. The Customer Charge was increased for Residential and Commercial customers to better recover their costs of service and to provide for revenue stability. The Customer Charge for Residential customers was increased from $6 to $10.75 per month. The Customer Charge for Commercial customers was increased from $10 to $25 per month. The proposed rates retain the current commodity charges for Residential and Commercial customers with a slight reduction in the ISD commodity charge.

Q. DOES UNIGAS PROPOSE ANY CHANGES TO THE GAS COST ADJUSTMENT (GCA)?

A. The current base rates include gas costs of $2.25 per MCF. UniGas proposes to unbundle the cost of gas so that the GCA includes all gas costs and the base rates reflect only the costs associated with delivery and billing costs.

Q. WHERE ARE THE DEVELOPMENT OF UNIGAS' PROPOSED RATES SUMMARIZED?

A. Exhibit KJN-3 provides the billing units and proposed rates by rate schedule and provides the calculation of adjusted revenues under proposed rates. The billing determinants employed to develop the proposed revenues are fully adjusted customers and weather adjusted MCF sales levels. Exhibit KJN-2, Typical Bill Comparisons, provides bill impact analyses for the proposed rate schedules. The bill impact analyses set forth the dollar and percentage increases associated with various levels of use for customers.

Q. DOSES UNIGAS PROPOSE ANY CHANGES TO THE MISCELLANEOUS SERVICE CHARGES?

A. Yes. Proposed increases to the Miscellaneous Service Charges are detailed on page 2 of Exhibit KJN-3. UniGas proposes increasing these fees to recover the cost of these activities from the consumers causing the costs to be incurred. The following table provides a comparison of the present and proposed Miscellaneous Service Charges.

Activity	Present Fee	Proposed Fee
New Service Connection	50	100
Tap Company Main	50	100
Turning Service Off	15	35
Restore Service	15	50
Collection Call or Missed Appointment	15	25
Change Meter for Special Test	15	45
Returned Check Charge	10	25
Application for Gas Service	15	40
Special Meter Read At Customers Request	0	25
Additional Piping Pressure Test	0	45
Repair or Replace Damaged Meter	75	100
Meter Change due to Customer Requirements	At Cost	At Cost
Extend Gas Mains, Including Bores	2.00/ft	At Cost

VI. CONCLUSION

Q.

W

HERE ARE THE PROPOSED REVENUE BY CUSTOMER CLASS SUMMARIZED?

A. Exhibit KJN-1 provides an overall summary of the impact of the adjustments proposed by UniGas and the impact of rate changes on each of the retail customer classes. The impact of the proposed rate design is shown both with and without the cost of gas. The total revenue increase, including the cost of gas, is 7.07 percent. While the increase in base rates only (excluding the cost of gas) is 18.21 percent. To put this increase in perspective, the base rate increase represents an average 2.18 percent increase per year since UniGas' last rate change.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE CLASS BILLING DETERMINANTS.

A. UniGas is using test year end plant in service to determine its cost of service. For consistency, booked commodity sales and revenue need to be adjusted to show a full years billing for all customers receiving service at the end of the test year. This adjustment synchronizes the test year-end revenue with the year-end investment.

The weather normalization adjustment was necessary to ensure that gas sales volumes were neither over-stated nor under-stated in terms of normal temperatures. Failure to adjust for abnormal temperature conditions would result in UniGas under- or over-recovering the allowed revenue requirements under temperature conditions that are normally expected to occur.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE CLASS COST OF SERVICE STUDY THAT YOU SPONSOR.

A. The cost of service study provides the allocated revenue requirements by class of service. The allocation methods employed to assign costs to customer classes vary depending upon the particular cost item being allocated using the best data available. For example, mains investment and storage costs were allocated to classes on the basis of the sales volumes method. Customer related costs were allocated on the basis of the number of meters or customers weighted by the relative costs of the assets or expenses being allocated (e.g., meters, services, customer accounting expense, etc.).

The class cost of service study employs allocation methods that are commonly employed in work of this nature and the results of the allocations appear to be fair and reasonable.

Q. PLEASE SUMMARIZE YOUR RATE DESIGN RECOMMENDATIONS.

A. The rate design proposed by UniGas reflects a continuation of the current rate structure. UniGas proposes pricing the independent school district customers differently then general commercial service customers because they have different operating characteristics. The Customer Charges have been increased to better reflect the costs of providing service.

Q. IN YOUR OPINION, ARE THE ADJUSTED BILL FREQUENCIES, THE CLASS COST OF SERVICE STUDY, AND THE RATE DESIGN PROPOSED

BY UNIVERSAL NATURAL GAS IN ITS RATE FILING APPLICATION FAIR AND REASONABLE?

A. Yes, they are.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

APPENDIX A

STATEMENT OF QUALIFICATIONS

KARL J. NALEPA

Mr. Nalepa is an energy economist with more than 25 years of private and public sector experience in the electric and natural gas industries. He has extensive experience analyzing utility rate filings and resource plans with particular focus on fuel and power supply requirements, quality of fuel supply management, and reasonableness of energy costs. Mr. Nalepa developed peak demand and energy forecasts for municipal and electric cooperative utilities and has forecast the price of natural gas in ratemaking and resource plan evaluations. He led a management and performance review of the Texas Public Utility Commission, and has conducted performance reviews and valuation studies of a number of municipal utility systems. Mr. Nalepa previously directed the Railroad Commission of Texas' Regulatory Analysis & Policy Section, with responsibility for preparing timely natural gas industry analysis, managing ratemaking proceedings, mediating informal complaints, and overseeing consumer complaint resolution. He has prepared and defended expert testimony in both administrative and civil proceedings, and has served as a technical examiner in natural gas rate proceedings.

EDUCATION

1998	Certificate of Mediation Dispute Resolution Center, Austin
1989	NARUC Regulatory Studies Program Michigan State University
1988	M.S. - Petroleum Engineering University of Houston
1980	B.S. - Mineral Economics Pennsylvania State University

PROFESSIONAL HISTORY

2003 -	R.J. Covington Consulting, LLC Managing Director
1997 – 2003	Railroad Commission of Texas Asst. Director, Regulatory Analysis & Policy
1995 – 1997	Karl J. Nalepa Consulting Principal
1992 – 1995	Resource Management International, Inc. Supervising Consultant

1988 - 1992 Public Utility Commission of Texas
Fuels Analyst

1980 - 1988 Transco Exploration Company
Reservoir and Evaluation Engineer

AREAS OF EXPERTISE

Regulatory Analysis

Natural Gas: Directed the economic regulation of gas utilities in Texas for the Railroad Commission of Texas. Was responsible for monitoring, analyzing and reporting on conditions and events in the natural gas industry. Managed Commission staff representing the public interest in contested rate proceedings before the Railroad Commission, and acted as technical examiner on behalf of the Commission. Mediated informal disputes between industry participants. Oversaw utility compliance filings and staff rulemaking initiatives. Served as a policy advisor to the Commissioners.

Electric Power: Analyzed electric utility rate, certification, and resource forecast filings. Assessed the quality of fuel supply management, and reasonableness of costs recovered from ratepayers. Projected the cost of fuel and purchased power. Estimated the impact of environmental costs on utility resource selection. Participated in regulatory rulemaking activities. Provided expert staff testimony in a number of proceedings before the Texas Public Utility Commission.

Utility System Assessment

Led a management and performance review of the Public Utility Commission. Conducted performance reviews and valuation studies of municipal utility systems. Assessed ability to compete in the marketplace, and recommended specific actions to improve the competitive position of the utilities. Provided comprehensive support in the potential sale of a municipal gas system, including preparation of a valuation study and all activities leading to negotiation of contract for sale and franchise agreements.

Energy Supply Analysis

Reviewed system requirements and prepared requests for proposals (RFPs) to obtain natural gas and power supplies for both utility and non-utility clients. Evaluated submittals under alternative demand and market conditions, and recommended cost-effective supply proposals. Assessed supply strategies to determine optimum mix of available resources.

Econometric Forecasting

Prepared econometric forecasts of peak demand and energy for municipal and electric cooperative utilities in support of system planning activities. Developed forecasts at the rate class and substation levels. Projected price of natural gas by individual supplier for Texas electric and natural gas utilities to support review of utility resource plans.

Litigation Support

Retained to support litigation in natural gas contract disputes. Analyzed the results of contract negotiations and competitiveness of gas supply proposals considering gas market conditions contemporaneous with the period reviewed. Provided expert witness testimony in administrative and civil court proceedings.

Reservoir Engineering

Managed certain reserves for a petroleum exploration and production company in Texas. Responsible for field surveillance of producing oil and natural gas properties, including reserve estimation, production forecasting, regulatory reporting, and performance optimization. Performed economic evaluations of oil and natural gas exploration prospects in Texas and Louisiana.

PROFESSIONAL MEMBERSHIPS

Society of Petroleum Engineers
International Association for Energy Economics

SELECT PUBLICATIONS, PRESENTATIONS, AND TESTIMONY

"Natural Gas Regulatory Policy in Texas," Hungarian Oil and Gas Policy Business Colloquium, U.S. Trade and Development Agency, Houston, May 2003

"Railroad Commission Update," Texas Society of Certified Public Accountants, Austin, April 2003

"Gas Utility Update," Railroad Commission Regulatory Expo and Open House, October 2002

"Deregulation: A Work in Progress," Interview by Karen Stidger, *Gas Utility Manager*, October 2002

"Regulatory Overview: An Industry Perspective," Southern Gas Association's Ratemaking Process Seminar, Houston, February 2001

"Natural Gas Prices Could Get Squeezed," with Commissioner Charles R. Matthews, *Natural Gas*, December 2000

"Railroad Commission Update," Texas Society of Certified Public Accountants, Austin, April 2000

"A New Approach to Electronic Tariff Access," Association of Texas Intrastate Natural Gas Pipeline Annual Meeting, Houston, January 1999

"A Texas Natural Gas Model," United States Association for Energy Economics North American Conference, Albuquerque, 1998

"Texas Railroad Commission Aiding Gas Industry by Updated Systems, Regulations," *Natural Gas,* July 1998

"Current Trends in Texas Natural Gas Regulation," Natural Gas Producers Association, Midland, 1998

"An Overview of the American Petroleum Industry," Institute of International Education Training Program, Austin, 1993

Direct testimony in PUC Docket No. 10400 summarized in *Environmental Externality,* Energy Research Group for the Edison Electric Institute, 1992

"God's Fuel - Natural Gas Exploration, Production, Transportation and Regulation," with Danny Bivens, Public Utility Commission of Texas Staff Seminar, 1992

"A Summary of Utilities' Positions Regarding the Clean Air Act Amendments of 1990," Industrial Energy Technology Conference, Houston, 1992

"The Clean Air Act Amendments of 1990," Public Utility Commission of Texas Staff Seminar, 1992

"The Industrial End-Use Model," Chapter Three, *End Use Modeling Project: Interim Report,* Public Utility Commission of Texas, 1989

Filed written staff testimony in thirteen docketed proceedings before the Public Utility

Commission of Texas, 1989-19

APPENDIX B

PREVIOUSLY FILED TESTIMONY

KARL J. NALEPA
TESTIMONY FILED

DKT NO.	DATE	UTILITY	PHASE	ISSUES
Railroad Commission of Texas				
9670	Oct 06	Atmos Energy Corp.	Cost of Service	Affiliate Transactions/ O&M Expenses/GRIP
9667	Nov 06	Oneok Westex Transm.	Abandonment	Abandonment
9598	Sep 05	Atmos Energy Corp.	GRIP Appeal	GRIP Calculation
9530	Apr 05	Atmos Energy Corp.	Gas Cost Review	Natural Gas Costs
9400	Dec 03	TXU Gas Company	Cost of Service	Affiliate Transactions/ O&M Expenses/Capital Costs
Public Utility Commission of Texas				
16705	May 97	Entergy Texas	Fuel Reconciliation	Natural Gas/Fuel Oil/
10694	Jan 92	Midwest Electric Coop	Revenue Requirements	Depreciation/ Quality of Service
10473	Sep 91	HL&P	Notice of Intent	Environmental Costs
10400	Aug 91	TU Electric	Notice of Intent	Environmental Costs
10092	Mar 91	HL&P	Fuel Reconciliation	Natural Gas/Fuel Oil
10035	Jun 91	West Texas Utilities	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas/Fuel Oil/Coal
9850	Feb 91	HL&P	Revenue Req. Fuel Factor	Natural Gas/Fuel Oil/ETSI Natural Gas/Coal/Lignite
9561	Aug 90	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas
9427	Jul 90	LCRA	Fuel Factor	Natural Gas
9165	Feb 90	El Paso Electric	Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas
8900	Jan 90	SWEPCO	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas
8702	Sep 89 Jul 89	Gulf States Utilities	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas/Fuel Oil Natural Gas/Fuel Oil
8646	May 89 Jun 89	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas
8588	Aug 89	El Paso Electric	Fuel Reconciliation	Natural Gas

SOAH DOCKET 473-19-3864
PUC DOCKET NO. 49421
OPUC's Response to CenterPoint Energy Houston Electric LLC's
Second Request for Information

2-2. With reference to Mr. Nalepa's testimony, Appendix A (Statement of Qualifications), please identify each of the positions listed under "Professional History" on Bates page 130 in which Mr. Nalepa was called upon to identify or calculate normal weather and identify the period (10 years, 20 years, 30 years, or some other period) used by Mr. Nalepa for that purpose.

RESPONSE:

The occasions in which Mr. Nalepa has been called upon to identify or calculate normal weather are reflected in the dockets listed in response to CEHE-OPUC 2-1. No weather normalization period was identified in PUCT Docket No. 35717. A 10-year weather normalization period was used in the Railroad Commission dockets.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

SOAH DOCKET 473-18-4100
PUC DOCKET NO. 48439
OPUC's Response to CenterPoint Energy Houston Electric LLC's
Second Request for Information

2-3. Please refer to Mr. Nalepa's testimony, Appendix A (Statement of Qualifications), Bates page 131 (Areas of Expertise—Regulatory Analysis), in which he states that he has "[a]nalyzed electric utility rate . . . and resource forecast filings." Please identify each instance in which such analysis included the analysis of the period of years used to determine normal weather and, for each such instance, provide any written analysis prepared by Mr. Nalepa (or a reference to any such documents readily available online).

RESPONSE:

Mr. Nalepa addressed weather normalization in PUCT Docket No. 35717, but his analysis did not determine a normal weather period.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

SOAH DOCKET 473-18-4100
PUC DOCKET NO. 48439
OPUC's Response to CenterPoint Energy Houston Electric LLC's
Second Request for Information

2-4. Please refer to Mr. Nalepa's testimony, Appendix A (Statement of Qualifications), Bates page 131 (Areas of Expertise—Regulatory Analysis), in which he states, "Also assist municipal utilities in preparing and defending requests to change rates and other regulatory matters before the Public Utility Commission." Please identify each instance in which such assistance included the analysis of the period of years used to determine normal weather and, for each such instance, provide any written analysis prepared by Mr. Nalepa (or a reference to any such documents readily available online).

RESPONSE:

The referenced assistance did not include an analysis of the period of years used to determine normal weather.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

2-5. Please refer to Mr. Nalepa's testimony, Appendix A (Statement of Qualifications), Bates page 132 (Areas of Expertise—Econometric Forecasting), in which he states that he "[p]repared econometric forecasts of peak demand and energy for municipal and electric cooperative utilities in support of system planning activities" and [d]eveloped forecasts at the rate class and substation levels." Please identify each instance in which such forecasts included a determination of normal weather and, for each such instance, identify the period (10 years, 20 years, 30 years, or some other period) used by Mr. Nalepa for that purpose and provide any written analysis prepared by Mr. Nalepa (or a reference to any such documents readily available online).

RESPONSE:

Mr. Nalepa performed this work as a consultant with Resource Management International approximately 25 years ago, and does not recall whether his analysis included a determination of normal weather. Mr. Nalepa does not possess any of the analysis or documentation that may have been generated at that time.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

SOAH DOCKET 473-18-4100
PUC DOCKET NO. 48439
OPUC's Response to CenterPoint Energy Houston Electric LLC's
Second Request for Information

2-6. Please refer to Mr. Nalepa's testimony, Appendix A (Statement of Qualifications), Bates page 133 (Select Publications, Presentations, and Testimony). Please identify each of the listed publications, presentations, and testimony in which Mr. Nalepa discusses, analyzes, or makes recommendations regarding the proper period for determining normal weather and for each such instance, identify the period (10 years, 20 years, 30 years, or some other period) used or recommended by Mr. Nalepa for that purpose and provide a copy of the publication, presentation, or testimony (or a reference to any such documents readily available online).

RESPONSE:

The select publications, presentations, and testimonies referenced in Appendix A do not address weather normalization.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

2-7. Please refer to Mr. Nalepa's testimony, Appendix B (Previously Filed Testimony), Bates pages 134-142. Please identify each instance in which Mr. Nalepa's testimony discussed, analyzed, or made recommendations regarding the proper period for determining normal weather and for each such instance, identify the period (10 years, 20 years, 30 years, or some other period) used or recommended by Mr. Nalepa for that purpose. For any identified instance in which the testimony was before the Texas Railroad Commission, please provide a copy of the testimony.

RESPONSE:

See the responses to CEHE-OPUC 2-1 and 2-2.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

2-8. Has Mr. Nalepa performed any study or analysis of the periods used by utilities or regulators in other states to determine normal weather? If so, please provide a copy of each such study or analysis or, if the results of the study or analysis were not reduced to writing, a description of the study or analysis, for whom it was conducted, how it was conducted, and Mr. Nalepa's conclusions.

RESPONSE:

Mr. Nalepa has not performed a study or analysis of the periods used by utilities or regulators in other states to determine normal weather. Mr. Nalepa has relied on recent PUCT precedent regarding the use of a 10-year weather normalization period for his recommendation.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

2-9. Please refer to Mr. Nalepa's testimony at page 42 of 142, lines 2-3. Provide the data, research, and analysis conducted by Mr. Nalepa himself (other than the decisions quoted in his testimony) demonstrating that "the most recent 10 years of weather data is more representative of recent weather trends."

RESPONSE:

Mr. Nalepa is generally aware of the world-wide concern over "global warming" and the active implementation of policies intended to reduce carbon consumption and slow global warming trends, but he has not conducted independent research or analysis of recent weather trends. Mr. Nalepa has relied on recent PUCT precedent regarding the use of a 10-year weather normalization period for his recommendation.

Prepared By: Karl Nalepa
Sponsored By: Karl Nalepa

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing document was served on all parties of record in this proceeding on this 14th day of June 2019, by facsimile, electronic mail, and/or first class, U.S. Mail.

Cassandra Quinn