

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Class Cost of Service & Rate Design

Donald E. Johnstone

Surrebuttal Testimony

Missouri Industrial Energy Consumers

GR-99-315

**Before the**

**MISSOURI PUBLIC SERVICE COMMISSION**

**Case No. GR-99-315**

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**LACLEDE GAS COMPANY**

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Testimony and Schedules of

**DONALD E. JOHNSTONE**

On Behalf of

**Missouri Industrial Energy Consumers**

August 1999

Project 7065

**Brubaker & Associates, Inc.**

**St. Louis, MO 63141-2000**

**FILED**

**AUG 19 1999**

**Missouri Public  
Service Commission**

1 **LACLEDE GAS COMPANY**

2 **Before the**

3 **Missouri Public Service Commission**

4 **Case No. GR-99-315**

5 **Surrebuttal Testimony of Donald E. Johnstone**

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

7 A Donald E. Johnstone; 1215 Fern Ridge Parkway, Suite 208; St. Louis, Missouri  
8 63141-2000. My qualifications are set forth in Appendix A of my Direct Testimony in  
9 this proceeding.

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

11 A My purpose is to summarize the Missouri Industrial Energy Consumers (MIEC)  
12 position with respect to class cost of service in response to the testimonies submitted  
13 by the Staff of the Missouri Public Service Commission (Staff) and the Office of the  
14 Public Counsel (OPC), and to a lesser extent, Laclede Gas Company (Laclede or  
15 Company).

16 **Q ON WHAT SUBJECTS WILL YOU BE OFFERING SURREBUTTAL TESTIMONY?**

17 A I will be offering surrebuttal to Hong Hu on the subject of allocation of costs to  
18 interruptible customers, to Staff witness Daniel Beck in regard to his recommendation

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1 of no adjustments to better reflect cost of service, and Laclede witness Lawrence  
2 Sherwin regarding the allocation of mains.

3 **Q WHAT IS THE POSITION OF OPC WITNESS HONG HU REGARDING THE**  
4 **ALLOCATION OF COSTS TO INTERRUPTIBLE CUSTOMERS?**

5 A Hong Hu criticizes the fact that I have reduced the responsibility of interruptible  
6 customers for certain fixed gas supply costs and mains by 50%. She observes that  
7 the resulting load factors, 100% for the interruptible class and 120% for the basic  
8 transportation class, are "nonsensical".

9 **Q HOW DO YOU RESPOND?**

10 A First, let me describe the situation of the interruptible customers. In order to achieve  
11 a lower price from Laclede, these customers have either made arrangements to do  
12 without gas or, more typically, have installed alternate fuel capability. As a  
13 consequence they are able to make use of capacity that Laclede has reserved for  
14 firm customers when it is unneeded by those firm customers. On the other hand,  
15 Laclede has no reason to incur any capacity related gas supply cost on behalf of  
16 these customers. Hence, from the point of view of imposing costs on the system, the  
17 capacity related gas supply costs imposed are zero.

18 On the other hand, in order for these customers to accommodate an  
19 interruptible supply, these customers typically incur additional costs at their facilities  
20 either in the form of doing without the gas and shutting down processes, or in the  
21 form of the cost of installing and maintaining alternate fuel capabilities. In the case  
22 when the alternate fuel capabilities are called upon, there is also a variable cost of  
23 operation as well.

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1    **Q     HAVE YOU REDUCED THE ALLOCATION OF DEMAND RELATED GAS SUPPLY**  
2           **COSTS AND DISTRIBUTION SYSTEM COSTS TO THESE CUSTOMERS IN**  
3           **RECOGNITION OF THEIR INTERRUPTIBILITY?**

4    **A     Yes, I have. Any firm distribution capacity is of little value to these customers, as**  
5           **they do not have firm supplies of gas. Consequently, I have reduced the demands of**  
6           **these customers by 50% for the purpose of both gas cost and facilities allocations.**

7           The matter of the resulting load factor is one which deserves explanation.  
8           First, I would note in other jurisdictions and even in Missouri, I have in the past  
9           observed and participated in discussions of various load factor assumptions such as  
10          a 100% load factor assumption or something greater. As presented in my Direct  
11          Testimony, it should be clear that my recommendation is to reduce the responsibility  
12          for the relevant costs for interruptible customers by 50% as compared to firm  
13          customers. The fact that I describe that in the context of a 100% load factor and a  
14          120% load factor has no direct relevance, but rather was presented as a convenient  
15          representation with which I expected most parties to be familiar.

16   **Q     IN VIEW OF THE CONCERNS RAISED BY HONG HU, DO YOU HAVE ANY**  
17           **CHANGE IN YOUR RECOMMENDATIONS?**

18   **A     No, although I would note that the interruptible class is much closer to cost of service**  
19           **than the large volume sales class and the transportation classes, and consequently,**  
20           **the recommended adjustment to the revenue responsibility is relatively small.**

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1    **Q     WHAT IS YOUR CONCERN WITH THE REBUTTAL TESTIMONY OF STAFF**  
2    **WITNESS DANIEL I. BECK?**

3    **A     Mr. Beck, after presenting a class cost of service study in his Direct Testimony,**  
4    **seems to back away from the notion of making the adjustments that would in fact**  
5    **produce cost-based rates.**

6    **Q     DO YOU AGREE?**

7    **A     No, I do not. Class cost of service studies have been widely accepted as an**  
8    **appropriate basis for establishing class revenue responsibility, and they have also**  
9    **been used to establish costs which are used within the rate design process. In other**  
10   **words, a proper class cost of service study forms an important basis for allocation of**  
11   **costs among and within customer classes. While there has also been a recognition**  
12   **of other important factors such as ease of understanding, ease of administration and**  
13   **customer impact, variations from cost which are not justified based on some other**  
14   **consideration may be appropriately characterized as representing undue**  
15   **discrimination. In my opinion, Mr. Beck's presentation, which offers no justification for**  
16   **the variations in costs that have been revealed by the cost studies in this proceeding,**  
17   **would have the result of producing rates that were unjust, unreasonable, and unduly**  
18   **discriminatory. This is a particular for the transportation customers where the**  
19   **variation from cost is quite large.**

20   **Q     WHAT ARE THE RESULTS OF THE COST STUDIES REGARDING SERVICE TO**  
21   **TRANSPORTATION CUSTOMERS?**

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1 A The cost studies presented by the parties, as adjusted by myself and Mr. Mallinckrodt  
2 to better reflect cost causation, have all shown that a reduction of no less than 24% is  
3 in order. The MIEC study demonstrates the need for a 40% reduction.

4 Q **DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A Yes it does.

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**LACLEDE GAS COMPANY**  
**Case No. GR-99-315**

**AFFIDAVIT OF DONALD E. JOHNSTONE**

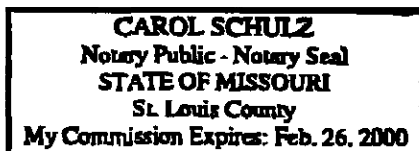
STATE OF MISSOURI       )  
                                  )  
COUNTY OF ST. LOUIS    )       SS

Donald E. Johnstone, being of lawful age and duly affirmed, states the following:

1. My name is Donald E. Johnstone. I am a consultant in the field of utility regulation and a member of Brubaker & Associates, Inc.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony filed on behalf of the Missouri Industrial Energy Consumers.
3. I have reviewed the attached surrebuttal testimony and hereby affirm that my testimony is true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Donald E. Johnstone

Duly affirmed before this 19th day of August 1999.



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

My commission expires on February 26, 2000.