Exhibit No.:	
Issue:	Cost-of-Service and Rate Design
Witness:	Daniel I. Beck
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Rebuttal Testimony
Case No.:	GR-99-315

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

DANIEL I. BECK

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Jefferson City, Missouri
August 1999

REBUTTAL TESTIMONY

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LACLEDE GAS COMPANY

CASE NO. GR-99-315

Q. Please state your name and business address.

A. My name is Daniel I. Beck and my business address is P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Daniel I. Beck who has previously filed testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Rebuttal Testimony?

A. To point out the differences in the parties' positions on class cost-of-service and rate design issues in this case, to relate changes to the Staff's positions regarding rate design and to explain why Staff's position should be adopted by the Commission.

Class Cost-of-Service

Q. How do the class cost-of-service (C-O-S) studies filed by the parties in this case compare?

A. The parties have filed C-O-S studies with results that are significantly different as shown on Schedule 1 which is attached to my Rebuttal Testimony. In fact, for each C-O-S class, at least one of the studies indicates that a certain class should receive an increase in non-gas costs, and at least one of the studies indicates that same class should receive a decrease. Of course, since the parties disagree on the direction of revenue adjustments for each class, the parties also disagree on the magnitude of the adjustment.

Q. Are there other significant differences in the class C-O-S studies?

A. Yes. The parties also disagree on the number and type of C-O-S classes. Specifically, the classes used by the Staff and the Office of the Public Counsel (OPC) include Residential (RES) and Small General Service (SGS) while the classes used by Laclede Gas Company (Company or Laclede) and the Missouri Industrial Energy Consumers (MIEC) include General Service (GS), Air Conditioning (A/C), and Vehicular Fuel (VF). In my opinion, although the A/C and VF classes have some distinguishing characteristics, the revenue contribution of these two classes (which is less than 1 percent of the total revenue) make the value of breaking out these classes minimal. However, by spliting the GS class (which accounts for approximately 95% of the Company's revenue) into the RES and SGS classes (which account for approximately 80% and 15% of the revenue, respectively), the Staff maintains that these two C-O-S classes provide significant insight into revenue responsibilities. This is re-enforced by the fact that the Company's current rates distinguish between the RES and SGS customers by having two different customer charges.

Q. Earlier, you mentioned the term non-gas costs. Could you elaborate?

A. Yes. The C-O-S studies of the Company and MIEC reported both gas and non-gas costs. Non-gas costs are those costs that are normally reported in a class C-O-S. Gas costs are normally those costs which are collected through a company's Purchased Gas Adjustment (PGA) and Actual Cost Adjustment (ACA) mechanisms. However, since Laclede collects part of its gas costs by including some cost of gas in its base rates, the normally definite line between gas and non-gas costs is blurred. It is for this reason that Staff, MIEC, and AmerenUE (AmerenUE filed direct testimony in this case but did not file a separate C-O-S study) recommended that gas and non-gas costs be separated in this case. Staff continues to recommend that gas costs be removed from base rates and instead be included in the PGA/ACA costs.

Q. What are the primary reasons for the differences in the class revenue requirements results that were filed by the parties?

A. As with most cases, it appears that differences in the allocation of mains, meters, regulators and services account for much of the differences in the C-O-S studies of the various parties.

Rate Design

Q. What revenue shifts between classes were recommended by the other parties?

A. The Company did not recommend any revenue shifts between classes. OPC recommended, at a maximum, revenue shifts equal to one-half of the revenue neutral shifts indicated by OPC's class C-O-S. MIEC recommended that revenue shifts equal to one-half of the total (both gas and non-gas) revenue neutral shifts indicated by MIEC's class C-O-S study. MIEC's recommendation would first adjust the rates to fully reflect the indicated gas costs and then adjust the non-gas costs to arrive at the sum of the gas and non-gas recommendation. Staff recommended in its Direct Testimony that a portion of any decrease should be used to reduce the Large Volume and Interruptible rates. Staff also recommended that a portion of any increase should be deflected from the Large

Volume and Interruptible rates.

Q. Has Staff 's recommendation changed?

A. Yes. Staff still recommends that a portion of any increase or decrease should be lower the level of revenue responsibility for the Large Volume and Interruptible Classes. However, after the updates and adjustments that have taken place since Staff filed its direct case, it appears to Staff that the revenue requirement may not be significantly different from the current revenue requirement. Therefore, Staff now recomends that there be no change in the relative revenue requirement of the classes.

Q. What level of increase would you consider to be significant and why should this have any impact on class revenue shifts?

A. In this case, I would characterize a 5% or greater increase in non-gas revenues as significant for rate design purposes. If a rate change is too small, class revenue shifts could result in a decrease for some classes while other classes receive an increase.

Q. Does Staff support a shift in gas costs among the classes in this case?

A. No. As stated earlier, Staff supports moving gas costs from the base rates to the PGA/ACA mechanism. Therefore, Staff maintains that any revenue shift in this case should be based on non-gas costs.

Q. Did any party make recommendations regarding customer charges?

A. Yes. The Company, OPC, and Staff made recommendations regarding customer charges. The Company proposed relatively small increases in all current customer charges. OPC recommended that the current RES customer charge be reduced from $12.00 to $8.50. Staff recommends that most customer charges not change from the current rates. However, Staff recommended that the SGS customer charge increase from $13.30 to $13.80 which was the Company's recommendation. Staff continues to support that position.

Q. Were there any other rate design changes proposed?

A. Yes. The Company recommended the RES and SGS classes rates be altered to include a demand charge to collect 40% of the non-gas revenue. This proposed demand charge, when combined with the proposed customer charge, would collect over 80% of the non-gas revenue in a relatively fixed fashion regardless of a customer's actual usage.

Q. Would the Company's proposal be a significant shift in policies from current rate designs?

A. Yes, the Company's proposal would have a major effect on the current rate structure and would also be a significant change in rate design for small usage customers. The introduction of a demand charge for RES and SGS customers would be the first in Missouri for regulated gas customers. In addition, recalculating the actual demand charge rates in the fall of each year would also be a first. The amount of revenue that is related to a customer's current usage would be significantly altered by Laclede's proposal.

Q. Could you please elaborate on the introduction of a demand charge for RES and SGS customers?

A. Yes. Demand charges are often used in rate design. However, these charges are normally based on peak day or peak hour usage. In this case, Laclede's proposed demand charge would be applied to the average daily usage during the peak month of the previous year.

Demand charges are typically only used in the design of rates for large customers. Large customers are considered to be more aware of the intricatics about energy costs and energy use in general. Smaller customers, on the other hand, are generally less aware about energy costs. This is especially true when their cost are determined by a rate design that they are not familiar with.

Q. Company witness Kenneth J. Neises' Direct Testimony states "the proposed rate structure gives the customer a financial incentive to conserve energy" (page 5, lines 19-20). Does the current rate structure provide a similar financial incentive?

A. Yes. With the current rate design, a customer would save 11.717 cents in non-gas costs for each therm that is conserved in the winter (assuming tail block usage). However, with the proposed rate design (which includes an increase in revenues of approximately 15%), a customer would save 3.988 cents in non-gas costs for each therm that is conserved and would save additional demand charges during the following billing year only if the conservation took place during the peak month. Given these facts, it is my opinion that the current rate design provides a larger immediate savings (within one billing month) than the proposed rate design and is therefore more easily understood by the customer.

Q. You mentioned that the demand charge rates under the Company's rate design would be set in the fall of each year. Please explain how this would work for a typical residential customer.

A. This process first requires the Commission to set a revenue target for each GS class. Then the peak month usage for the previous twelve months ending August is to be used to compute a rate. This rate will begin in November and continue through October of the following year. The following year the rate will be reset to reflect the revised peak month usages.

Q. Do you know of any other charge which is recalculated each year?

A. Yes. The PGA / ACA process allows the Company to adjust rates related to gas costs at least twice a year. However, I do not know of any non-gas costs for regulated Missouri gas companies that are recovered by a rate that is automatically adjusted annually.

Q. If the Company's rate design proposal was adopted by the Commission, would this lower weather risk to the Company?

A. Yes. However, it is the annual adjustment of the demand charge that reduces the weather related risk. If a demand charge is implemented but is not adjusted annually, the Company's weather risk which was related to annual weather would instead be related to peak month weather. Therefore, it is the recalculation mechanism, not the demand charge, which would significantly reduce the weather risk to the Company.

Q. Are there changes to the current rate design that would reduce the Company's weather related risks?

A. Yes. The most obvious way to reduce weather related revenue is to collect additional revenue through the customer charge. In addition, if rates and corresponding revenues for the Company's first block charge were increased, the weather related risk would be reduced since the first block usage is less weather sensitive than the second block.

Q. How does the Company's customer charge revenues compare with other Companies in Missouri?

A. The Company's residential customer charge (and therefore the customer charge revenue) is higher than the customer charge for any other Missouri gas company. This is illustrated in Schedule 2 which is attached.

Q. Is it Staff's position that the Company's proposed rate design is a policy matter that would significantly alter rates and revenue recovery from the RES and SGS customers?

A. Yes. I view both a demand charge for RES and SGS customers as well as a annual adjustment to the rate charged to be significant changes in policy.

Q. If the Commission decides that a demand charge for RES and SGS customers would be an appropriate policy change, do you have any recommendation to lessen the impact of the change?

A. Yes. I recommend that a smaller amount of the revenues be collected through the demand charge. Instead of collecting approximately 40% of the non-gas revenues through a demand charge, I recommend that a smaller amount of non-gas revenues, such as 10% or 20%, be collected. This smaller amount would allow customers to gain some experience with demand charges without significantly altering their bill and would also lessen the impact of the annual adjustment.

Q. Please summarize your Rebuttal Testimony.

A. I would summarize my testimony as follows:

- 1. The parties C-O-S studies differ in the number and type of classes and their indicated class revenue requirements. Staff contends that RES and SGS should be C-O-S classes.
- 2. The Staff recommends gas costs be removed from base rates and be included only in the PGA / ACA mechanism.
- 3. The Staff recommends no revenue shifts between classes if revenues are not significantly changed in this case. If revenues are significantly changed in this case, Staff recommends that the Large Volume and Interruptible Classes receive some rate relief to lower their current revenue requirement.
- 4. The Staff recommends that the SGS customer charge be increased from $13.30 to $13.80. The Staff recommends that all other customer charges remain at current levels.
- 5. The Company's proposed demand charge with annual adjustments for the RES and SGS Classes would be a significant change in Commission's policy.
- 6. The impact of this policy change could be lessened with a smaller revenue target.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

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

AFFIDAVIT OF DANIEL I. BECK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Daniel I. Beck, is of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages 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.

Daniel I. Beck
DANIEL I. BECK

Subscribed and sworn to before me this 5th day of August 1999.

Joyce C. Neuner
Notary Public

Joyce C. Neuner
Notary Public, State of Missouri
County of Osage
My Commission Expires: My Commission Exp. 06/18/2001

Laclede Gas Company
Case No. GR-99-315
Comparion of Revenues Above (Below) the Cost of Service

	Residential General Service	Commercial & Industrial General Service	General Service	Large Volume	Interruptible	Firm Transport.	Basic Transport.	Other
Company			$5,608	($461)	$2	($1,759)	($2,966)	$116
Staff	($2,475)	$1,303	($1,172)	$512	$158	$222	$262	$18
OPC	$15,874	($13,428)	$2,446	($1,183)	($175)	$326	$758	($3)
MIEC			($2,025)	$126	$181	$314	$1,242	$162

Notes:
1) Dollar values are in thousands of dollars.
2) A negative value means that the current revenue contribution is below then indicated revenue requirement.
3) There are small differences in the customers that make up the General Service Class between the parties.

Example: In the table above, the Company's C-O-S for General Service shows a value of $5,608 thousand. This would indicate that the General Service Class is contributing $5,608,000 revenues then the Company's study would indicate is required.

Laclede Gas Company
Case No. GR-99-315
Comparion of Monthly Residential Customer Charges

Company	
Greeley Gas Company	$5.00
St. Joseph Light & Power Co. (FRT)	$5.65
St. Joseph Light & Power Co.(Other than FRT)	$6.66
Associated Natural Gas Co.	$7.00
Fidelity Natural Gas Co.	$8.00
Ozark Natural Gas	$8.00
Union Electric Company	$8.00
Missouri Public Service	$9.00
Missouri Gas Energy	$9.05
Southern Missouri Gas Co.	$10.00
Laclede Gas Company	$12.00