Exhibit No.:
Issues: Cost of Service, Service Territory Description, Rate Design
Witness: Philip B. Difani, Jr.
Type of Exhibit: Surrebuttal Testimony
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

SURREBUTTAL TESTIMONY

OF

PHILIP B. DIFANI, JR.

St. Louis, Missouri
August 19, 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 PHILIP B. DIFANI, JR.

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

Philip B. Difani, being first duly sworn on his oath, states:

1. My name is Philip B. Difani, Jr. I work in the City of St. Louis, Missouri, and I am an Engineer in the Rate Engineering Department of Ameren Services Company.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony consisting of pages 1 through 7, 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.

Philip B. Difani Jr.

Subscribed and sworn to before me this 18th day of August, 1999.

Debby Anzalone
Notary Public

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

SURREBUTTAL TESTIMONY

OF

PHILIP B. DIFANI, JR.

LACLEDE GAS COMPANY

CASE NO. GR-99-315

Q. Please state your name, title and business address.

A. My name is Philip B. Difani, Jr., and I am a Rate Engineer in the Rate Engineering Department of Ameren Services Company, a service company affiliate of Union Electric Company which does business as AmerenUE. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Are you the same Philip B. Difani, Jr. that presented Direct Testimony in this case?

A. Yes, I am.

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

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond to Laclede Gas Company's (Laclede) rebuttal testimony concerning: General Service (GS) and Seasonal Air Conditioning (SAC) Rate design, seasonally differentiated gas charges, and service territory tariff description.

General Service (GS) and Seasonal Air Conditioning (SAC) Rate Design

Q. On page 9 of his rebuttal testimony, Laclede's witness Cline objects to AmerenUE's analysis of Laclede's proposed General Service demand charge by stating that "... UE's suggested improvements are petty indeed. Rate design is not an exact science and fine-tuning of this magnitude should not drive a change in Laclede's rates." Please respond.

A. It is interesting to note that Laclede did not challenge the methodology or calculation that I used to seasonally differentiate its proposed demand charge. Instead Laclede's opposition is based on the minimal difference between its proposal and the result of my analyses. I believe that the merits of utilizing a proper cost allocation methodology in developing the demand charges are substantial in providing the proper price signal to customers. Regardless of the magnitude of the correction, my proposed changes to Laclede's GS demand charges should be adopted by the Commission in order to maintain the current commodity based seasonal differential in Laclede's tariffs.

Q. Please respond to Laclede's defense of its SAC Rate Design on pages 14 through 16 of Mr. Cline's rebuttal testimony.

A. Mr. Cline submits that the interruptible cost of gas should be applied to all summer SAC gas usage. Of course this produces the subsidy that was discussed in my direct testimony. If Laclede can determine a peak usage during the winter, it should also be able to allocate firm gas costs to this class based upon such peak. The General Service Class currently includes the SAC Class for winter use. In fact, Mr. Sherwin's direct testimony states demand-

related gas supply costs are primarily incurred for the coincident winter peak. Therefore, it seems as though the SAC Class should be responsible for at least its share of these costs that are not associated with air conditioning usage. Instead, under Laclede's rate design the SAC class is absolved of all demand-related gas supply gas costs for all its summer usage. This is unsupported by the facts and by all principles of cost causation and is a subsidy that should be corrected.

Service Territory Tariff Description

Q. On page 8 of his rebuttal testimony, Mr. Cline states that the Staff's recommendation that Laclede modify its tariff to include a listing of existing communities served and a legal description by Missouri county is "unnecessary and burdensome." Do you agree?

A. I certainly agree that including a legal description (that is, township, section and range numbers) by Missouri county is unnecessary and burdensome and, I would also add confusing. AmerenUE's existing gas tariffs have a listing of the counties and communities served by the Company with no legal descriptions except in one case where a Commission Order approved territorial boundaries utilizing a legal description. These tariffs are short and concise, have generally worked well, and have required only three revisions over the past ten years. On the other hand, AmerenUE's electric tariffs are in the form of the legal description that the Staff is recommending for Laclede. These electric service area tariff descriptions are an administrative burden, not easily understood, and consist of 63 pages of legal description. They have required revisions of approximately fifty sheets over the past ten years, and, in numerous

areas, include sections where AmerenUE does not or is not able to serve any new or potential customers absent case by case agreements with local Cooperatives.

Seasonally Differentiated Gas Charges

Q. On page 9 of his testimony, Mr. Cline objects to AmerenUE's recommendation that Laclede's demand-related gas supply costs be seasonally differentiated in its rates. This objection is based on the Commission's Report and Order in Case No. GR 94-328. Did the Commission reject seasonally differentiated rates in that order?

A. Yes, but two of the five Commissioners did dissent based on their belief that seasonal differentiation of demand-related gas costs would send an important message to customers through appropriate prices for natural gas. Furthermore, they encouraged Staff to continue with its efforts in this vein.

Q. Does any of the direct testimony of Laclede's witnesses in this case support a seasonal allocation of Laclede's demand-related gas costs?

A. Yes, on page 4 of Laclede witness Sherwin's direct testimony it was stated:

> "Demand-related Costs are those costs which are incurred in order to meet the maximum daily gas demand imposed by customers, particularly those demands which are coincident with the total system peak demand."

This would suggest that 100% of demand costs should be allocated to winter. However, while this statement may be conceptually appropriate, I believe there should be some nominal

component of demand-related gas supply costs allocated to the summer season. This allocation would reflect the summer season's beneficial use of Laclede's coincident peak gas supply demand. Additionally, page 24 of Laclede witness Krieger's direct testimony explains that in determining Laclede's non-weather sensitive or "base load", the following methodology should be used: Multiply July and August gas usage by six to determine a base annual figure which is then increased by 35% because of the naturally colder winter water temperature used for water heating. A seasonal allocation of demand-related gas supply costs based on Ms. Krieger's use of July and August to determine a summer base would result in approximately 95% of demand-related gas supply costs allocated to winter and only 5% to the summer.

Q. On pages 10 and 11 of Mr. Cline's rebuttal testimony, he claims that you drastically understate the amount of pipeline capacity needed to serve Laclede's summertime load requirements and that costs should be allocated to the summer period based on the maximum load that Laclede could experience during any one day during the summer, not the average daily load that you propose. Do you agree with these comments?

A. No, I don't. The peak daily summer volumes are relatively unimportant in allocating seasonal costs for several reasons. First, Laclede's summer season consists of the months of May through October. It is generally accepted that heating related usage can and typically does occur during the shoulder months of May and October. Such heating use should not be used to artificially increase the allocation to summer base load usage. If Mr. Cline believes that such heating loads should influence summer allocation factors, perhaps the summer season should be shortened due to the probability of some heating related usage during the months of May and October. My allocator does not require any change to the billing seasons but

rather has smoothed out the heating portion usage of such months by averaging such usage over the entire month. Second, Laclede's actual peak summer load includes Interruptible customers' usage. As this load is interruptible during all months of the year, it should be excluded from all allocations based on peak responsibility.

Q. Does Mr. Cline's suggestion of 283,000 MMBTU of total firm year-round upstream capacity contracts, on page 12 of his rebuttal testimony, represent the appropriate volumes to be used as a summer allocator?

A. No, it does not. Laclede can utilize many of these volumes to fill its company owned and leased storage plant during the summer season. Storage is primarily used to reduce more expensive winter capacity requirements and should therefore be allocated to the winter season.

Q. Can the market price for gas supply demand (or capacity cost) also be utilized in developing seasonal allocations of such costs?

A. Yes, as there is an open market for capacity release volumes, such prices and costs can be used as a benchmark for seasonal allocations developed in the more traditional manner. While such prices vary from month to month and within each month based on supply, demand, and usage requirements, our Gas Supply Department's records indicate that the average market cost of July capacity during the test year in this case was approximately 80% below the FERC tariffed rate for capacity of Mississippi River Transmission Corporation, Laclede's principal pipeline supplier. Applying these results to the monthly volumes suggested by Laclede in rebuttal testimony leads to a winter/summer split of approximately 96% - 4%. This is six

percentage points higher than the winter allocator recommendation in my direct testimony and approximately the same as that which can be calculated based upon Ms. Krieger's derivation of base load.

Q. Does this conclude your testimony?

A. Yes, it does.