

Exhibit No.:
Issue: Take-or-Pay Expense
Witness: Stephen F. Doerr
Sponsoring Party: MoPSC Staff
Case No.: GR-93-172

**MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY
OF
STEPHEN F. DOERR**

FILED
MAY 26 1993
MISSOURI
PUBLIC SERVICE COMMISSION

**MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED, INC.
CASE NO. GR-93-172**

*Jefferson City, Missouri
May, 1993*

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2 **DIRECT TESTIMONY**
3 **OF**
4 **STEPHEN F. DOERR**
5 **MISSOURI PUBLIC SERVICE,**
6 **A DIVISION OF UTILICORP UNITED, INC.**
7 **CASE NO. GR-93-172**
8

9 Q. Please state your name and business address.

10 A. Stephen F. Doerr, State Office Building, Suite 510, 615 East Thirteenth Street,
11 Kansas City, Missouri 64106.

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

13 A. I am a Regulatory Auditor with the Missouri Public Service Commission
14 (Commission).

15 Q. Please describe your educational and professional background.

16 A. I received my Bachelor of Science degree in Business Administration, with an
17 emphasis in Finance and Banking, from the University of Missouri-Columbia in August of 1988.
18 In July of 1991, I completed my Master of Science degree in Accounting at the University of
19 Missouri-Kansas City. I successfully completed the Uniform Certified Public Accountant (CPA)
20 examination in May of 1992. Once I have obtained the necessary work experience, I will be
21 licensed as a CPA in the state of Missouri. I had been employed as a financial analyst in the
22 private sector for approximately one and a half years prior to my employment with the
23 Commission.

24 Q. What has been the nature of your duties since your employ with the Commission?

25 A. Under the direction of the Manager of the Accounting Department, I have assisted
26 with audits and examinations of the books and records of utility companies operating within the
27 state of Missouri.

28 Q. Have you previously filed testimony before this Commission?

Direct Testimony of
Stephen F. Doerr

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2 A. Yes. I have filed testimony in Case No. TC-93-224, Southwestern Bell Telephone
3 Company.

4 Q. Referring to Case No. GR-93-172, what are your principal areas of responsibility?

5 A. My responsibility in the above case is the take-or-pay (TOP) issue concerning
6 Missouri Public Service (MPS or Company), a division of UtiliCorp United, Inc., that was
7 deferred to this case as a result of a Commission Order in Case No. GR-91-160, MPS' 1990-91
8 Actual Cost Adjustment (ACA) proceeding.

9 Q. Could you please explain further?

10 A. The Staff proposed an adjustment in Case No. GR-91-160 to prevent MPS from
11 recovering from customers certain TOP expense. The Staff and MPS reached a Stipulation and
12 Agreement on that issue in Case No. GR-91-160, calling for the issue to be decided in MPS' next
13 general gas rate proceeding. The Commission adopted that provision of the Stipulation and
14 Agreement in an Order dated October 6, 1992.

15 Q. Why did the Staff recommend reduction of TOP expense to be recovered from
16 MPS' customers in that ACA proceeding?

17 A. In October, 1990, MPS relieved certain customers from paying TOP charges to
18 MPS due to these customers' ability to bypass MPS. MPS also offered a discounted
19 transportation rate to these customers. The Staff's position is that MPS should not "flex" on
20 TOP; rather, "flexing" should be done on the transportation rate as the Company's current tariffs
21 prescribe.

22 Q. What is the difference between the transportation rate and the TOP and ACA
23 rates?

24 A. The transportation rate is a margin rate that is designed to recover non-gas costs,
25 while the TOP and ACA rates are rates intended to recover gas costs.

26 Q. What is meant by the terms "flex" or "flexing"?
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Direct Testimony of
Stephen F. Doerr

1 A. These terms are referring to "flexible" tariff rates, or rates that can be reduced by
2 a utility specific to certain customers to keep these customers on the system.

3 Q. Why is it important that MPS or any other LDC forego any "lost" revenue
4 resulting from flexing until a rate case?

5 A. In Case No. GR-90-198, MPS' last general gas rate proceeding, Staff witness
6 Jeanne A. Lloyd of the Research and Planning Department addressed the issue of flexible rates
7 and special contracts by stating, "The purpose of a flexible rate rider is to provide the local
8 distribution company (LDC) with a pricing mechanism by which it can compete in markets where
9 its customers have alternative ways of meeting their energy requirements." Later in her
10 testimony, Ms. Lloyd recommended that:

11
12 The rate should include a non-flexible customer charge and a
13 downward flexible commodity margin rate. Finally, there should
14 be no automatic recovery of revenue shortfall from the firm
15 customers. A rate designed in this manner would accomplish two
16 things. First, it would allow MPS to retain potentially lost load
17 and second, it would give MPS the incentive to maximize revenues
18 from these customers.

19 The reason that Ms. Lloyd proposed no automatic revenue recovery was as follows:

20 When MPS discounts its rates to a particular customer it will have
21 to bear the revenue loss until the next rate case. As long as no
22 automatic revenue recovery mechanism is in place, MPS will not
23 flex any further than is necessary to retain the customer on the
24 system.

25 Q. What tariff language supports the Staff's position that MPS is not authorized to
26 flex TOP rates?

27 A. Tariff Sheet No. 19 refers to, ". . . special transportation rate contracts with
28 industries or other large consumers . . ." and does not mention any other MPS charges eligible
for rate flexing. Additionally, Tariff Sheet No. 51, Section V, states that TOP, ". . . shall be
recovered from all classes of customers equally by application of a TOP Cost Recovery Factor
(TOP Factor) to all metered MCF of natural gas sold and MCF transported" Allowing

Direct Testimony of
Stephen F. Doerr

1 recovery by MPS of any foregone TOP revenues from flexing will not result in an equitable
2 recovery of TOP from all customer classes.

3 Q. Why does the Staff believe that flexing of TOP charges is inappropriate?

4 A. There are two reasons: (1) It is not allowed by the tariffs; and (2) absent
5 Commission action, it will lead to automatic revenue recovery by MPS for flexed TOP revenues.

6 Q. Could you expand on the automatic revenue recovery that you mention?

7 A. The Staff is asserting that the reason the flexing should be allowed on the
8 transportation rate and not on charges such as take-or-pay is that TOP flexing would permit the
9 automatic revenue recovery that Ms. Lloyd argued against in her direct testimony in Case No.
10 GR-90-198. By not having certain customers pay the TOP rate, MPS will realize a complete and
11 automatic revenue recovery from their other customers, absent the Staff's adjustment in Case No.
12 GR-91-160. This will occur because the MPS determined TOP recovery rate of \$0.0556 per Mcf
13 of gas purchased was designed to recover the TOP expense from all customers equally based on
14 the customers' gas consumption. By relieving certain customers of the TOP charge, the TOP
15 expense will be recovered in full from the other customers; however, it will take a greater amount
16 of time than was planned when the TOP rate was set.

17 Q. Could you demonstrate how flexing the TOP rate guarantees automatic recovery
18 of the TOP liability from other customers under the current purchased gas adjustment
19 (PGA)/ACA mechanism?

20 A. Yes. Refer to the example below with the following assumptions:

- 21
- 22 • There are six customers.
 - 23 • Each customer consumes 100 Mcf's per year.
 - 24 • The TOP recovery rate is \$0.10 per Mcf.
 - 25 • The total recoverable amount of TOP liability is \$60.00.
 - 26 • The TOP rate of \$0.10 per Mcf was originally designed to recover TOP
27 expense equally from all customers in one year.

<i>Customer</i>	<i>Volume (Mcf's)</i>	<i>TOP Rate</i>	<i>TOP Charge 1st Year</i>
1	100	0.10	\$10.00
2	100	0.10	10.00
3	100	0.10	10.00
4	100	0.10	10.00
5	100	0.10	10.00
6	100	0.10	10.00
			<u>10.00</u>
			\$60.00

With a recoverable TOP amount of \$60.00, each customer will incur \$10.00 of TOP expense. Notice what would happen if customers 1,2 and 3 are not charged for TOP:

<i>Customer</i>	<i>Year 1 Volume (Mcf's)</i>	<i>TOP Rate</i>	<i>TOP Charge 1st Year</i>	<i>Year 2 Volume (Mcf's)</i>	<i>TOP Rate</i>	<i>TOP Charge 2nd Year</i>
1	100	0.00	\$0.00	100	0.00	\$0.00
2	100	0.00	0.00	100	0.00	0.00
3	100	0.00	0.00	100	0.00	0.00
4	100	0.10	10.00	100	0.10	10.00
5	100	0.10	10.00	100	0.10	10.00
6	100	0.10	<u>10.00</u>	100	0.10	<u>10.00</u>
			\$30.00			\$30.00

Customers 4, 5 and 6 will each incur \$20.00 of TOP expense before the \$60.00 is recovered and it will take two years instead of one to recover the full amount.

The difference between the above example and a situation where transportation rates are flexed is that there is no finite amount of transportation revenue to be recovered like the \$60.00 amount used in the above example. In other words, revenues lost from flexing the transportation rate will be truly foregone until recovery could be considered in a future rate case.

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2 Q. Do you believe that the Staff's proposed adjustment to the recoverable amount of
3 TOP expense in Case No. GR-91-160 is consistent with the intent of the tariffs from Case No.
4 GR-90-198?

5 A. Yes. I believe an LDC should be discouraged from entering into agreements with
6 their customers that circumvent the Commission-approved mechanisms designed to encourage
7 the prudent flexing of rates to keep or acquire customers on an LDC's system.

8 Q. What is the Staff's position on MPS flexing of the transportation rates for certain
9 customers?

10 A. The Staff performed an extensive analysis of the negotiations that led to the special
11 contracts and determined that MPS was charging these customers as much as they were able to
12 and still retain them. The flexed down transportation rates charged appear to be above MPS'
13 variable cost of service, based on my discussions with Staff witness Dr. Michael Proctor of the
14 Economic Analysis Department.

15 Q. What is the appropriate treatment for the flexed transportation revenues in this rate
16 case?

17 A. The Staff recommends that the amount that MPS flexed on the transportation rate,
18 i.e., the customers' rates after flexing, be reflected in the calculation of annualized revenues for
19 the rate case, which is addressed in the direct testimony of Staff Accounting witness Larry G.
20 Cox.

21 Q. What does the Staff recommend regarding the amount flexed on TOP?

22 A. Once MPS ends the collection of TOP from all of its customers, no one will be
23 charged TOP and the Staff does not believe that it will be necessary for MPS to drop their
24 transportation rate an additional \$0.0556 to retain their special contract customers. In other
25 words, the amount that MPS is currently flexing on TOP is not a recurring revenue shortfall that
26 MPS will experience once TOP recovery on the Southern System ends. MPS should not receive
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Direct Testimony of
Stephen F. Doerr

1 recovery of the foregone TOP revenues, through either the PGA/ACA process or through
2 reflection in permanent rates.
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4 Q. Are there any other recommendations the Staff proposes to make concerning this
5 issue?

6 A. The Staff is recommending that MPS' recoverable TOP balance be adjusted to
7 eliminate the foregone revenues from MPS' flexing. Once the Commission makes a decision on
8 this issue, the Staff believes Case Nos. GR-91-160 and GR-92-71 can be closed.

9 Q. Does this conclude your direct testimony?

10 A. Yes, it does.
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