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BRYAN CAVE LLP
ONE METROPOLITAN SQUARE
211 NORTH BROADWAY, SUITE 3600
ST. LOUIS, MISSOURI 63102-2750
(314) 259-2000
FACSIMILE: (314) 259-2020

RIYADH, SAUDI ARABIA
KUWAIT CITY, KUWAIT
ABU DHABI, UNITED ARAB EMIRATES
DUBAI, UNITED ARAB EMIRATES
HONG KONG
SHANGHAI, PEOPLE'S REPUBLIC OF CHINA
IN ASSOCIATION WITH BRYAN CAVE,
A MULTINATIONAL PARTNERSHIP.
LONDON, ENGLAND

DIANA M. VUYLSTEKE

DIRECT DIAL NUMBER
(314) 259-2543

INTERNET ADDRESS
DMVUYLSTEKE@BRYANCAVE.COM

August 23, 2002

By Hand Delivery

The Honorable Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102-0360

FILED³

AUG 23 2002

Missouri Public
Service Commission

Re: Case No. GR-2002-356

Dear Judge Roberts:

Enclosed for filing on behalf of the Missouri Industrial Energy Consumers in the above-referenced case are an original and eight (8) copies of the Surrebuttal Testimony of **JOHN MALLINCKRODT**. I would appreciate it if you would have the additional copy file-stamped and returned to the person delivering this testimony to you.

Thank you for your assistance in bringing this filing to the attention of the Commission

Very truly yours,

Diana M. Vuylsteke

Diana M. Vuylsteke

DMV:rs

cc: All Parties of Record

Enclosures

Before the
Missouri Public Service Commission
Case No. GR-2002-356

LACLEDE GAS COMPANY

STATE OF ILLINOIS)
)
COUNTY OF COOK) SS

FILED³
AUG 23 2002
Missouri Public
Service Commission

Affidavit of John W. Mallinckrodt

John W. Mallinckrodt, being first duly sworn, on his oath states:

1. My name is John W. Mallinckrodt. 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 is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2002-356.

3. I hereby swear and affirm that the surrebuttal testimony is true and correct and shows the matters and things it purports to show.


John W. Mallinckrodt

Subscribed and sworn before this 21 day of August 2002.

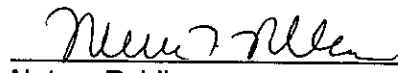

Notary Public



Exhibit No.:
Witness:
Type of Exhibit:
Issues:

Sponsoring
Party:
Case No.:

John W. Mallinckrodt
Surrebuttal Testimony
Class Cost of Service and
Rate Design, Cost Allocation
– Mains, Services, Meters,
and Regulators
Missouri Industrial Energy
Consumers
GR-2002-356

**Before the
Missouri Public Service Commission
Case No. GR-2002-356**

LACLEDE GAS COMPANY

Surrebuttal Testimony of

John W. Mallinckrodt

On Behalf of

Missouri Industrial Energy Consumers

August 23, 2002
Project 7761



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

LACLEDE GAS COMPANY

**Before the
Missouri Public Service Commission
Case No. GR-2002-356**

Surrebuttal Testimony of John W. Mallinckrodt

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A John W. Mallinckrodt; my business address is 723 Gardner Road, Flossmoor, IL**
3 **60422.**

4 **Q ARE YOU THE SAME JOHN W. MALLINCKRODT WHO PREVIOUSLY**
5 **SUBMITTED TESTIMONY IN THIS CASE?**

6 **A Yes, I am.**

7 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 **A My purpose is to respond to the rebuttal testimonies submitted by the Staff of the**
9 **Missouri Public Service Commission (Staff) and the Office of the Public Counsel**
10 **(OPC). My Surrebuttal Testimony will address the positions of the Staff and the OPC**
11 **on my cost of service study, on allocation of the cost of mains, and the use of peak**
12 **demands.**

**John W. Mallinckrodt
Page 1**

1 **Cost of Service Study**

2 **Q PLEASE RESPOND TO STAFF AND OPC'S SUGGESTION THAT YOUR COST**
3 **OF SERVICE STUDY IS FLAWED, AND SHOULD BE REJECTED BY THE**
4 **COMMISSION BECAUSE YOU DID NOT SEPARATE THE GENERAL SERVICE**
5 **(GS) CLASS INTO THE RESIDENTIAL AND COMMERCIAL AND INDUSTRIAL**
6 **(C&I) SUBCLASSES.**

7 **A My cost of service study (COSS) is not flawed at all because the GS class was not**
8 separated into residential and C&I subclasses. The GS class is addressed as a
9 whole, similar to what was done by Laclede in the last COSS it filed. The allocators
10 used are proper and allocate the proper amounts to the total GS class. My study
11 shows that the GS class is below cost of service and should be adjusted to bring it to
12 cost of service, and that the transportation customers are above cost. Separating the
13 GS class into two subclasses does not change these facts.

14 **Allocation of Mains**

15 **Q PLEASE RESPOND TO THE CRITICISMS BY STAFF AND OPC OF THE**
16 **ALLOCATOR FOR MAINS USED IN YOUR COSS.**

17 **A Both Staff and OPC witnesses disagree with the allocator I used for mains. Staff**
18 witness Dan Beck has suggested that my customer/demand split is very similar to his
19 standalone/integrated system main allocator because both allocate about 70% of the
20 cost of mains based on peak demand (Staff – 73%, MIEC – 70%) and the balance
21 (approximately 30%) on number of customers. However, he suggests that my main
22 allocator appears to calculate the relationship between average and excess demand
23 (or average and peak) and misapplies the method to determine a customer/demand
24 split.

John W. Mallinckrodt
Page 2

1 While my COSS does show a calculation of average and additional demand
2 allocators (29.340% and 70.660%), this is left over from Laclede's COSS model. I
3 have utilized Laclede's COSS model as a starting point and modified it by changing
4 the allocators and other parts of the COSS. This particular calculation in the model is
5 not used in my study.

6 My 30%/70% split between customer and demand is not based on the
7 average and excess demand method. My 30% allocator for customer is based on a
8 very conservative level for a customer allocator developed from the application of a
9 minimum system method. An exact minimum system calculation cannot be done for
10 Laclede because it has never been willing or able to provide the necessary data.
11 However, a customer allocator, based on the minimum system method, could range
12 from 30% to 70% depending on the details of the mains in a system. Therefore, my
13 30% customer allocator is very conservative.

14 **Q PLEASE ADDRESS STAFF WITNESS BECK'S CONCERNS ABOUT YOUR**
15 **DEMAND ALLOCATOR FOR MAINS AND YOUR ADJUSTMENT FOR**
16 **PRESSURES.**

17 **A** Witness Beck suggests that to credit large customers for their lack of use of portions
18 of the system without similar credits to the GS customers is not reasonable. Laclede
19 provided information pertaining to the length, size, and pressure of service line for
20 each account identified as part of the MIEC Group. The pressure of the service line
21 indicates the pressure of the main and the main system that serves that service line.
22 Based on this data, the sample of 24 transportation customers of a population of 152
23 transportation customers indicated that transportation customers are not served by
24 low-pressure mains. Witness Beck agrees that this is a reasonable sample size, but

John W. Mallinckrodt
Page 3

1 contends that the sample is not random. I disagree. While the transportation
2 customers were selected because they are part of the MIEC Group, I do not believe
3 that a different sample would indicate different results.

4 Witness Beck has also stated that this information indicates that 36 other
5 MIEC customer accounts are in the GS class and are not served by the low-pressure
6 system. Witness Beck contends that this information should be reflected in the
7 allocation of mains to the GS class. I disagree. The sample here is only 36 accounts
8 out of a population of 40,240 GS customers. This definitely is not a reasonable
9 sample size. Without further support, this would have to be regarded as an unusually
10 small sample. Additional information on how the other accounts in the GS class are
11 served is not available.

12 **Q WHAT HAS THE OPC WITNESS SAID ABOUT YOUR ALLOCATOR FOR MAINS?**

13 A OPC witness Hong Hu suggested that I have not explained why 30% of mains cost
14 should be customer-related. She also addressed my allocation of the demand-
15 related cost of low-pressure and medium-pressure mains to transportation customers.
16 She also contends that my main allocator over-allocated cost to low demand
17 customers.

18 **Q WHAT IS YOUR RESPONSE TO MS. HU'S CRITICISM OF THE ALLOCATOR YOU**
19 **USED FOR MAINS?**

20 A I explained above why 30% of main cost should be customer-related. The minimum
21 system method provides the proper allocation of cost based on customers. The
22 demand portion of my main allocator assigns the proper amount to the classes based
23 on the capacity requirements that must be met to provide service to each class.

1 Allocation of the demand portion of main costs to small customers based on system
2 peak day design does not over allocate cost to the small customers. This allocation
3 is based on a well-founded principle and is not flawed. I also reject the concept,
4 supported by OPC, that the distribution system is built to satisfy the customer's daily
5 demands for gas usage throughout the entire year and that a portion of the mains
6 cost should be classified as commodity-related. I recommend the Commission find
7 OPC's mains allocator not to be reasonable, and therefore reject OPC's COSS.

8 **Q PLEASE RESPOND TO MS. HU'S CONCERNS ABOUT YOUR ALLOCATION OF**
9 **THE DEMAND-RELATED COST OF LOW-PRESSURE AND MEDIUM-PRESSURE**
10 **MAINS.**

11 **A** My demand-related allocators used to divide the demand-related portion of main cost
12 into low-pressure, medium-pressure, and high-pressure related cost are supported by
13 my direct and rebuttal testimony and are based on how the main system is used by
14 the transportation classes. My testimony indicates that none of the demand-related
15 cost for low-pressure mains should be assigned to the transportation customers
16 because none of the transportation customers are served by low-pressure mains.

17 Further, based on the transportation customer's volumetric usage of system
18 mains, 46.7% of the volume was delivered to transportation customers using medium-
19 pressure mains. The balance of the volume (53.3%) was delivered to transportation
20 customers using high-pressure mains. This means that Laclede did not utilize the
21 medium-pressure and low-pressure mains to deliver customer gas to this portion of
22 the transportation customers. In like manner, Laclede utilized the high-pressure and
23 medium-pressure mains, but not the low-pressure mains, to deliver customer gas to

1 the balance of the transportation customers, represented by the 46.7% (by volume)
2 portion of the transportation customers.

3 **Peak Demands**

4 **Q PLEASE RESPOND TO STAFF WITNESS BECK'S RECOMMENDATION ON**
5 **PEAK DEMANDS.**

6 **A** Witness Beck has suggested that a weather normalized class peak demand should
7 be used instead of the system coincident peak day demand. I disagree. I used the
8 peak day demand provided by Laclede in response to MIEC First Data Request, Item
9 No. 6 (k). It is proper and appropriate to use a peak demand that represents the
10 demands for which the system was designed instead of a normalized peak demand
11 that would change every time it was developed.

12 The Staff's choice of peak demands for allocating demand related costs is not
13 indicative of the demand-related costs that customers impose on the system. An
14 inaccurate choice of demand data can completely distort a cost study. The peak day
15 demand used by Staff is only 89% of the Company's design day demand. Mr. Beck's
16 choice of demands defeats the very purpose of using peak demand to measure the
17 responsibility of each class for the costs that the Company incurs in order to satisfy
18 the needs of its customers on severe days. By utilizing demands which represent just
19 a portion of the design day, Staff's COSS understates the cost accountability of
20 weather sensitive loads. The system design peak day better reflects the costs of the
21 system as constructed.

1 **Q PLEASE RESPOND TO STAFF'S CRITICISM OF YOUR USE OF CALCULATED**
2 **AVERAGE BILLINGS DEMAND FOR LARGE CUSTOMER CLASSES.**

3 **A The average billing demands for large customer classes represent the demand that**
4 **these customers put on the system. These demands are the level of service Laclede**
5 **is obligated to provide on a system peak day. These demands do not vary by month**
6 **for individual customers. They only change when a customer is added or removed**
7 **from the class. Even though Staff criticizes my billing demand, its peak demands for**
8 **these classes are almost the same as the billing demands I determined (see Table 1**
9 **below).**

<u>TABLE 1</u>			
<u>Comparison of Peak Demands</u>			
(Therms)			
<u>Rate Classes</u>	<u>Staff Peaks</u>	<u>MIEC Coincident Peaks</u>	<u>MIEC Non-Coincident Peaks</u>
General Service:			
Residential	5,834,978	N/A	N/A
C&I	<u>2,372,308</u>	N/A	N/A
Total GS	8,207,286	9,373,065	9,373,065
Air Conditioning	N/A	-	-
Propane	N/A	1,197	1,197
Vehicular Fuel	680	138	138
Unmetered Gas Lts	302	350	350
Large Volume	177,370	196,761	196,761
Interruptible	29,222	10,463	10,463
Transportation - Basic	635,064	3,523	625,717
Transportation - Firm	383,477	426,530	426,530
Total	9,433,401	10,012,027	10,634,221

10 I used the Company's estimated system coincident peak day design as the
11 total peak demand for all classes. Since peak demands were not available for each

John W. Mallinckrodt
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1 class, I determined the peak demands for the large volume customer classes by
2 calculating the average billing demand for each class. This results in a peak demand
3 for each of these classes that is very similar to the peak demand recommended by
4 Staff for each of the classes. I then assigned the balance of the system coincident
5 peak day design demand to the GS class. This results in a peak day demand for GS
6 that differs from Staff's estimated peak for GS. This is the only significant difference
7 between my peak demands and the Staff's peak demands for the classes. This
8 difference results, not from my method of determining the peak demands for large
9 volume classes, but from my use of the Company's system coincident peak day
10 design instead of the weather normalized peak developed by Staff.

11 My peak demand is appropriate as that is the level to which the system is
12 designed. The system design demand reflects the level of demand cost for which
13 each rate class should be responsible. This does not represent a flaw in my COSS,
14 but just a difference of opinion about the proper basis for determining the overall peak
15 day demand for Laclede.

16 **Q DO YOU AGREE WITH STAFF WITNESS BECK'S PROPOSAL TO CORRECT**
17 **YOUR PEAK DAY DEMANDS?**

18 **A** No. I disagree with his suggested use of estimated weather normalized peak day
19 demands. The system is designed to meet customer loads on a design day, not just
20 on a weather-normalized day. The proper peak day demands should be based on
21 the system coincident peak day design.

1 **Storage**

2 **Q PLEASE RESPOND TO STAFF WITNESS ANNE ROSS'S RECOMMENDATION**
3 **ON ASSIGNMENT OF STORAGE COST TO THE BASIC TRANSPORTATION**
4 **CLASS.**

5 A I agree that the basic transportation class uses some level of storage for balancing
6 during the year and can buy gas from Laclede as authorized overrun. But basic
7 transportation is different from firm transportation or gas sales service in that the class
8 does not have rights to peaking because the rate schedule is not a sales service. No
9 production cost from peak shaving should be allocated to the basic class. Peak
10 shaving is only used to support sales service.

11 Storage should be allocated to the basic transportation class based on its
12 usage of storage. The basic class only has rights to balancing services provided by
13 Laclede and already pays a separate 2¢ inventory charge for use of storage. Witness
14 Ross has recommended that storage be allocated to the basic transportation class
15 based on winter sales terms. I will accept her allocation method.

16 **Meter and Regulator Allocators**

17 **Q PLEASE RESPOND TO STAFF WITNESS BECK'S CRITICISM ON YOUR METER**
18 **AND REGULATOR ALLOCATORS.**

19 A Staff witness Beck's criticism is no longer valid since in my rebuttal testimony, I
20 adopted OPC's meter and regulator allocator, which is based on a typical cost study
21 to determine the proper allocator to use. I modified my COSS in my rebuttal
22 testimony to account for this allocator. Also in my rebuttal testimony, I adopted
23 OPC's allocator for services.

1 **Summary**

2 **Q PLEASE SUMMARIZE YOUR RESPONSE TO STAFF AND OPC'S CRITICISM OF**
3 **YOUR COSS, ALLOCATOR FOR MAINS, USE OF PEAK DAY DEMANDS, AND**
4 **ALLOCATOR FOR STORAGE.**

5 A While my COSS does not separate the GS class into residential and C&I subclasses,
6 this does not mean that my COSS is flawed. My COSS provides the proper allocation
7 of costs to each class. Assigning cost responsibility for the GS class between
8 residential and C&I subclasses would not change the results of this study.

9 I have not modified my COSS for the allocation of mains, or modified the peak
10 demands I used, as this is not necessary since my original allocations are correct.
11 However, I will accept Staff's allocation of storage costs to the basic transportation
12 class.

13 **Q WHAT IS YOUR RECOMMENDATION FOR MOVEMENT TO COST OF SERVICE?**

14 A I still recommend that there be 100% movement to cost of service, with one caveat.
15 The very small classes, which show significant deviations from cost of service, are
16 difficult to allocate to because of their size and should not be changed as shown in
17 my COSS. I do not recommend a shift in cost of service revenues for these small
18 classes because of these allocation difficulties.

19 **Q WHAT DO YOU RECOMMEND IF THE COMMISSION DOES NOT ADOPT YOUR**
20 **COSS?**

21 A Staff's COSS shows that firm and basic transportation classes should receive
22 decreases of 15.44% and 11.93%, respectively, because they are \$621,645 and
23 \$748,563, respectively, above cost of service. This is even after Staff has used its

John W. Mallinckrodt
Page 10

1 normalized peak demands, its allocator for mains and its storage allocator to allocate
2 costs to the basic transportation class.

3 Therefore, if my COSS is not accepted, Staff's rebuttal COSS should be.
4 However, Staff's recommendation to not move to cost of service should not be
5 adopted. Staff argues that COSS results that are greater than 2.79% from cost of
6 service are beyond the accuracy limits of COSSs. This is just dodging the issue.
7 Just because a large class is close to cost of service, does not mean that smaller, but
8 significantly sized classes, which are further away from cost of service (firm
9 transportation at 15.44% above cost of service and basic transportation at 11.93%
10 above cost of service) should not be moved to cost of service. Movement of the firm
11 and basic transportation classes to cost of service could be accomplished without
12 involving the residential class as explained below. Also, movement of the GS C&I
13 class to cost of service would only result in an increase of 3.05% (according to Staff's
14 COSS) which is nearly within the Staff's unsupported 2.79% accuracy criteria.

15 Staff's recommendation should be rejected and classes moved to cost of
16 service before any increase granted to Laclede is applied to the classes. To
17 accomplish this movement to cost of service, any increase granted should be
18 allocated to the classes based on their percent of adjusted cost of service revenues
19 and then this amount offset against the amount required to move the class to cost of
20 service. This would result in 1.51% and 2.44% of any increase being allocated to the
21 firm transportation and basic transportation classes, respectively. These amounts
22 would be reduced by the \$621,645 and \$748,563 decrease required to move the firm
23 and basic transportation classes to cost of service.

1 **Q PLEASE ADDRESS STAFF WITNESS BECK'S STATEMENT THAT ANY**
2 **REVENUE SHIFTS WOULD ALMOST CERTAINLY HAVE TO INVOLVE THE**
3 **RESIDENTIAL CLASS.**

4 A A review of the results of Staff's rebuttal COSS indicates that a revenue shift could be
5 made by granting a decrease to the firm and basic transportation classes and
6 increasing the GS C&I, Large Volume and Interruptible classes. This would result in
7 an almost 100% movement to cost of service based on Staff's study.

8 **Q PLEASE ADDRESS LACLEDE'S RECOMMENDATION THAT NO REVENUE**
9 **SHIFTS AMONG RATE SCHEDULES ARE WARRANTED AT THIS TIME.**

10 A Laclede has not filed a COSS since Case No. GR-99-315 when it had residential and
11 C&I combined as a class – GS. Since Laclede has not filed a recent COSS, its
12 recommendation should be ignored. Laclede has not recently analyzed cost of
13 service and, therefore, has no basis upon which to call for no revenue shifts and the
14 increases of non-gas revenues in each rate schedule by a uniform percentage.

15 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY AT THIS TIME?**

16 A Yes, it does.

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