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-99-315 |

# A F F I D A V I T

STATE OF MISSOURI )
) SS.
CITY OF ST. LOUIS )

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager of Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, consisting of pages 1 to 23, and Schedule Nos. 1 to 2, inclusive.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Michael T. Cline

Subscribed and sworn to before me this 11th day of March, 1999.

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 2, 2001

Joyce L. Jansen

Exhibit No.:
Issue: Rate Increase Allocation; Rate Design; Other Rate Adjustments
Witness: Michael T. Cline
Type of Exhibit: Direct Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GR-99-315



# LACLEDE GAS COMPANY

GR-99-315

DIRECT TESTIMONY

OF

MICHAEL T. CLINE

**March 1999**

Direct Testimony of Michael T. Cline

Table of Contents

# DIRECT TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and address.

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Manager of Tariff and Rate Administration at Laclede Gas Company.

Q. Please state how long you have held your present position, and briefly describe your responsibilities.

A. I was appointed to my present position in August 1991. In this position I am responsible for administration of Laclede's tariff. In addition, I perform analyses pertaining to Laclede's purchased gas costs and various federal and state regulatory matters which affect Laclede.

Q. What is your educational background?

A. I graduated from St. Louis University in May 1975, with the degree of Bachelor of Science in Business Administration, majoring in economics.

Q. Please describe your experience with Laclede.

A. I joined Laclede in June 1975 and have held various positions in the Budget, Treasury, and Financial Planning departments of the Company. In addition, I held the position of Staff Assistant to the Executive Vice President of Operations and Marketing until my appointment to my present position.

Q. Have you testified previously before regulatory bodies?

A. Yes. I have testified before this Commission, the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

PURPOSE OF TESTIMONY

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

A. My testimony explains the manner in which the rate schedules filed by the Company on January 26, 1999 were revised to reflect both the annual revenue increase of $30.5 million requested by the Company in this case and the re-design of the Company's General Service ("GS") rate schedule. Also, I explain the need for certain rate adjustments which should be made upon resolution of this case.

ALLOCATION OF PROPOSED RATE INCREASE

Q. Please explain how Laclede's rates were adjusted to produce the additional revenues requested by Laclede.

A. The first step in determining the new rates was to allocate the $30.5 million revenue increase to each individual rate schedule. This was done by multiplying the non-gas revenues in each rate schedule by a uniform percentage.

Q. What do you mean by non-gas revenues?

A. Non-gas revenues represent that portion of Laclede's revenues which recover Laclede's cost of service, other than the cost of purchased gas.

Q. How were non-gas revenues derived?

A. For each rate schedule, gas revenues, i.e. revenues related to the recovery of Laclede's purchased gas costs, were subtracted from total revenues, excluding gross receipts taxes, to yield non-gas revenues.

Q. How were gas revenues derived?

A. For each sales rate schedule, gas revenues were derived by multiplying normalized annual therm sales by the sum of the base gas cost per therm and the Current Purchased Gas Adjustment ("CPGA") factor applicable to such rate schedule. The base gas cost per therm for firm and interruptible rate schedules is 28.489¢ and 23.570¢, respectively, as set out on Sheet No. 28-d of Laclede's tariff. I used the November 19, 1998 CPGA factors for firm and interruptible rate schedules of 8.232¢ and 5.830¢ per therm, respectively.

Q. Is the same base gas cost per therm embedded in each of Laclede's base rates?

A. In recent times, there has never been agreement among all the parties to Laclede's rate cases as to the level of base gas costs embedded in each rate. However, in Case No. GR-92-165, the Commission approved a settlement in which all parties agreed that each firm and interruptible sales rate was based on wholesale gas rates which produced a system average gas cost of 28.489¢ and 23.570¢ per therm, respectively. Such firm or interruptible average base gas cost is specifically

stated on each rate schedule. These unit costs were not changed in the last three intervening general rate proceedings. For purposes of allocating the rate increase only, I assumed that the same firm or interruptible gas cost per therm was embedded in each firm or interruptible rate schedule.

Q. Are any gas revenues included in the Large Volume Transportation and Sales Service ("LVTSS") revenues?

A. Yes. Gas revenues for sales made pursuant to such tariff are derived by multiplying normalized sales by the sum of the firm base gas cost per therm and firm CPGA factor as described above. For firm transportation service, gas revenues were derived by multiplying normalized transportation volumes by the Capacity Reservation Cost Component at November 19, 1998 of 5.410¢ per therm. Laclede is authorized to recover these gas-related charges from transportation customers pursuant to Sheet No. 34-a of Laclede's LVTSS tariff. No gas revenues are applicable to basic transportation service.

Q. You stated earlier that the first step in determining the new rates was to multiply the non-gas revenues in each rate schedule by a uniform percentage. How was the uniform percentage increase derived?

A. The percentage was derived by dividing the $30.5 million non-gas revenue increase requested in this

proceeding by Laclede's total current normalized non-gas revenues of $197.2 million.

Q. What impact did Laclede's non-gas revenue allocation have on the total revenues produced under each rate schedule?

A. The additional revenues expressed as a percent of total normalized current revenues will vary by rate schedule as shown in Schedule No. 1. The overall, Company-wide increase in revenues is 6.1%.

Q. Why does Laclede's proposed increase, as a percent of total revenues, vary by rate schedule?

A. The variance by rate schedule is caused by the design of Laclede's rates and differences in the amount of non-gas costs recovered by such rates. Although the non-gas rates for all customers are being increased by a uniform percentage, the percentage increase in total revenues (including gas revenues) will be relatively smaller for those sales customers who purchase gas from Laclede under rate schedules with relatively lower non-gas rates (as such non-gas rates are determined for purposes of allocating the rate increase only). Conversely, the percentage increase in total revenues will be relatively higher for those customers who purchase gas under rate schedules with relatively higher non-gas rates.

Q. Why is the percentage increase for the LVTSS rate schedule larger than the percentage increase under most of Laclede's other rate schedules?

A. Since LVTSS customers purchase most of their gas from third parties, LVTSS revenues exclude a significant amount of gas costs which will not be billed by Laclede. In contrast, Laclede's sales rates cover all costs, including gas costs. Thus, it is axiomatic that LVTSS revenues will increase by a larger percentage than most other rates simply because the LVTSS revenue base is much smaller due to the exclusion of most gas costs. The total gas costs of LVTSS customers will increase by a smaller percentage than the percentage shown in Schedule No. 1 if such customers' total purchased gas costs, including the cost of gas purchased from third parties, are included in the base against which Laclede's proposed increase is measured as is the case with the other rate schedules.

Q. After allocating the rate increase to each rate schedule in proportion to the non-gas revenues derived from such schedule, how were the charges within each rate schedule adjusted to produce the allocated increase?

A. Customer charges were increased to levels which are closer to the full recovery of customer-related costs as quantified in the direct testimony of Company witness R.L. Sherwin. Specifically, for the General

Service and Seasonal Air Conditioning Service rates, the Company proposes to increase the customer charge for Residential customers and Commercial and Industrial customers by $.50 to $12.50 and $13.80 per month, respectively. The Company also proposes increases in the customer charges for larger sales and transportation customers in amounts ranging from $20 to $45 per month. The remainder of the Company's proposed rate increase, under the existing rate design, is recovered through increased commodity charges which will vary by rate schedule, as well as through increases in demand or reservation charges, where applicable.

Q. How were the increases in commodity charges computed under the existing rate design?

A. For all rate schedules consisting of only a customer charge and a commodity charge, the increase in the commodity charge was derived by subtracting the revenues generated from the increase in the customer charge from the total revenue increase allocated to each rate schedule or group of rate schedules and dividing the remainder by normalized therms.

Q. Why do you refer to groups of rate schedules?

A. I grouped certain rate schedules in order to increase the commodity charge for each rate schedule within that group by the same per therm amount.

Q. How was the commodity charge increase computed in the Large Volume Service and LVTSS rate schedules, which schedules also include demand or reservation charges?

A. For each of these rate schedules, after deducting the increase in revenues attributable to the increase in the customer charge, both the commodity charge and demand or reservation charge were increased by comparable percentages.

RATE DESIGN REVISION

Q. You mentioned earlier that the Company's proposed rates also include a re-design of the Company's General Service ("GS") rate schedule. Did the re-design of the GS rate schedule result in any revenue shift between GS and the Company's other rate schedules?

A. No. it did not. The Company has re-designed the GS rate schedule so that it would produce the same total revenues as the existing rate design.

Q. Please describe the rate design of the existing General Service rate schedule.

A. The existing rate schedule is a two-part rate structure, consisting of a customer charge and a charge for gas used, otherwise known as a commodity charge. The amount of the customer charge varies depending on the type of customer receiving gas service. Presently, residential customers are billed $12.00 per month and commercial or industrial customers are billed $13.30 per month. The commodity charge varies by season and

by rate block and is uniformly applied to all classes of customers.

Q. Why is the Company proposing to alter the design of the GS rate schedule?

A. The reasons for the Company's rate design proposal are addressed in the direct testimony of Laclede witness K.J. Neises. I will limit my testimony to explaining how the demand charge rate structure proposed by the Company is consistent with the Company's class cost of service study and how it would operate.

Q. Please explain how the Company's proposed inclusion of a demand charge component in its GS rate structure is consistent with its class cost of service study.

A. According to the class cost of service study sponsored by Laclede witness Sherwin, the existing General Service rate class is responsible for $184 million of non-gas costs, the vast majority of which are fixed. In other words, these costs will be incurred regardless of the level of consumption of the General Service customers. Yet, under the Company's existing rate design the Company's recovery of costs is dependent on how much gas it sells. Today, the Company's revenues and earnings from the General Service rate schedule increase if the weather is colder than normal. Likewise, such revenues and earnings decrease if the weather is warmer than normal. However, in both cases the Company's non-gas costs are relatively constant.

For example, in the short run there is no change in payroll costs or depreciation expense related to changes in the Company's sales volumes. Schedule No. 2, attached to my testimony, illustrates how, over the past several years, the Company's non-gas utility operating expenses, exclusive of income taxes and certain other costs, have generally increased even though throughput moves up and down primarily due to weather. Such expenses are plotted in reference to the left axis of the chart and throughput is plotted in reference to the right axis.

Q. Doesn't the existing General Service customer charge stabilize the recovery of the Company's fixed costs despite variations in weather?

A. To a degree it does. The General Service customer charges presently recover approximately $90 million of the Company's costs, but fall far short of recovering all fixed costs.

Q. Please explain.

A. The customer charge enables the Company to recover only slightly less than half of the total non-gas costs allocated to the General Service rate schedule. As a result, approximately $94 million of the predominantly fixed non-gas costs allocated to the General Service rate schedule are recovered through commodity charges and are dependent on the amount of gas the Company sells, which, in turn, is dependent on the weather.

Q. How would the Company's proposed rate design address this problem?

A. By adding a demand charge to the GS rate schedule, the Company's proposal would enable it to recover at least the demand-related portion of its fixed distribution costs through a fixed demand charge rather than through the customer or commodity charge.

Q. What is the magnitude of the fixed demand-related distribution costs that would be recovered through the proposed demand charge?

A. Approximately $50 million, or 27% of the non-gas (i.e. distribution) costs of serving customers under the GS rate schedule, are costs incurred by the Company to meet the maximum daily gas requirements of each of the GS customers on any one day throughout the year, irrespective of when each individual customer's peak occurs. These costs are referred to as non-coincident demand costs in the class cost of service study of Laclede witness Sherwin. Another $11 million, or 6% of the costs of serving customers under the GS rate schedule, are costs incurred by the Company to meet the maximum daily gas requirements of all of the GS customers on the one day during the year when the combined gas requirements of all of the Company's customers is greatest. These costs are referred to as coincident demand costs by Mr. Sherwin. Both types of demand costs are fixed costs that do not fluctuate with

the total amount of gas consumed by a customer during a billing period.

Q. You mentioned that the Company's proposed demand charge only recovers the Company's distribution costs and excludes gas costs. How will the fixed cost of gas supply and transportation be recovered under the Company's proposal?

A. Such costs would continue to be recovered entirely through the commodity charge in proportion to the amount of gas used.

Q. Has the Company modified its class cost of service study in this proceeding to recognize the demand-related costs of the GS class?

A. No. The Company's class cost of service study is nearly identical to the type of study it has been submitting for years in connection with its rate increase filings and demand related costs have always been recognized in such studies. In fact, the Company's study conforms in large part to the classification of costs that has been traditionally recognized by experts in utility regulation.

Q. Please explain.

A. Traditionally, utility costs are classified into three major categories: customer-related costs, demand-related costs and commodity-related costs. These classifications are further explained in the testimony of witness Sherwin.

Q. How do demand-related costs compare to customer-related costs that are generally recovered through the GS customer charges?

A. Demand-related costs are similar to customer-related costs in that they do not vary with a customer's total gas consumption during a billing period. The difference is that, unlike customer-related costs which are the minimum fixed distribution costs resulting from the mere existence of a customer, demand-related costs are incurred in order to meet the coincident and non-coincident demands of each customer. And, unlike customer-related costs, demand-related costs differ from customer to customer, depending on the usage characteristics of each customer.

Q. Please explain.

A. A customer that uses gas for cooking and clothes drying, has a smaller demand for gas than a customer who uses gas for these needs plus space heating. Even two customers who both use gas for space heating place different peak day demands on the system depending on the size of the premise served and individual usage characteristics.

Q. How are demand-related costs recovered today?

A. Today, these costs are recovered by the Company through the GS commodity charges. In other words, as previously discussed, the Company's recovery of fixed costs is dependent on how much gas the Company sells.

Q. Please explain how the proposed demand charge will work.

A. At the end of each twelve months ended August period, the Company will determine the maximum amount of gas each GS customer used in any one month during such past period. Such usage will be divided by the actual number of days in each customer's billing period to determine the demand therms that will be used to bill each customer each month over the ensuing twelve month period beginning in November.

Q. Since demand-related costs are associated with peak daily usage, in your opinion will the determination of demand therms from peak monthly consumption result in an appropriate measurement of a customer's demand cost responsibility?

A. Yes. Even though it is not practically feasible for the Company to obtain actual daily meter readings for the approximately 600,000 GS customers it serves, I have no reason to believe that the peak monthly consumption of customers is not an adequate indicator of the relative peak day cost responsibility of each customer. Furthermore, such an approach is very similar to how demand therms have traditionally been calculated for the Company's large commercial and industrial sales customers.

Q. What is the significance of the specific period the Company has chosen for the determination and billing of demand therms?

A. The Company chose November as the first month of the twelve month period over which to bill the newly determined demand of customers in order to reflect any change in such demand therms at the start of each winter season. Thus, to the extent that a customer installed a more energy-efficient furnace during a prior winter season, the reduced gas consumption associated with such purchase will reduce that customer's demand charges from what the customer would have paid based on the usage of the customer before the installation of the new equipment. An historical review of a customer's usage over the previous twelve months ended August will permit the Company to reflect any changes in demand occurring with the past year in time for billing during the upcoming winter season.

Q. How will the demand charge be established?

A. Actually two demand charges will be established each year: a winter charge and a summer charge. Each charge will be determined by dividing the demand cost recovery for each season by the demand determinants projected to be billed to customers during such season.

Q. How will demand cost recovery for each season be determined?

A. Annual demand-related costs established at the time of the resolution of the Company's most recent rate case will be multiplied by the ratio of normalized therm sales during each season to annual therms sales.

Q. What are the results of this computation?

A. Based on the Company's proposed revenue requirement and estimated demand therms, the winter and summer demand charges are approximately $2.43 and $.41 per demand therm, respectively.

Q. If demand-related costs are fixed, why is the Company establishing a charge that is higher in the winter and lower in the summer?

A. Even though demand costs are fixed and do not change from month to month, the Company chose such an approach in order to keep customers' bills for each season approximately the same as under the existing rate design. Nevertheless, the objective is to ensure that on an annual basis the Company's GS demand revenues closely match its demand-related costs.

Q. How will demand determinants be established for each season?

A. The demand therms determined for each customer will be multiplied by twelve to arrive at the total amount of demand therms to be billed to such customer during the ensuing year. The annualized demand therms of each customer will be summed for all of the Company's GS customers. Since the winter (November through April) and summer (May through October) seasons each consist of six months, total annualized demand therms for the entire GS rate schedule will be divided by two to

determine demand therms that will be billed to customers for each season.

Q. Why are new demand rates established each year?

A. A new rate will be established each year to account for any changes in customers' peak demand therms and to better ensure that the demand component of the Company's GS rates will match its fixed demand-related costs.

Q. Please explain.

A. Unless there is an annual re-computation of the demand charge, a gain or loss in billing demand therms as a result of colder or warmer weather or other changes in consumption in a peak month could cause an over or under recovery of demand costs similar to that which occurs under the existing rate design when sales volumes are different from the level used to establish the commodity charge.

Q. How will demand therms be established for a new customer for whom the Company has no billing history?

A. Demand therms will be based on whatever accumulated history exists for the customer at that premise at the time the customer is billed.

Q. Please explain.

A. Until the Company obtains twelve months of billing history for a customer at a particular premise, the demand therms billed to a customer will be based on the maximum therms consumed by such customer at the premise

since turn-on, including the current billing month. Thus, if a customer is turned-on near the end of the summer, the customer's demand therms will gradually build up to a level reflective of the customer's maximum gas requirements.

Q. If a customer moves from one premise to another within Laclede's service area, will the customer's former billing history or the history of the former occupant of the customer's new premise, if applicable, be used to establish the demand therms for that customer?

A. Neither billing history will be used. As I stated before, the customer will be billed for demand based on the maximum monthly consumption available at the time of billing for that customer at that premise, even if the current billing month is the only billing history available.

Q. How will demand therms be established for a customer for whom the Company has infrequent or no actual meter readings?

A. In these situations the Company will use its estimated billing routine to determine a customer's individual monthly consumption just as the Company does today when it re-bills an account that has not been read for some time.

Q. Please explain.

A. Periodically, it is necessary to re-bill a customer for gas consumption over a period of months. This may

happen as a result of the Company having to estimate bills for a customer until actual meter readings are available. However, once the Company finally obtains an actual reading and it is determined that the estimated consumption is different from the actual consumption, the Company will re-bill the customer for any difference. Such re-billing involves an estimated breakdown of the customer's actual consumption by month through the use of estimating factors unique to that account.

Q. What is the effect of the Company's proposed GS rate design change on a typical residential customer of Laclede?

A. The effect on a typical residential customer who uses gas for heating and uses 1,115.5 therms annually would be a slight reduction of less than $2 per year.

Q. How much would the typical residential customer pay in demand charges each month under the Company's proposal?

A. Based on a peak monthly usage of 219 therms for a typical heating customer, such customer will pay $16.49 in demand charges per month during the winter and $2.78 per month during the summer months. However, that only tells part of the story.

Q. What do you mean?

A. As I stated earlier, the Company's GS non-gas commodity charges have been substantially reduced as a result of the imposition of a demand charge. Under the existing

rate design and inclusive of the Company's proposed rate increase, such charges ranged from $.12 to $.17 per therm depending on the season and rate block. Under the Company's proposed rate design such charges would range from $.02 to $.07 per therm. Thus, for a typical customer, the increased demand charges are offset by lower commodity charges.

Q. Doesn't your proposed rate design discourage conservation since a greater portion of customers' bills will not vary with consumption?

A. Absolutely not. Customers will still be rewarded for their conservation efforts through the savings they realize on the Company's cost of gas, which cost comprises over 60% of a customer's total gas bill. They will also continue to realize savings in non-gas commodity charges even though such charges have been reduced under the Company's proposal. Furthermore, rather than discourage conservation, the Company's new rate design will encourage conservation because the demand charge sends a price signal to consumers that conservation during peak months likely will result in lower demand therms on a customer's bill in the following year, which in turn, translates into a lower gas bill. In addition, to the extent customers are encouraged to consume less on a peak day, a favorable by-product of the proposed demand charge is that the Company may be able to reduce its peaking gas supply

arrangements and forestall the need to add or reinforce distribution facilities.

Q. What is the effect of your proposed rate design on a typical customer if the weather is 10% warmer than normal?

A. The customer's bill would increase by only $6 per year, or approximately 1%. By the same token, if the weather is 10% colder than normal, the customer's bill, compared to what it would be under the existing rate design, would decrease by $6 per year. Thus, even from the standpoint of an individual customer, some degree of weather risk is removed under the Company's proposed rate design, although it is relatively small.

RATE ADJUSTMENTS UPON RESOLUTION OF CASE

Q. What rate adjustments should be made upon resolution of the case?

A. Unit base gas costs should be adjusted to reflect the normalized throughput in this proceeding and the Company's non-gas rates should be adjusted for any potential rate switching.

Q. Please explain the unit base gas cost adjustment.

A. Current unit base gas costs are based on the settlement throughput volumes determined in Case No. GR-92-165. The Company's proposed rates in the instant proceeding reflect a change in sales and transportation throughput from the 1992 case. In order to avoid the temporary over or under recovery of fixed gas costs which would

result when unit base gas costs are applied to volumes different from those volumes used to establish the unit costs embedded in base rates, such unit costs must change due to the change in normalized throughput.

Q. Why is such over or under recovery only temporary?

A. Absent the change in unit base gas costs, the over or under recovery would be corrected through the Deferred Purchased Gas Costs Account provisions of the Company's PGA clause.

Q. What will happen when unit base gas costs are adjusted?

A. By adjusting the unit base gas costs whenever new normalized volumes are established in a general rate proceeding, the Company can minimize the potential over or under recovery of gas costs that would otherwise occur in the short term due to the change in throughput.

Q. Please explain the need for a rate switching adjustment.

A. Before the Company's rates in this proceeding are finally established, it is important that the effect of potential rate switching be reflected in the Company's rates.

Q. What do you mean by rate switching?

A. Some customers qualify for gas service under more than one rate schedule, most notably commercial and industrial customers who are large enough to qualify for the Company's Large Volume Service rate but who otherwise would be billed under the General Service rate. Presumably such customers choose to be billed

under the rate schedule that results in the lowest cost consistent with the type of service the customer desires. However, it is possible that, after making the rate adjustments either ordered or agreed to in this proceeding, some customers would receive a lower overall gas bill if they switch to a different rate schedule.

Q. Why do the Company's rates need to be adjusted to reflect rate switching?

A. To keep the Company whole, the Company's rates must be adjusted to offset the revenue anticipated to be lost from customers who switch rates which have been changed as a result of this proceeding.

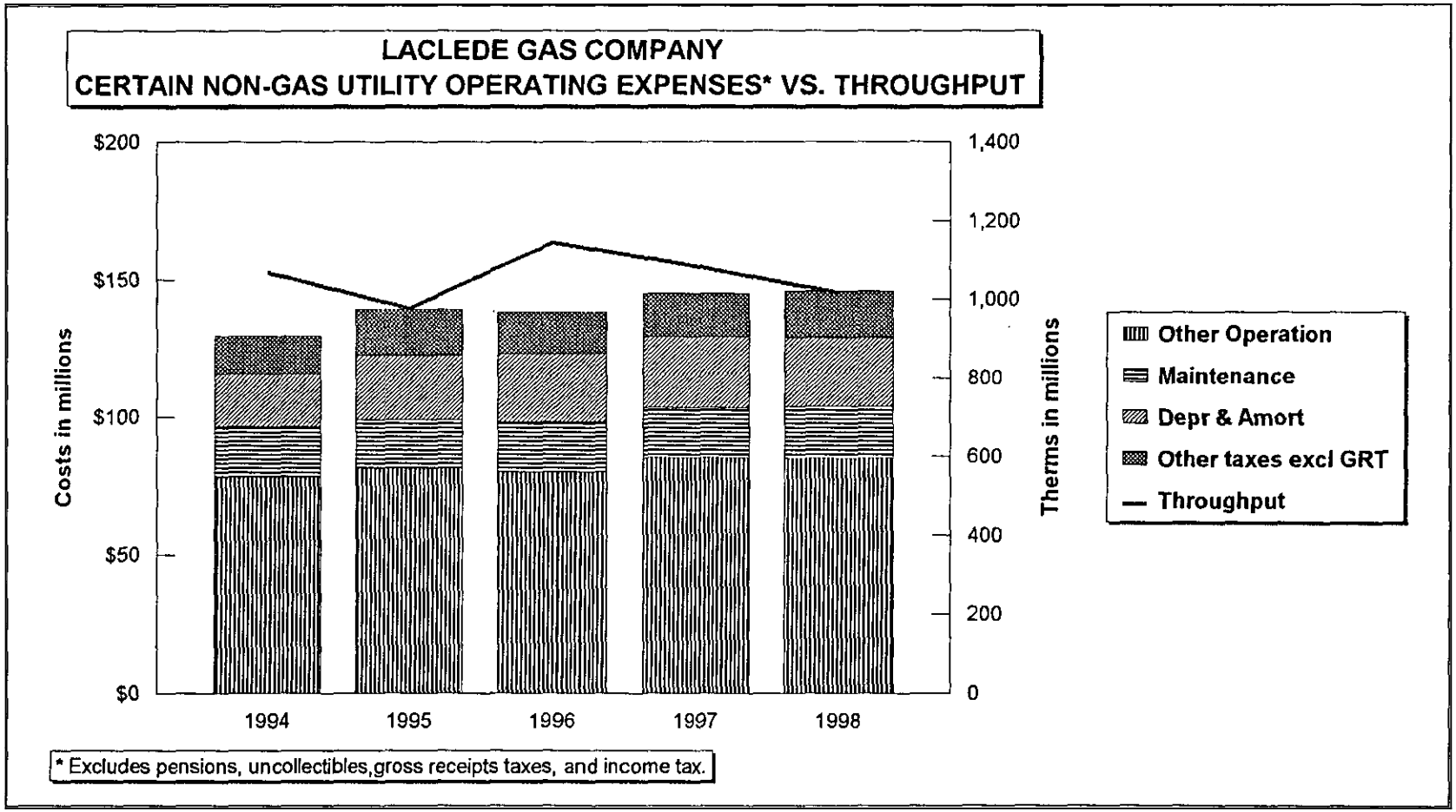
Q. Does this complete your testimony?

A. Yes it does.

# LACLEDE GAS COMPANY
## ALLOCATION OF PROPOSED RATE INCREASE

| Rate Schedule | % Change In Total Revenues |
|---|---|
| General * | 6.1% |
| Seasonal Air Conditioning | 6.3% |
| Large Volume | 3.0% |
| Interruptible | 3.2% |
| General LP | 6.5% |
| Vehicular Fuel | 1.3% |
| Unmetered Gas Lights | 5.2% |
| Large Volume Sales and Transportation | 9.2% |
| Total | 6.1% |

* Before rate design change




Schedule No. 2