

Exhibit No.: _____
Issue: Rate Design
Witness: Timothy R. Johnston
Exhibit Type: Rebuttal
Sponsoring Party: Summit Natural Gas of Missouri, Inc.
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

REBUTTAL TESTIMONY

OF

TIMOTHY R. JOHNSTON

ON BEHALF OF

SUMMIT NATURAL GAS OF MISSOURI, INC.

**Jefferson City, Missouri
July 2014**

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REBUTTAL TESTIMONY

TIMOTHY R. JOHNSTON

SUMMIT NATURAL GAS OF MISSOURI, INC.

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

2 A. Timothy R. Johnston, 7810 Shaffer Parkway, Littleton, CO 80127.

3 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

4 A. I am the Executive Vice President and Chief Strategy Officer for Summit Utilities,
5 Inc., the parent company of SNG.

6 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND RELEVANT**
7 **BUSINESS EXPERIENCE.**

8 A. Information responsive to this question is shown in the attached Schedule TMJ-1.

9 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AND SCHEDULES IN**
10 **THIS CASE?**

11 A. No.

12 **Q. ARE YOU PROVIDING TESTIMONY ON BEHALF OF SUMMIT NATURAL**
13 **GAS OF MISSOURI, INC. (“SNGMO” OR COMPANY“)?**

14 A. Yes, I am.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

16 A. I will: (1) adopt the Direct Testimony of Michelle Moorman; and, (2) discuss
17 Staff's Straight Fixed Variable rate design proposal.

18

19

1 **ADOPTION OF TESTIMONY**

2 **Q. WHY ARE YOU ADOPTING THE DIRECT TESTIMONY OF MICHELLE**
3 **MOORMAN?**

4 A. Since the filing of the Company's direct testimony, Ms. Moorman has left her
5 employment with Summit Utilities, Inc.

6 **Q. ARE YOU FAMILIAR WITH THE SUBJECTS DISCUSSED IN MS.**
7 **MOORMAN'S DIRECT TESTIMONY?**

8 A. I have read, and am familiar with, Ms. Moorman's testimony and will be available
9 for cross-examination concerning that testimony.

10 **STRAIGHT FIXED VARIABLE RATE DESIGN**

11 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF STRAIGHT FIXED**
12 **VARIABLE (SFV) RATE DESIGN?**

13 A. First, a distinction should be made between SFV as applied to cost assignment
14 and SFV used in rate design. SFV as a cost assignment tool would separate
15 costs based upon their fixed or variable attribute. Fixed costs would then be
16 assigned to customer classes based on the customer class contribution to those
17 costs. SFV applied to rate design, as I understand it, is the simple recovery of all
18 assigned customer class costs from a one part rate expressed as a monthly
19 service charge. This is often referred to in natural gas distribution parlance as
20 "Decoupling".

21 **Q. WHAT HAS STAFF PROPOSED IN ITS DIRECT TESTIMONY IN THIS CASE?**

22 A. Staff witness Mr. Tom Imhoff, in his direct testimony, proposed to apply SFV rate

1 design to SNGMO's Residential, General Service, and Commercial classes. Staff
2 is not proposing SFV for SNGMO's Large Volume or Transportation classes.

3 **Q. DOES SUMMIT OBJECT TO STAFF'S SFV RATE DESIGN PROPOSAL?**

4 A. Yes.

5 **Q. DOES SUMMIT HAVE A PHILOSOPHICAL OBJECTION TO THE USE OF SFV**
6 **RATE DESIGN?**

7 A. No. The use of SFV Rate Design as a tool by which to decouple utility non-gas
8 costs from gas usage makes sense in an overall context which also promotes
9 conservation.

10 **Q. WHAT IS THE BASIS FOR SUMMIT'S OBJECTION TO SFV RATE DESIGN IN**
11 **THIS CASE?**

12 A. Summit's distribution system has been constructed and placed in service since
13 1994. . A majority of the investment has occurred in the last ten years. The
14 investment is characterized by costs that have not been eroded by inflation and
15 the investment recovery has had little time to occur. Consequently, the
16 investment per customer and corresponding non-gas revenue requirement per
17 customer is significant.

18 Further, unlike many local distribution companies, Summit exists in a competitive
19 environment. Summit's management believes SFV pricing may artificially drive
20 customers to competitive fuels because low usage customers may migrate away
21 from Summit's system when faced with a significant fixed monthly charge.

22 **Q. HOW DOES SUMMIT'S PROPOSED RATE DESIGN MITIGATE THE HAZARD**

1 **YOU CITED?**

2 A. In his Direct Testimony and exhibits, Company witness Kent D. Taylor calculated
3 a customer charge for each customer class in each SNGMO operating division
4 (Schedule KDT-4, Exhibit 2). In preparation of this rate filing, Summit's
5 management initially considered the rate shock implications of the full customer-
6 related cost recovery from the monthly customer charge and instructed Kent to
7 calculate a more balanced two part rate approach to customer related class cost
8 recovery. He then established customer charge values lower than those which
9 were indicated in the original calculation and calculated a commodity charge that
10 absorbed the difference (Schedule KDT-4, Exhibit 3). This combination of
11 customer charges and commodity charges was shown to recover the entire
12 revenue requirement with a greater emphasis on the commodity charge than that
13 which was indicated in the original rate design calculation.

14 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 A. Yes.

