

016

Exhibit No.:
Issues: Cost of Service Study
Witness: Ronald J. Amen
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2006-0422
Date Testimony Prepared: November 21, 2006

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

REBUTTAL TESTIMONY OF

RONALD J. AMEN

FILED²

FEB 07 2007

Missouri Public
Service Commission

Jefferson City, Missouri

November 21, 2006

MGE Exhibit No. 16
Case No(s). GR-2006-0422
Date 1-9-06 Rptr AE

REBUTTAL TESTIMONY OF RONALD J. AMEN

CASE NO. GR-2006-0422

NOVEMBER 21, 2006

1 **Q. Please state your name and business address.**

2 A. My name is Ronald J. Amen. My business address is 1201 Third Avenue, Suite
3 3320, Seattle, WA 98101.

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

5 A. I am a Director with Navigant Consulting, Inc. ("NCI") and a member of the
6 Litigation, Regulatory and Markets Practice Area of the Firm.

7 **Q. Have you previously submitted Direct Testimony on behalf of Missouri Gas**
8 **Energy ("MGE" or the "Company") before the Missouri Public Service**
9 **Commission ("MPSC" or "Commission") in this proceeding?**

10 A. Yes. I previously submitted direct testimony on behalf of MGE concerning the
11 results of the retail natural gas cost of service study filed by the Company in this
12 proceeding. I discussed the underlying methodology and basis used in the
13 Company's gas cost of service study.

14 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

15 A. I will respond to the retail natural gas cost of service study filed by the Office of
16 Public Counsel ("OPC") witness Barbara A. Meisenheimer in this proceeding,
17 more specifically, the apparent lack of proper classification of costs within the
18 cost of service study. I will describe the deficiencies in the evidence presented by

1 Ms. Meisenheimer, upon which she relies as support for her conclusion regarding
2 the level of MGE's residential customer charge.

3 I will also comment on the cost of service study presented by MPSC Staff
4 (the "Staff") witness Mr. Thomas A. Solt, which forms the basis for staff's initial
5 recommendation regarding the appropriate level of revenue responsibility between
6 MGE's customer classes.

7 **Q. For what specific rate design purpose does Ms. Meisenheimer rely on the**
8 **OPC cost of service study?**

9 A. Ms. Meisenheimer recommends no change be made in the level of MGE's
10 residential customer charge, as discussed by Company witness Mr. Russell A.
11 Feingold, and cites the results of the OPC cost of service study as support for her
12 recommendation. At page 5 of her Direct Testimony, Ms. Meisenheimer states
13 that OPC's cost of service study results indicate that "the current level of the
14 customer charge exceeds the customer specific cost." Ms. Meisenheimer defines
15 customer-related costs as those costs that vary with the number of customers
16 served (at page 7) and cites as examples: "expenses associated with metering,
17 reading, billing, and the costs associated with metering equipment and service
18 connections."

19 **Q. What conclusion have you reached with regard to Ms. Meisenheimer's**
20 **reliance on the OPC cost of service study as support for her residential**
21 **customer charge proposal?**

22 A. The OPC cost of service study that Ms. Meisenheimer relies upon as the basis for
23 her customer charge recommendation is flawed because it provides no discernable

1 means to draw a conclusion regarding the true customer-related costs associated
2 with serving the Company's residential customer class. First, Ms. Meisenheimer
3 presented no evidentiary support in her Direct Testimony for her conclusion that
4 "the current level of the residential customer charge exceeds the customer specific
5 cost," other than listing by name some general cost categories in her definition of
6 customer-related costs (referenced above).

7 Second, the electronic cost of service study work papers provided by the
8 OPC give no indication of how specific rate base and expense items were
9 classified, if at all, between the common categories of demand, customer, and
10 commodity. Although Ms. Meisenheimer describes the classification of costs at
11 page 7 of her Direct Testimony as "further categorizing costs into customer
12 related, commodity related, demand related or 'other related' costs," this
13 important cost defining step is missing from the OPC cost study.

14 Third, Ms. Meisenheimer cited no compilation of the specific customer-
15 related costs from the OPC cost study that she would include in the development
16 of a customer charge. Upon close inspection of the OPC cost of service work
17 papers, a section labeled "CCHG DOLLARS" contains a series of calculations
18 that result in unit costs per bill. These calculations exclude at least one category
19 of costs that Ms. Meisenheimer specifically identifies at page 11 of her Direct
20 Testimony as customer-related – customer service expenses, which she indicates
21 "are allocated on the basis of number of customer bills." Because of the missing
22 classification step in the OPC cost of service study, one cannot readily determine
23 the remaining costs that Ms. Meisenheimer would consider to be customer-related

1 but were likewise excluded from her customer charge calculation, without
2 explanation.

3 The Company's cost of service study, in contrast to the OPC study,
4 provided a detailed, account-by-account presentation of the customer-related costs
5 for each of the respective customer classes (see Schedule RJA-3). The total
6 customer-related costs for the residential class presented in the Company's Unit
7 Cost Report (see Schedule RJA-2, page 2 of 2) total \$23.37 on a monthly basis;
8 double the current residential customer charge of \$11.65.

9 **Q. What conclusions did you reach with regard to the Staff cost of service**
10 **study?**

11 A. The Company does not accept the Staff cost of service study, the results of which
12 are largely influenced by Staff's "capacity utilization" method of allocating the
13 demand portion of distribution mains advocated by Staff witness Mr. Daniel I.
14 Beck. Mr. Beck asserts that the utilization of distribution mains capacity
15 throughout the year measures the benefits to the various customer classes of that
16 portion of the local distribution system.

17 As discussed in my Direct Testimony, the Company's design day
18 coincident peak allocation methodology, along with the identification of a
19 customer component of distribution mains, best reflects cost causation on the
20 Company's system, as distinguished from system utilization. It has a sound
21 conceptual and theoretical basis and reflects the principles deemed appropriate by
22 the Commission in establishing an allocation methodology because it is related to

1 the actual system as built to serve all classes of customers.¹ Therefore, it is
2 superior to other cost allocation methodologies that give recognition to system
3 utilization characteristics or that attempt to reflect the “total value that customers
4 derive from the service throughout the year,” as Mr. Beck’s methodology attempts
5 to quantify.

6 While the Company does not agree with this important methodological
7 aspect of Staff’s cost of service study, an agreement among the parties, including
8 the OPC and the MPSC staff, regarding the allocation of the authorized revenue
9 requirement between MGE’s customer classes, as discussed by Company witness
10 Mr. Russell A. Feingold, has negated the need for further critique of staff’s cost of
11 service study results at this time.

12 **Q. Mr. Amen, does this conclude your rebuttal testimony?**

13 **A. Yes.**

¹ See MPSC Case No. GR-2004-0209, Report and Order issued September 21, 2004, pages 40-42.

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 RONALD J. AMEN

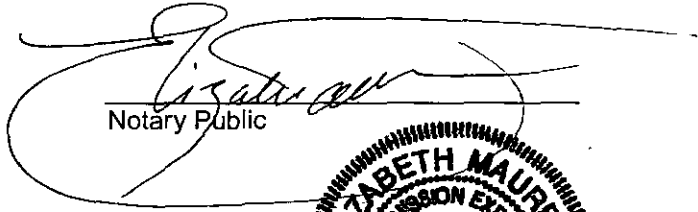
STATE OF Washington)
COUNTY OF King) ss.

Ronald J. Amen, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



RONALD J. AMEN

Subscribed and sworn to before me this 15th day of November 2006.



Notary Public

My Commission Expires: 7/15/10

