BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
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In the Matter of Missouri Gas Energy's Tariffs to Implement a General Rate Increase for Natural Gas Service	)))	**Case No. GR-2004-0209** Tariff No. YG-2004-0624

INITIAL BRIEF OF THE FEDERAL EXECUTIVE AGENCIES' ON COS/RATE DESIGN AND CLASS REVENUE

I. BACKGROUND

The major Federal installations served by MGE are Whiteman Air Force Base and the Department of Energy facility in Kansas City, Missouri. Both of these installations are LVS transportation customers; they are not LVS gas supply customers. Whiteman Air Force Base also receives service to its military family housing area as an LGS customer. The Federal Executive Agencies' (FEA) cost of service study shows that both the LVS and LGS classes are paying above their cost of service based on current rates. The LVS class is overpaying by 18%, and the LGS class is overpaying by 60%. Prefiled testimony by the Federal Executive Agencies, OPC, and the Company all indicate that the LGS class is overpaying.

Since the Staff's cost of service study is no longer in evidence, the FEA recommend the Commission adopt the FEA cost of service study. Cost of service studies are a guide toward the ultimate goal of just and reasonable rates. And in determining just and reasonable rates, the Commission can consider the impact of shifting revenues between classes. The FEA have stated in prefiled testimony that an equal percent increase across all customer classes except the LGS class would be reasonable.

The Federal Executive Agencies recommend reducing the amount of any increase to the LGS class by 25 percent and spreading the remaining increase across the other

classes in an equal percentage. For example, if the Commission approves a 5 percent increase. The LGS increase under our proposal would be 3.75%, and according to our calculations, the increase for the other classes would be 5.05%.

II. THE VALID COST OF SERVICE STUDIES PROPERLY BEFORE THE COMMISSION SHOW THAT THE LVS CLASS SHOULD BE ALLOCATED A SMALLER PERCENTAGE OF THE OVERALL REVENUES

The only valid studies properly before the Commission are the FEA and Company studies. Cost of service studies were filed by FEA, MGE, OPC and Staff. In 2001 the Commission rejected the OPC cost of service study method and the Staff cost of service study is no longer in evidence. The LVS class is assigned 7.65% of current revenues. The FEA study shows that the LVS class is overpaying by 18% based on current revenues (Exhibit 500, Mr Price Rebuttal, Table 5, page 14, See Table on Page 7 of this Brief). The FEA study shows that the LVS class should be assigned 6.24% of current revenues and the Company's study shows that the LVS class should be assigned 6.54% (Exhibit 500, Mr Price Rebuttal, Table 4, page 13, See below Table).

EXHIBIT 500 - Table 4
Class Revenue Percentages
Current Rate Revenue Versus Cost of Service Results

Line No.	Description	Total	Residential	Small General Service	Large General Service	Large Volume Service
	(a)	(b)	(c)	(d)	(e)	(f)
1	Current Rate Revenue	100.00%	69.80%	20.56%	1.99%	7.65%
2	MGE COS (Corrected)	100.00%	75.37%	17.09%	1.00%	6.54%
3	Staff COS	STRUCK				
4	OPC COS	100.00%	62.95%	21.79%	1.43%	13.83%
5	FEA COS	100.00%	75.09%	17.87%	0.80%	6.24%

In determining the revenue percentage to be allocated to the LVS class the Commission should consider that the vast majority of LVS customers, transportation only customers, are subsidizing other customers by paying for gas supply services they do not use. The overwhelming majority, 99%, of the LVS class are transportation only customers. Mr. Price testified that the LVS transportation customers are paying a full share of gas inventory costs and associated cash working capital is allocated to the LVS class based on either volumes or demands as if total class were purchasing gas from MGE (Exhibit 500, Mr. Price Rebuttal page 12, line 6-14):

> It is my understanding that the LVS Customer Class consists of customers that take transmission or delivery service only. Although the LVS Tariff allows the customers to both purchase gas and delivery service from MGE, over 99.9% take delivery service only. As I stated earlier, the delivery service customers should not pay any costs associated with the gas acquisition and related costs. Only those LVS customers who purchase gas from MGE should pay for those type costs. All of the COS studies that I have reviewed in this case have inappropriately allocated a full share of costs such as gas inventories and associated cash working capital to the LVS class based on either volumes or demands as if the total class were purchasing gas from MGE.

MGUA and Jackson County UMKC/CMSU have identified additional costs which the LVS transportation customers should not be paying. The FEA defer to them for identification of these additional costs. The FEA would ask the Commission to take into account that the LVS transportation customers are already paying more than their share of costs when determining the percentage of revenue to be assigned to the LVS class.

III. THE OPC RELATIVE SYSTEM UTILIZATION METHOD RESULTS IN OVER-ALLOCATION OF COSTS TO LVS CUSTOMERS

The only cost of service study that recommends an increase in revenue percentage for the LVS class is the OPC study. The main reason for the difference between the OPC study and the other studies is the OPC relative system utilization method (RSUM) for allocating mains. Service mains are the largest category of plant in service. They account for 39% of total plant in service (Exhibit 25, Dr Cummings Rebuttal, page 23). The OPC used the Relative System Utilization Method (RSUM) to allocate costs even though the Commission rejected the RSUM method in 2001. The Commission stated; "Application of Public Counsel's modified RSUM method of allocating costs of distribution mains results in over-allocation of costs to LVS customers," (In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Service Area, 10 Mo PSC 3d pg 1 (2001), GR 96-285, at page 27). In the same case, the Commission observed that the estimated cost curve used by OPC in its RSUM method of mains allocation did not take into account the fact that some costs are not related to capacity (10 Mo PSC 3d, at page 19-20). Mr Busch testified that to the best of his knowledge the OPC was still using the same estimated cost curve (Transcript page 2106, lines 6–8). And further in the same case (10 Mo PSC 3d, at pg. 20) the Commission stated that the OPC RSUM Methodology used an estimated cost curve that failed to account for the fact that for each diameter of main that makes up MGE's distribution system, the lengths vary significantly. Mr Busch testified that Public Counsel has not altered its methodology to account for the fact that its estimated cost curve fails to account for the fact that for each diameter of main that makes up MGE's distribution system, the lengths vary significantly. (Transcript, page 2106, lines 18-24.)

As stated by Mr. Price, the RSUM methodology totally ignores the fact that mains were designed to meet an annual peak requirement of which about 80% (of the annual peak requirements) is created by about 99.8% of MGE's smaller customers (residential and small general service customers). OPC's proposed method assigns only about 72 % of the cost of the mains to these customers (Exhibit 500, Mr Price Rebuttal, page 10, line 5-9).

Other Commissions have also rejected the RSUM method. The OPC RSUM main allocator is based on papers presented by Charles Laderoute at the NARUC Biennial Regulatory Information Conference in 1988 and modified in a paper presented by economist Philip Thompson at the 1992 Biennial Regulatory Information Conference (Exhibit 212, Mr. Busch Direct, page 5). Mr Laderoute testified before the Michigan PSC and they rejected his RSUM methodology (In the Matter of the Application of Michigan Gas Company For Authority To Increase Its Rates For The Sale Of Gas And For Other Relief Case No. U-9323, Michigan Public Service Commission *1990 Mich. PSC Lexis 178 ,* 1990 (Attachment 1 to FEA Brief)):

> Mr. Laderoute testified in detail about the background theories underlying cost-of-service allocation methods, particularly those concerning the cost-of-service study he performed. He stated that a key factor in his study is the allocation of demand costs. He used the relative system utilization method (the RSUM method) to allocate these demand costs to various customer classes…Pg 24, Attachment 1 to FEA Brief.
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> Moreover, of the three cases cited by the utility in which the RSUM method was proposed, its use was specifically rejected in Cases Nos. U-8897 and U-9185, Michigan Gas's 1988 and 1989 GCR plan cases, respectively. The third case, Case No. U-9112, was settled by the parties and required no Commission findings regarding either the validity or the reliability of the RSUM method. We

> therefore find that all demand or capacity-related costs, such as the cost of the utility's distribution plant, should be assigned to utility customers by way of the Staff's A&P method…pg 25, Attachment 1 to FEA Brief

The RSUM methodology was also rejected by the New York Public Service Commission in 1994 (NY PSC 1363; 34 NY PSC 1363 (Oct 1994), Case no. 93-G-0941, Op 94-22 Brooklyn Union Gas Company, See Attachment 2 to FEA Brief)). The NY PSC stated on the eleventh page of the decision: "Furthermore the type of embedded study provided by the company has been found generally reasonable, if subject to unavoidable judgment, valuations, while the RSUM method advanced by the Consumer Protection Board has not."

In 2001 the Missouri Commission rejected the RSUM method. The Michigan and New York Commissions have also rejected it. The Missouri Commission should reject it again in this case because it results in over-allocation of costs to the LVS class.

IV. THE LGS CLASS INCREASE SHOULD BE 25% LOWER THAN THE INCREASE OF THE OTHER CUSTOMER CLASSES

All studies show that the LGS class is currently paying more than its share of revenue. The LGS Class is assigned 1.99% of revenues under current rates (Exhibit 500, Price Rebuttal Testimony, Table 5, page 14, See Table on page 2 of this Brief). All of the costs of service studies presented indicate the actual LGS class cost of service is less that 1.99% of current revenue (Exhibit 500, Mr Price Rebuttal, Table 4, page 13, See Table on page 2 of this Brief). The FEA study shows .080% as the proper percentage, the MGE study shows 1% as the proper percentage, and the OPC study shows 1.435% as the proper percentage (Exhibit 500, Mr Price Rebuttal, Table 4, page 13, See Table on page 2

of this Brief). The LGS class is overpaying by 60% based on current revenues (Exhibit 500, Mr Price Rebuttal, Table 5, page 14, See Below Table).

EXHIBIT 500 - Table 5
Federal Executive Agencies COS Study Versus Current Rate Revenue
Class Revenue Assignments

Line No.	Description	Total	Residential	Small General Service	Large General Service	Large Volume Service
	(a)	(b)	(c)	(d)	(e)	(f)
1	Current Rate Revenue	100.00%	69.80%	20.56%	1.99%	7.65%
2	FEA COS	100.00%	75.09%	17.87%	0.80%	6.24%
3	Difference - % (Line 2 / Line 1) - 1		7.57%	-13.09%	-59.94%	-18.32%

(1) From Table 4

The FEA recommend the LGS class receive an increase 25% lower than the increase of the other classes. Given the small size of the LGS class the impact on the other classes would be minimal. For example if the Commission approved a 5% increase in revenue, the LGS class would receive a 3.75% increase over current rates and the remaining classes would receive a 5.05% increase above their current rates.

V. CONCLUSION AND RECOMMENDATION

Cost of service studies are a guide toward the ultimate goal of just and reasonable rates. An equal percent increase for all customer classes would be reasonable with the exception of the LGS class. The FEA recommend the LGS class receive an increase 25% lower than the increase of the other customer classes.

Respectfully submitted,

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