

May 18, 2007

**BY HAND DELIVERY**

Ms. Cully Dale  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
Governor Office Building  
200 Madison Street  
Jefferson City, Missouri 65101

Re: Case No. GR-2007-0208

Dear Ms. Dale:

Attached for filing in the above-referenced case are an original and eight (8) copies of Michael Gorman's Direct Testimony on Rate Design Issues.

Thank you for your assistance in bringing this filing to the attention of the Commission, and please call me if you have any questions.

Very truly yours,



Diana M. Vuylsteke  
DMV:rms  
Enclosures  
cc: All Parties

**FILED<sup>3</sup>**

MAY 18 2007

Missouri Public  
Service Commission

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Exhibit No.:  
Witness: Michael Gorman  
Type of Exhibit: Direct Testimony  
Issue: Rate Design  
Sponsoring Parties: Missouri Industrial Energy Consumers  
Case No.: GR-2007-0208

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

<u>In the Matter of Laclede Gas Company's</u>	)	
<u>Tariff to Revise Natural Gas Rate</u>	)	Case No. GR-2007-0208
<u>Schedules</u>	)	

Direct Testimony of

**Michael Gorman  
on Rate Design Issues**

**FILED<sup>3</sup>**

MAY 18 2007

Missouri Public  
Service Commission

On Behalf of

**Missouri Industrial Energy Consumers**

May 18, 2007

Project 8750



**BRUBAKER & ASSOCIATES, INC.**  
ST. LOUIS, MO 63141-2000

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

In the Matter of Laclede Gas Company's  
Tariff to Revise Natural Gas Rate  
Schedules

)  
) Case No. GR-2007-0208  
)

STATE OF MISSOURI )

) SS

COUNTY OF ST. LOUIS )

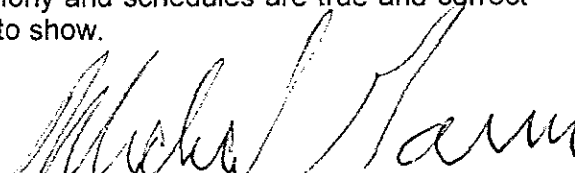
**Affidavit of Michael Gorman**

Michael Gorman, being first duly sworn, on his oath states:

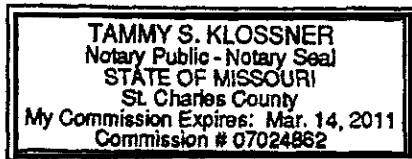
1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedules on rate design issues, which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2007-0208.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things they purport to show.

  
\_\_\_\_\_  
Michael Gorman

Subscribed and sworn to before me this 17th day of May, 2007.



  
\_\_\_\_\_  
Notary Public

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

<b>In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules</b>	) ) )	<b>Case No. GR-2007-0208</b>
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**Direct Testimony of Michael Gorman**

1    **Q     PLEASE STATE YOUR NAME.**

2    **A     Michael Gorman.**

3    **Q     ARE YOU THE SAME MICHAEL GORMAN THAT HAS PREVIOUSLY FILED**  
4           **TESTIMONY IN THIS PROCEEDING?**

5    **A     Yes.**

6    **Q     WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY ON RATE DESIGN**  
7           **ISSUES IN THIS PROCEEDING?**

8    **A     I will respond to Laclede Gas Company (Laclede or Company) witness Michael T.**  
9           **Cline's proposal for a uniform percent change to non-gas rate components. I do not**  
10          **take issue with Mr. Cline's proposed modifications to the Purchased Gas Adjustment**  
11          **(PGA) rate.**

12   **Q     PLEASE DESCRIBE THE ISSUES YOU TAKE WITH MR. CLINE'S PROPOSAL**  
13          **FOR A UNIFORM PERCENT CHANGE TO ALL NON-GAS RATE COMPONENTS.**

14   **A     The issue I have with Mr. Cline's proposed adjustments to current base rates is that**  
15          **he is ignoring the current approved allocation of qualifying costs which are currently**

**Michael Gorman  
Page 1**

1 being recovered through the Infrastructure System Replacement Surcharge (ISRS).  
2 The Company's filing zeroes out this surcharge, and includes the revenues that  
3 currently are recovered by the surcharge as part of its claimed revenue deficiency in  
4 this proceeding. Hence, the revenue currently recovered through ISRS would be  
5 rolled into base rates using an equal percentage change to all non-gas rates.

6 However, a uniform percent adjustment to non-gas base rates to reflect costs  
7 currently recovered through the ISRS is inconsistent with the Commission approved  
8 cost allocation for qualifying costs recoverable through the ISRS. It is capricious and  
9 unreasonable to ignore this Commission approved cost allocation of qualifying ISRS  
10 cost among customer classes, especially in this case where Laclede has not  
11 performed a cost of service study. Hence, Laclede has not offered any evidence that  
12 the approved ISRS qualifying cost allocation is not still appropriate.

13 **Q PLEASE EXPLAIN WHY YOU BELIEVE THAT THE COMMISSION HAS ALREADY**  
14 **ESTABLISHED THE PROPER COST ALLOCATION FOR EXPENSES**  
15 **CURRENTLY RECOVERED THROUGH THE ISRS CHARGES.**

16 **A** The current ISRS charges, cost allocation and class-specific rates were approved in  
17 Case No. GO-2006-0377. In that Order, the cost allocation for ISRS related  
18 expenses and the amount of revenue collected through the ISRS were based on a  
19 determination by the Commission Staff, which ultimately was adopted by Laclede. An  
20 agreement between Laclede and the Commission Staff was accepted by the  
21 Commission in a Final Order dated June 8, 2006. The allocation of qualifying ISRS  
22 costs among classes was set in that Order.

1     **Q     HOW DO YOU PROPOSE TO SPREAD THE RATE INCREASE APPROVED BY**  
2     **THE COMMISSION IN THIS PROCEEDING?**

3     A     I propose a two-step process. First, I propose an adjustment to each class's non-gas  
4     base rates to roll-in the amount of revenue currently recovered through ISRS  
5     charges. Second, I recommend spreading the additional (or incremental) base rate  
6     revenue deficiency among customer classes using a uniform percent change to non-  
7     gas base rates after the step-one adjustment.

8     **Q     HAVE YOU PREPARED A SCHEDULE THAT ILLUSTRATES HOW EACH RATE**  
9     **CLASS'S NON-GAS BASE RATES WOULD BE ADJUSTED UNDER YOUR**  
10    **PROPOSED TWO-STEP RATE ADJUSTMENT?**

11    A     Yes. This is shown on my Schedule MPG-RD-1. For illustrative purposes, I am using  
12    the Company's claimed revenue deficiency to show how this rate mechanism would  
13    work to spread the Commission approved revenue deficiency in this proceeding.  
14    Column 1 of that schedule shows revenues based on present non-gas base rate  
15    charges. Column 2 shows each rate class's revenues contributed through the ISRS  
16    surcharge. Column 3 shows the combination of total revenues currently collected  
17    from each rate class from the combination of non-gas base rates and ISRS charges.

18           The next step is to estimate the amount of uniform percent increase over  
19    existing base rates and ISRS revenues that is needed to cover the revenue  
20    deficiency. This is accomplished by taking the total revenue deficiency claim of the  
21    Company of \$44.9 million and subtracting the amount of ISRS revenues currently  
22    recovered from retail customers of \$1.8 million. This results in an adjusted total  
23    incremental increase in revenues of \$43.0 million. Under current rates and ISRS  
24    charges, customers are currently paying \$245.7 million. The percent increase to that

**Michael Gorman**  
**Page 3**

1 amount of revenues (base revenue and ISRS revenue) needed to collect additional  
2 revenue of \$43.0 million is 17.52%. This represents the uniform percent change to  
3 each class's combined ISRS and non-gas base rate revenues.

4 The adjusted revenue, increased by the uniform percent change, is shown  
5 under Column 5. Under Column 6, I then show the percent change to current non-  
6 gas base rates needed to recover the total revenue deficiency using this two-step  
7 non-gas base rate allocation process. Column 6 shows the percent increase to  
8 current non-gas rate components for each rate schedule.

9 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON RATE DESIGN  
10 ISSUES?

11 A Yes.

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# Laclede Gas Company

## Proposed Allocation

Line	Rate Classes	Present Non-Gas Base Revenues (1)	Present ISRS Revenues (2)	Present Non-Gas & ISRS Revenues (3)	Increment Percent Increase * (4)	Total Adjusted Revenues (5)	Percent Adjustment to Current Base Rates (6) = (5)/(1)
<b>General Service</b>							
	<u>Residential</u>						
1	Nov. - Apr.	\$ 133,301,640	\$ 801,893	\$ 134,103,533	17.52%	\$ 157,593,271	18.22%
2	May - Oct.	58,351,125	783,824	59,134,949	17.52%	69,493,099	19.09%
3	Subtotal	\$ 191,652,765	\$ 1,585,717	\$ 193,238,482		\$ 227,086,370	18.49%
	<u>C&amp;I Class 1</u>						
4	Nov. - Apr.	\$ 9,175,205	\$ 56,695	\$ 9,231,899	17.52%	\$ 10,848,970	18.24%
5	May - Oct.	3,450,087	54,957	3,505,043	17.52%	4,118,991	19.39%
6	Subtotal	\$ 12,625,292	\$ 111,652	\$ 12,736,942		\$ 14,967,960	18.56%
	<u>C&amp;I Class 2</u>						
7	Nov. - Apr.	\$ 14,278,316	\$ 25,248	\$ 14,303,564	17.52%	\$ 16,808,994	17.72%
8	May - Oct.	3,725,461	24,507	3,749,968	17.52%	4,406,817	18.29%
9	Subtotal	\$ 18,003,777	\$ 49,755	\$ 18,053,532		\$ 21,215,811	17.84%
	<u>C&amp;I Class 3</u>						
10	Nov. - Apr.	\$ 6,703,398	\$ 3,268	\$ 6,706,666	17.52%	\$ 7,881,414	17.57%
11	May - Oct.	1,392,467	3,154	1,395,621	17.52%	1,640,080	17.78%
12	Subtotal	\$ 8,095,865	\$ 6,422	\$ 8,102,287		\$ 9,521,493	17.61%
13	<b>General Service Total</b>	\$ 230,377,699	\$ 1,753,546	\$ 232,131,243		\$ 272,791,635	18.41%
<b>Air Conditioning</b>							
14	Residential (Summer)	\$ 15,308	\$ 158	\$ 15,466	17.52%	\$ 18,175	18.73%
15	C&I Class 1	956	14	969	17.52%	1,139	19.11%
16	C&I Class 2	16,657	42	16,699	17.52%	19,624	17.81%
17	C&I Class 3	74,292	130	74,422	17.52%	87,458	17.72%
18	Subtotal	\$ 107,213	\$ 344	\$ 107,556		\$ 126,396	17.89%
19	Residential (Winter)	\$ 26,247	\$ 155	\$ 26,402	17.52%	\$ 31,027	18.21%
20	C&I Class 1	2,447	14	2,461	17.52%	2,892	18.19%
21	C&I Class 2	26,469	42	26,511	17.52%	31,155	17.70%
22	C&I Class 3	246,153	130	246,283	17.52%	289,422	17.58%
23	Subtotal	\$ 301,316	\$ 341	\$ 301,657		\$ 354,496	17.65%
<b>Large Volume</b>							
24	Commercial	\$ 1,173,680	\$ 5,895	\$ 1,179,575	17.52%	\$ 1,386,191	18.11%
25	Industrial	1,076,389	5,942	1,082,331	17.52%	1,271,913	18.16%
26	Rate Subtotal	\$ 2,250,069	\$ 11,837	\$ 2,261,906		\$ 2,658,104	18.13%
<b>Interruptible</b>							
27	Commercial	\$ 353,157	\$ 1,248	\$ 354,405	17.52%	\$ 416,483	17.93%
28	Industrial	174,558	732	175,290	17.52%	205,994	18.01%
29	Rate Subtotal	\$ 527,715	\$ 1,980	\$ 529,695		\$ 622,477	17.96%
<b>Special Contracts</b>							
30	SWBT	\$ -	\$ -	\$ -	17.52%	\$ -	
<b>General L.P. Gas</b>							
31	Residential	\$ 27,479	\$ 322	\$ 27,801	17.52%	\$ 32,671	18.89%
32	Commercial	1,482	11	1,493	17.52%	1,755	18.39%
33	Industrial	360	5	365	17.52%	429	19.15%
34	Rate Subtotal	\$ 29,321	\$ 338	\$ 29,659		\$ 34,854	18.87%
35	<b>Vehicular Fuel</b>	\$ 12,366	\$ 15	\$ 12,380	17.52%	\$ 14,548	17.65%
36	<b>Unmetered Gas Light</b>	\$ 33,754	\$ 104	\$ 33,857	17.52%	\$ 39,787	17.87%

\* Source: Page 3, line 7.



# Laclede Gas Company

## Proposed Allocation

Line	Rate Classes	Present Non-Gas Base Revenues (1)	Present ISRS Revenues (2)	Present Non-Gas & ISRS Revenues (3)	Increment Percent Increase * (4)	Total Adjusted Revenues (5)	Percent Adjustment to Current Base Rates (6) = (5)/(1)
<b>Transportation</b>							
	<u>Firm</u>						
37	Commercial	\$ 574,150	\$ 5,191	\$ 579,341	17.52%	\$ 680,819	18.58%
38	Industrial	2,794,061	9,719	2,803,780	17.52%	3,294,894	17.92%
39	Rate Subtotal	\$ 3,368,211	\$ 14,910	\$ 3,383,121		\$ 3,975,713	18.04%
	<u>Basic</u>						
40	Commercial	\$ 2,876,183	\$ 14,716	\$ 2,890,899	17.52%	\$ 3,397,272	18.12%
41	Industrial	4,002,065	18,996	4,021,061	17.52%	4,725,395	18.07%
42	Rate Subtotal	\$ 6,878,248	\$ 33,712	\$ 6,911,960		\$ 8,122,667	18.09%
	<u>Therms Sold</u>						
43	Firm						
44	Commercial	\$ 567	\$ -	\$ 567	17.52%	\$ 666	17.52%
45	Industrial	6,704	-	6,704	17.52%	7,878	17.52%
46	Rate Subtotal	\$ 7,271	\$ -	\$ 7,271		\$ 8,545	17.52%
	<u>Basic</u>						
47	Commercial	\$ 7,503	\$ -	\$ 7,503	17.52%	\$ 8,817	17.52%
48	Industrial	2,564	-	2,564	17.52%	3,013	17.52%
49	Rate Subtotal	\$ 10,067	\$ -	\$ 10,067		\$ 11,830	17.52%
	<u>Authorized Overrun</u>						
50	Firm						
51	Commercial	\$ 204	\$ -	\$ 204	17.52%	\$ 240	17.52%
52	Industrial	3,159	-	3,159	17.52%	3,712	17.52%
53	Rate Subtotal	\$ 3,363	\$ -	\$ 3,363		\$ 3,952	17.52%
	<u>Basic</u>						
54	Commercial	\$ 13,475	\$ -	\$ 13,475	17.52%	\$ 15,835	17.52%
55	Industrial	7,094	-	7,094	17.52%	8,337	17.52%
56	Rate Subtotal	\$ 20,569	\$ -	\$ 20,569		\$ 24,172	17.52%
	<u>Unauthorized Use</u>						
57	Commercial	\$ -	\$ -	\$ -	17.52%	\$ -	
58	Industrial	-	-	-	17.52%	-	
59	Rate Subtotal	\$ -	\$ -	\$ -		\$ -	
60	<b>Transportation Subtotal</b>	<b>\$ 10,287,729</b>	<b>\$ 48,622</b>	<b>\$ 10,336,351</b>		<b>\$ 12,146,879</b>	<b>18.07%</b>
61	<b>Grand Totals</b>	<b>\$ 243,927,182</b>	<b>\$ 1,817,127</b>	<b>\$ 245,744,304</b>		<b>\$ 288,789,176</b>	<b>18.39%</b>

\* Source: Page 3, line 7.

# Laclede Gas Company

## Proposed Allocation

<u>Line</u>	<u>Description</u>	<u>Amount</u> (1)	<u>Comment</u> (2)
1	Total Revenue Deficiency	\$ 44,862,000	Per Company
2	Total Present Non-Gas Base Revenues	\$ 243,927,182	Page 2
3	Percent Increase of Present Non-Gas Base Rates	18.39%	Line 1 / Line 2
4	ISRS Revenue	\$ 1,817,127	Page 2
5	Revenue Deficiency minus ISRS Revenue	\$ 43,044,873	Line 1 - Line 4
6	Total Present Non-Gas Base Revenues + ISRS	\$ 245,744,309	Line 2 + Line 4
7	Incremental Revenue Percent Increase over Present Non-Gas Base Rates & ISRS	17.52%	Line 5 / Line 6