

Exhibit No.:
Issues:

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Class Cost of Service

Witness: Thomas A. Solt
Sponsoring Party: MO PSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2006-0422
Date Testimony Prepared: October 20, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

THOMAS A. SOLT

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Jefferson City, Missouri
October 2006

FILED²

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Missouri Public
Service Commission

Staff Exhibit No. 131
Case No(s) GR-2006-0422
Date 1-17-07 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**


In the matter of Missouri Gas Energy's)
Tariff Sheets Designed to Increase Rates)
for Gas Service in the Company's)
Missouri Service Area)

Case No. GR-2006-0422

AFFIDAVIT OF THOMAS A. SOLT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Thomas A. Solt, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 7 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



Thomas A. Solt

Subscribed and sworn to before me this 18th day of October, 2006.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942986



Notary Public

My commission expires 9-21-10

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6
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11
12
13
14

TABLE OF CONTENTS

DIRECT TESTIMONY

OF

THOMAS A. SOLT

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

EXECUTIVE SUMMARY 2

CLASS COST OF SERVICE 2

Direct Testimony of
Thomas A. Solt

1 A. The purpose of Staff's CCOS is to provide the Commission with a measure of
2 relative class cost responsibility for the overall revenue requirements of MGE. For individual
3 items of cost, class cost responsibility can be either directly assigned or allocated to customer
4 classes using reasonable methods for determining the class responsibility for that item of cost.
5 The results are then summarized so that they can be compared to revenues being collected
6 from each class on current rates. The difference between the class costs responsibility and the
7 class revenues is the amount that class is either subsidizing (revenues greater than costs) the
8 other classes are being subsidized (revenues less than costs).

9 Q. How were the usage levels and class peak demand levels used in your CCOS
10 study developed?

11 A. The annualized usage levels and customer bill counts for the Residential,
12 SGS sales and LGS sales classes were provided by Staff Auditing witness Paul Harrison and
13 will be addressed in his direct testimony. The annual usage levels and customer bill counts
14 for LVS customers were developed by Staff witness Anne Ross of the Energy department and
15 will be addressed in her testimony. The class peak demand levels were developed using the
16 usage levels and bill counts discussed above together with the per customer peak demands
17 developed by Staff witness Daniel I. Beck of the Commission's Energy Department and the
18 load factors developed by the Company for the large customers.

19 Q. What is the source of accounting information used in your CCOS study?

20 A. The accounting information was developed using costs produced by the
21 Commission's Auditing Department, which is based on a test year ending December 31,
22 2005, updated for known and measurable changes through June 30, 2006.

Direct Testimony of
Thomas A. Solt

1 Q. Please describe how you categorized the individual items of cost in the Staff's
2 CCOS study.

3 A. The costs are categorized into functional areas that are to be allocated in the
4 same way. This is referred to as cost functionalization. The rate base and expense accounts
5 are assigned to one of the following functional categories:

- 6 Distribution Mains
- 7 Distribution Measuring and Regulating
- 8 Purchased Gas Related
- 9 Distribution Meters
- 10 Distribution Regulators
- 11 Distribution Services
- 12 Customer Service
- 13 Billing
- 14 Meter Reading
- 15 Assigned Residential, SGS, and LGS
- 16 Assigned Residential and SGS
- 17 Revenue Related

18 Those costs which cannot directly be assigned to any specific functional category, are
19 divided among several functions based upon some relational factor. For example, it is
20 reasonable to assume that property taxes are related to gross plant costs and can therefore be
21 funtionalized in the same manner as gross plant costs.

22 Q. How were the costs of Distribution Mains allocated?

23 A. The allocation factor for Distribution Mains was developed by Staff witness
24 Daniel I. Beck and is described in his direct testimony.

25 Q. How were costs associated with Distribution Measuring and Regulating
26 allocated?

27 A. This type of cost is associated with equipment used to measure and regulate
28 natural gas before it reaches individual customers' service lines, so these costs were allocated
29 using annualized Ccf volumes.

Direct Testimony of
Thomas A. Solt

1 Q. How was Purchased Gas Related costs allocated?

2 A. Even though Purchased Gas Costs are not part of this rate proceeding, there is
3 a certain level of Purchased Gas Costs included as a component of cash working capital.
4 These costs were allocated between the CCOS classes using gas sales volumes.

5 Q. How were the costs of Distribution Meters and Distribution Regulators
6 allocated?

7 A. The allocation factors for Distribution Meters and Distribution Regulators
8 were developed by applying the cost estimates supplied to Staff from MGE and sponsored by
9 Staff witness Daniel I. Beck. The Residential class was used as the basis for computing the
10 weights for class cost responsibility. In other words, if it costs \$50 for a Residential customer
11 and \$200 for a SGS Customer, the SGS customer would receive a weighting of four, while
12 the Residential customer receives a weighting of one.

13 Q. How were the costs of Distribution Service Lines allocated?

14 A. These costs were developed by applying the cost estimates supplied to Staff
15 from MGE and sponsored by Staff witness Daniel I. Beck. Service line costs were allocated
16 using the same methodology used for the Distribution Meters and Distribution Regulators.

17 Q. How were Customer Service costs allocated?

18 A. These costs are associated with the number of customers being served;
19 therefore, they were allocated using the number of annual bills for each customer class using
20 the same weighting methodology as described above.

21 Q. How were the costs of the Customer Billing function allocated?

22 A. These costs were allocated by the number of annual bills together with the
23 same weighting methodology as described above for each customer class.

Direct Testimony of
Thomas A. Solt

1 Q. How was Meter Reading costs allocated?

2 A. These costs were allocated by using the weighted customer numbers. The
3 weighted numbers used reflect Staff's methodology of calculating customer numbers.

4 Q. How were the costs associated with the Residential and SGS customers
5 allocated?

6 A. Those costs were allocated using the number of test year bills.

7 Q. How were the costs associated with the LGS and LVS classes allocated?

8 A. Those costs were allocated using each class' Ccf volumes.

9 Q. How were costs associated with Automated Meter Reading (AMR) allocated?

10 A. Those costs were allocated only to Residential, SGS, and LGS customers
11 based upon the number of meters.

12 Q. How were the Revenue Related costs allocated?

13 A. These costs were allocated using Staff's annualized margin revenues.

14 Q. What are the results of your CCOS study?

15 A. The results for MGE are shown on Schedule 2. The results are presented in
16 terms of class revenue requirements before any increase in the Company's respective revenue
17 requirements.

18 Q. How have you compared the CCOS study results to current revenues?

19 A. Revenue requirement is a major component in this case and the Commission
20 must have a recommendation about class revenue requirements that it can apply to any
21 increase in revenue requirement that is ultimately decided. In order to make such a
22 recommendation, I have factored the Staff's CCOS to be equal to the revenue level collected
23 from current rates. The same factor was applied to the allocated costs for each class (i.e., each

Direct Testimony of
Thomas A. Solt

1 class' costs were decreased by an equal percentage). When subtracting the results from
2 current revenues, a revenue deficiency (-) or revenue surplus (+) for each class is reflected.

3 Q. What is the impact of your CCOS study on the various customer classes?

4 A. The CCOS study shows that revenues should be collected differently than how
5 revenues are collected under current rates. The CCOS study indicates that revenues being
6 collected under current rates for the Residential and LVS classes do not cover the cost of
7 serving those classes, while SGS and LGS classes are contributing more than the cost of
8 serving those classes.

9 Q. Does this conclude your direct testimony?

10 A. Yes it does.

COMMISSION PROCEEDING PARTICIPATION

THOMAS A. SOLT

<u>Company</u>	<u>Case Number</u>
St. Joseph Light and Power Company	GR-93-41
St. Joseph Light and Power Company	GR-93-42
Western Resources, Inc.	GR-93-240
The Empire District Electric Company	ER-94-174
Missouri Gas Energy	GR-95-33
Missouri Gas Energy	GR-98-140
Missouri Universal Service Fund	TO-98-329
Southwestern Bell Telephone Company	TT-2000-258
Southwestern Bell Telephone Company	TO-2000-667
Ozark Telephone Company	TT-2001-117 & TC-2001-402
Relay Missouri Proceeding	TO-2003-0171
Fidelity Telephone Company	IR-2004-0272

MISSOURI GAS ENERGY
CASE NO. GR-2006-0422
TEST YEAR ENDED DECEMBER 31, 2005, Updated Through 6/30/06

	TOTAL	RESIDENTIAL	SMALL GENERAL SERVICE	LARGE GENERAL SERVICE	LARGE VOLUME
RATE BASE	\$570,259,911	\$406,541,127	\$103,694,672	\$6,529,940	\$53,494,172
REQUESTED RETURN	8.1200%	8.1200%	8.1200%	8.1200%	8.1200%
RETURN ON RATE BASE	\$46,305,105	\$33,011,140	\$8,420,007	\$530,231	\$4,343,727
O & M EXPENSES	\$83,086,451	\$60,190,637	\$14,708,339	\$898,904	\$7,288,571
DEPRECIATION EXPENSE	\$27,895,525	\$20,670,052	\$4,766,506	\$265,883	\$2,193,085
TAXES OTHER THAN INCOME	\$7,699,153	\$5,518,939	\$1,376,783	\$86,014	\$717,416
INCOME TAXES	\$13,111,153	\$9,347,006	\$2,384,100	\$150,133	\$1,229,913
TOTAL EXPENSES	\$131,792,282	\$95,726,634	\$23,235,727	\$1,400,935	\$11,428,985
TOTAL C-O-S	\$178,097,387	\$128,737,774	\$31,655,735	\$1,931,166	\$15,772,712
OTHER REVENUES	\$4,832,595	\$4,507,154	\$332,315	(\$749)	(\$6,125)
REQUIRED MARGIN REVENUE	\$173,264,792	\$124,230,619	\$31,323,420	\$1,931,915	\$15,778,837
CURRENT MARGIN REVENUES	\$159,209,548	\$111,331,227	\$34,061,523	\$2,079,156	\$11,737,642
ZERO REVENUE INCREASE PLUG	\$14,055,244	\$10,077,591	\$2,540,967	\$156,717	\$1,279,980
C-O-S MARGIN REVENUES @ 0%	\$159,209,548	\$114,153,029	\$28,782,464	\$1,775,198	\$14,498,857
REVENUE ABOVE (BELOW) COS	\$0	(\$2,821,802)	\$5,279,059	\$303,958	(\$2,761,215)
% INCREASE WITHOUT GAS COSTS	0.00%	2.53%	-15.50%	-14.62%	23.52%
CLASS' SHARE OF TOTAL MARGIN REVENUES	100.00%	71.70%	18.08%	1.12%	9.11%
AVERAGE GAS COSTS	\$0				
% INCREASE WITH GAS COSTS	0.00%	2.53%	-15.50%	-14.62%	23.52%
CLASS' SHARE OF TOTAL REVENUES	100.00%	71.70%	18.08%	1.12%	9.11%