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Issues: Rate Design
Witness: Richard J. Kovach
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Sponsoring Party: Union Electric Company
d/b/a AmerenUE
Case No.: GR-99-315

MISSOURI PUBLIC SERVICE COMMISSION

LACLEDE GAS COMPANY

CASE NO. GR-99-315

DIRECT TESTIMONY

OF

RICHARD J. KOVACH

St. Louis, Missouri
July 6, 1999

MISSOURI PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules.	))	Case No. GR-99-315

AFFIDAVIT OF RICHARD J. KOVACH

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

Richard J. Kovach, being first duly sworn on his oath, states:

1. My name is Richard J. Kovach. I work in the City of St. Louis, Missouri, and I am the Manager of the Rate Engineering Department of Ameren Services Company.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 12, including Schedule 1, all of which testimony has been prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-99-315 on behalf of Union Electric Company.

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

Richard J. Kovach

Subscribed and sworn to before me this 2nd day of July, 1999.

Debby Anzalone
Notary Public

DEBBY ANZALONE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: April 18, 2002

DIRECT TESTIMONY

OF

RICHARD J. KOVACH

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Q. Please state your name and business address.

A. My name is Richard J. Kovach. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Please state your occupation and by whom you are employed.

A. I am the Manager of the Rate Engineering Department in the Corporate Planning Function at Ameren Services Company.

Q. Please describe Ameren Services Company.

A. Ameren Services is a subsidiary of Ameren Corporation. Ameren Services provides various administrative and technical services for Union Electric Company (Company or AmerenUE) and Central Illinois Public Service Company (AmerenCIPS), the utility operating companies of Ameren Corporation, doing business as AmerenUE and AmerenCIPS, respectively.

Q. Please summarize your educational background, work experience, current duties and responsibilities and professional affiliations.

A. This information is summarized in Schedule 1 of my testimony.

Q. Have you previously testified before any regulatory commissions?

A. Yes, I have previously testified in numerous cases before the Missouri Public Service Commission, the Illinois Commerce Commission, the Iowa State Utilities Board and the Federal Energy Regulatory Commission, on behalf of Union Electric Company, during my more than 36 years of employment in the utility industry.

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

A. My Direct Testimony in this case will comment on Laclede Gas Company's (Laclede) proposed rate design and allocations of cost for its General Service (GS) and Seasonal Air Conditioning Service (SAC) Rates. Specifically, it is AmerenUE's position that these rates proposed by Laclede are not fully cost based, in that they do not properly reflect Laclede's actual system seasonal cost differentials. In addition, in the case of the SAC Rate, Laclede's proposal is structured in such a way that it contains a gas supply cost subsidy for basic summer season usage.

Q. Why is AmerenUE interested in Laclede's rate design?

A. A significant portion of AmerenUE's electric service area and Laclede's gas service area overlap, resulting in competition between the companies for providing various energy services for such uses as space and water heating, cooking and air conditioning to customers within these overlapping areas. Such competition does in fact exist, as evidenced by Laclede's active participation in all of AmerenUE's electric rate and rate design cases for more

than the past 15 years. If Laclede's rates for seasonal services such as space heating and air conditioning are set below its costs of providing such services, AmerenUE's ability to compete within these consumer energy sectors will be detrimentally affected. AmerenUE's basic position is that the rates for these services should reflect, on a seasonally differentiated basis, the costs of providing such services so that the customers installing such appliances have the appropriate information upon which to base their energy supply decisions between electric and gas.

Q. Will AmerenUE be providing suggested revisions to Laclede's rate proposals in order to correct these rate design deficiencies?

A. Yes. The Direct Testimony of AmerenUE witness Mr. Philip B. Difani, Jr. will present the quantitative results of AmerenUE's review of Laclede's proposals, prepared in support of its proposed changes for these two Laclede rates. AmerenUE's proposals include cost based seasonal differentials that are more appropriate for Laclede's applicable summer (May-October) and winter (November-April) billing seasons. Due to time constraints, AmerenUE's proposals in this case are primarily based upon data developed in Laclede's class cost of service study, although AmerenUE does not necessarily endorse each of the study's components.

Q. What are the generic advantages of a utility having appropriate seasonal rate differentials incorporated into its retail rate structure?

A. Where the magnitude of a utility's system load varies significantly between various seasons of the year, as does Laclede's, sufficient justification generally exists for seasonal rate differentials to reflect the differences between the utility's costs of providing service during its peak and off-peak seasons. The advantages of employing cost based seasonal

differentials can generally be categorized into the three areas of 1) customer equity, 2) customer information, and 3) customer conservation.

Q. Beginning with the first of these advantages of appropriate seasonal rate differentials, why would such rate provisions be more equitable for customers?

A. Seasonal rates will appropriately track the cost differential of peak season versus off-peak season service when such rates are applied to all customer usage for a given rate class within each billing season. Customers taking a major portion of their service during the peak season, as opposed to customers with a lesser portion of peak usage, generally impose higher costs on the utility and, thus, should pay a higher annualized unit cost for such service when billed under cost based seasonal rates. Such a result is more fair and equitable to both types of customers than average rates or non-cost based seasonal differentials, as both customer types are paying rates which reflect the cost of the service being provided by the utility.

Q. With respect to the second advantage of appropriate seasonal rate differentials, how are such rate provisions more informative to customers?

A. By providing a truer and more correct reflection of the cost of the service being provided, seasonal rate information should be of benefit to customers in their decisions regarding the purchase of major energy consuming appliances. If the cost of the service being provided is higher in the winter and an appropriate cost based rate is charged for such service, customers will be more apt to utilize such information in the purchase of more efficient appliances in order to lower their overall operating costs during such peak periods.

Q. Getting to the third advantage of appropriate seasonal rate differentials, how do such rate provisions encourage customer conservation?

A. Cost based seasonal rates will provide customers with the appropriate price signals as to when it is important and of greatest value to conserve usage, such as during Laclede's higher cost winter season. Conservation which results from such seasonal rate differentials may benefit both the customer and Laclede, as well as all of its other customers, if such conservation takes place during the peak winter season and enables Laclede to lower its overall cost of serving its entire customer base.

Q. Do you have an inference of the relationship of Laclede's peak day system load to its minimum day system load?

A. Based upon information previously reviewed from past cases involving Laclede, it is my understanding that Laclede's winter season peak day system load is approximately 10 times the magnitude of its minimum day system load, which occurs in the summer season. Additionally, Mr. Difani's analyses indicate Laclede's excess winter demands, above its minimum day system load, to be approximately 19 times Laclede's excess summer demands. Seasonal variations of this magnitude clearly point out the justification for seasonally differentiated rates.

Q. Did you review the testimony of Mr. Neises in Laclede's current case?

A. Yes, I did. Mr. Neises, in his direct testimony, discusses the new demand charge feature in Laclede's proposed General Service Rate and how such a rate design component would benefit Laclede's customers. He also indicates that this demand charge was based upon

the level of demand-related costs currently recovered by Laclede during its summer and winter billing seasons, costs which Mr. Difani's analyses indicate are overallocated to the summer billing season and underallocated to the winter billing season, as a part of Laclede's proposal in this case.

Q. Setting aside the appropriate seasonal allocations of Laclede's costs for the moment, do the reasons cited by Mr. Neises in support of Laclede's proposed demand charges for its General Service Rate generally support such a rate design component?

A. Generically, the reasons cited by Mr. Neises of demand charges being more cost tracking, providing better price signals, and helping to mitigate the over or under recovery of fixed costs due to weather related factors, are all valid in supporting the imposition of demand charges in utility rate schedules. I would add that these same reasons can also be used as support for the collection of all of Laclede's fixed distribution (non-gas) related costs through the combination of its customer and demand charges within these rates, completely eliminating the need for a commodity charge. However, regardless of what percentage of Laclede's fixed distribution costs the Commission allows Laclede to recover through its proposed demand charge, the assignment or allocation of such fixed distribution costs to Laclede's summer and winter billing seasons should be based upon the results of Mr. Difani's cost analyses.

Q. Is Mr. Neises' support for Laclede's demand charge proposal, contained in its GS Rate, equally applicable to the demand related portion of Laclede's gas supply costs?

A. Yes, it is. These same reasons are also just as valid and equally applicable to the demand related portion of Laclede's gas supply costs, the majority of which costs can reasonably be assumed to be contained in the base rate commodity charges of Laclede's GS tariff. Having such differentials in the collection of Laclede's demand related gas supply costs would be more cost tracking, provide customers with better price signals and help mitigate the over or under recovery of such costs. It is AmerenUE's position that any demand charge proposals adopted in this case for Laclede's demand related non-gas costs should also be extended to Laclede's demand related gas supply costs.

Q. In reviewing the tariffs proposed by Laclede in this case and its various other rate case filings over time, has it sometimes been difficult to segregate the amount of fixed distribution non-gas costs from the portion of the gas supply costs included within Laclede's base rate tariffs?

A. Yes, it has been. In fact, Laclede witness Cline indicates in his direct testimony that there has never been an agreement on the amount of tariffed base gas supply costs in any of Laclede's cases since a rate case settlement in Case No. GR-92-165. Because of such difficulties in Laclede's past and current rate cases, AmerenUE recommends that Laclede be ordered to convert to a zero-based Purchased Gas Adjustment (PGA) cost recovery mechanism, wherein all of Laclede's gas supply costs, including pipeline transportation and leased storage service costs flow through the PGA. Under this proposal, only the annual revenue requirements associated with Laclede owned assets such as storage fields, peaking plants, and gaseous and liquid hydrocarbon inventories will be included in Laclede's base rates. Such an action would settle, once and for all, any issue of what level of gas supply costs are included in Laclede's base rate

tariffs, by effectively setting these base rate gas costs at zero, and transferring all such costs to the PGA cost recovery mechanism. This action has the additional advantage of permitting the Staff and all other participants in Laclede's rate cases to more fully concentrate their resources on the review of Laclede's non-gas fixed distribution costs, the costs which are specifically at issue in such cases, and the tariffs which result therefrom.

Q. Mr. Kovach, would this proposed limitation of Laclede's base rate tariffs to non-gas distribution costs only, alter in any way the need for appropriate cost based seasonal differentials in Laclede's General Service and Seasonal Air Conditioning Service Rates?

A. No. After the direct assignment of all of Laclede's owned storage, peaking and inventory costs to the winter season, the remaining non-gas distribution demand costs, not considered to be customer related, should be allocated to seasons in accordance with the results of Mr. Difani's analyses. Such costs should then be recovered on either a demand and/or commodity charge basis, with appropriate cost based seasonal differentials. Laclede's demand related gas supply costs should also be allocated to seasons in accordance with the results of Mr. Difani's analyses, whether such costs are recovered on a demand and/or commodity charge basis in Laclede's PGA. Should Laclede's gas supply costs be allowed to remain as a portion of its base rates, at a minimum, the demand related portion of such costs should also be seasonally differentiated as recommended by Mr. Difani.

Q. In reviewing Laclede's filing in this case, did you also review the direct testimony of Laclede witnesses Cline and Sherwin?

A. Yes, I did. In doing so, I concentrated on the portion of Mr. Cline's testimony related to the redesign of Laclede's General Service Rate. In reviewing Mr. Sherwin's testimony, I concentrated on those areas describing the determination and allocation treatment of demand related costs.

Q. Did either Mr. Cline or Mr. Sherwin perform any cost allocation studies related to the allocation of any of Laclede's demand related costs to the summer and winter billing seasons as a part of this case?

A. No, they did not. In fact, Mr. Neises' testimony indicates that Laclede's proposed demand charges for the summer and winter seasons were derived based upon the relative level of demand related costs currently recovered during such periods. In addition, Mr. Cline's testimony indicates that the allocation of Laclede's proposed $30.5 million rate increase was spread to each rate class by a uniform percentage increase to the existing non-gas revenues of each rate class. Based upon this review of Laclede's testimony, it is clear that Laclede performed no seasonal studies as a part of its filing of this case.

Q. How does Laclede propose to recover the demand related gas supply costs, included in its base rates, as a part of this case?

A. Mr. Cline's testimony indicates that such costs will be recovered entirely through a commodity charge. Such a commodity charge is not seasonally differentiated, as only a single system average gas cost is contained in Laclede's GS tariff. Moreover, such costs may not even reflect Laclede's average gas cost due to the fact that, as indicated earlier, for the past several Laclede cases there never has been an agreement as to the actual level of such gas supply costs

embedded in Laclede's base rates. This lack of specific cost determination and absence of appropriate cost recovery, on a seasonally differentiated basis, is yet additional support for my earlier recommendation for the removal of all gas supply costs from Laclede's base rates.

Q. In his testimony, Mr. Cline describes the development of each General Service customer's billing demand as dividing the customer's maximum month of gas commodity usage by the number of days in the billing period. Will this calculation provide a reasonable estimate of the billing demands of customers on this rate?

A. No, I don't believe it will, due to the monthly load factors (average monthly demand as a percentage of monthly peak demand) of residential and small commercial gas customers during the peak months of the year when Laclede's proposed billing demands will likely be established. AmerenUE's review of available gas load research data indicates that the monthly load factors of the above customer classes are approximately 66 percent during the winter peak month and virtually 100 percent during the minimum summer month. Such data indicates that the more appropriate number of days to use as a divisor for this computation during a month of peak demand to be approximately 20 days (30 days x 0.66 LF) for residential and small commercial customers. It also indicates that 30 days may be an appropriate divisor for a summer month when system gas usage is virtually the same day in and day out.

Q. Mr. Cline makes the comment that Laclede's proposal of determining each customer's billing demand by dividing the customer's peak month commodity by the days in the monthly billing period is very similar to the approach used for Laclede's large commercial and industrial customers. Please comment.

A. Mr. Cline's use if the phrase "very similar" in comparing Laclede's existing procedure applicable to its large commercial and industrial customers, where 20 days are used, can only be deemed as a reasonable statement if the 50% difference between the 20 day and 30 day divisors is ignored. Laclede's proposal for determining customer demands during peak periods will significantly understate the demands of such customers.

Q. Please summarize AmerenUE's position regarding Laclede's General Service Rate design proposal.

A. AmerenUE supports the adoption of Laclede's proposed demand charge rate component, with certain qualifications. First, the customer billing demands should be determined by dividing commodity usage by the more appropriate number of days, as indicated above, to more reasonably estimate such demands without the use of gas demand metering. Second, the proper reflection of Laclede's actual seasonal non-gas distribution demand cost differentials should be reflected in Laclede's demand and/or commodity costs, based upon the results of the analyses being sponsored in this case by Mr. Difani. Third, all of Laclede's gas supply costs should be removed from Laclede's base gas rates and recovered through the PGA. Fourth, the demand component of Laclede's gas supply costs should also be seasonally differentiated based upon the results of Mr. Difani's analyses, whether such demand costs are billed to customers on a demand and/or commodity basis. This fourth recommendation should be implemented whether such demand related gas supply costs are recovered as a part of Laclede" base rates, or through the PGA mechanism.

Q. Earlier you stated that you would also be offering comments regarding Laclede's proposed Seasonal Air Conditioning Service Rate. What are those comments?

A. Laclede's proposal for this rate class does not contain a separately stated demand charge, but does contain lower summer season gas costs in its commodity charges. Although the SAC rate contains higher overall commodity charges than the GS rate, it is not appropriate for a typical gas customer using gas for heating, water heating and, perhaps, cooking to avoid being billed upon Laclede's demand charge proposal simply as a result of installing and using gas air conditioning. Moreover, there is no apparent reason why Laclede could not supply gas air conditioning at a cost based competitive price under the provisions of its General Service Rate, provided the latter rate contained cost based seasonally differentiated demand and/or commodity charges as recommended by Mr. Difani. The rate that a customer pays for heating, water heating and cooking should not be influenced or modified by the installation of a gas air conditioner, which is the case with Laclede's Seasonal Air Conditioning Service Rate provisions. Laclede's SAC rate includes this inequity, which is totally inappropriate and unjustified. Thus, this practice inherent in Laclede's SAC rate should be discontinued.

Q. Does this conclude your testimony?

A. Yes, it does.

QUALIFICATIONS OF RICHARD J. KOVACH

My name is Richard J. Kovach, and I reside in St. Louis County, Missouri.

I received the degrees of Bachelor of Science in Industrial Engineering in 1962 and Master of Engineering Administration in 1967 from Washington University in St. Louis, Missouri.

I was employed as an Assistant Engineer in the Rate and Statistical Department of Union Electric in January 1963. My work in the Department included assignments relating to the general analysis and administration of various aspects of Union Electric's electric, gas and steam rates. From 1966 to 1970, I held various engineering positions in the Corporate Planning, Transmission and Distribution, Engineering and Construction, and Power Operations functions of the Company. In April 1970, I returned to the Corporate Planning Function and was appointed Supervising Engineer - Rates and Planning in that function in February 1973. In the latter position I was responsible for day-to-day rate and tariff administration, conducting studies relative to utility cost-of-service and participation in Union Electric Company rate case proceedings. I was appointed to my present position of Manager of Rate Engineering in April 1975 and to the same position with Ameren Services in 1998.

I currently have responsibility for the general policies and practices associated with the day-to-day administration and design of Union Electric's electric and gas rate tariffs, riders and rules and regulations tariffs which must be filed with the Missouri Public Service Commission, Illinois Commerce Commission and the Federal Energy Regulatory Commission, and in the participation in various proceedings before these regulatory agencies. In addition, Rate Engineering is responsible for conducting class cost-of-service studies, and the participation in other projects of a general corporate nature, as requested by the Vice President of Corporate Planning.

I am a registered Professional Engineer in the states of Missouri and Illinois. In addition, I am the Ameren Services representative on the Edison Electric Institute (EEI) Economic Regulation & Competition Committee. The EEI Committee provides its membership with current information applicable to various rate design and regulatory concepts, as well as new and proposed state and federal legislation. Its membership consists of the individuals responsible for rate design and administration from virtually every investor-owned utility in the United States.

SCHEDULE 1