

Exhibit No.:
Issues: Rate Design
Transportation Terms
Witness: Donald Johnstone
Type of Exhibit: Direct Testimony
Sponsoring Party: MGUA & Superior
Bowen Asphalt
Case Number: GR-2009-0355
Date Testimony Prepared: September 3, 2009

Missouri Gas Energy

Case No. GR-2009-0355

Prepared Rate Design Direct Testimony of

Donald Johnstone

On behalf of

Midwest Gas Users' Association
and
Superior Bowen Asphalt Company, L. L. C.

September 2009



Before the
Missouri Public Service Commission

Missouri Gas Energy

Case No. GR-2009-0355

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Rate Design Direct Testimony of Donald Johnstone

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Prepared Rate Design Direct Testimony of Donald Johnstone

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

2 A My name is Donald Johnstone and my address is 384 Black Hawk Drive, Lake Ozark,
3 Missouri, 65049. I am employed by Competitive Energy Dynamics, L. L. C.

4 **Q ON WHOSE BEHALF ARE YOU APPEARING?**

5 A I am appearing on behalf of Midwest Gas Users' Association (MGUA), a group of larger
6 volume gas transportation customers, and Superior Bowen Asphalt Company, L. L. C.,
7 which is also a large volume gas transportation customer.

8 **Q PLEASE STATE YOUR QUALIFICATIONS AND EXPERIENCE.**

9 A I have been working in the utility business since 1973. I started as an engineer for the
10 Union Electric Company, where I had assignments in power operations and corporate
11 planning. Since 1981 I have worked as a consultant in the field of utility regulation.
12 My work has taken me to many states and I have addressed various matters including
13 rate design, the cost of service, fuel costs, forecasting, resource planning, and
14 industry restructuring. My experience has included electric, gas, water, sewer, and
15 steam utility services. A more complete description is set forth in Appendix A.

1 **SUMMARY**

2 **Q WHAT ARE THE SUBJECTS ADDRESSED IN YOUR TESTIMONY?**

3 A I address class cost-of-service, the increase proposed for the large volume class, the
4 continuation of the seasonal structure for the large volume rate, and transportation
5 terms and conditions.

6 **Q WHAT ARE YOUR RECOMMENDATIONS?**

7 A I recommend a decrease for the large volume rate to a level no higher than supported
8 by the MGE class cost-of-service study – which may be changed based on rebuttal
9 testimony and evidence.

10 I recommend that the current cost-based seasonal structure of the large
11 volume rate be maintained, not eliminated as proposed by MGE.

12 Finally, I also recommend that transportation terms and conditions remain
13 unchanged, because MGE has made no showing or provided any documentation of
14 particular problems to be solved by its proposed changes. As such the MGE proposals
15 appear to be arbitrary. To the extent bona fide problems are documented, my clients
16 stand ready to work with MGE and other interested parties to develop reasonable
17 remedies while maintaining the effect of the current terms and conditions for those
18 that participate responsibly in the transportation program.

1 **CLASS COST-OF-SERVICE**

2 **Q IS IT APPROPRIATE TO COLLECT REVENUES FROM THE CUSTOMER CLASSES THAT**
3 **REFLECT THE COST OF PROVIDING SERVICE?**

4 A Yes. It is well established that cost is an appropriate basis for establishing rates and
5 revenues to be collected from the customer classes. When rates are based on the cost
6 of the service provided, customers make contributions equal to their respective shares
7 of the costs that are incurred to provide service to them. Furthermore, no customers
8 are favored with below cost rates and none are burdened with rates that exceed the
9 cost of the services provided.

10 **Q HOW CAN THE COST OF SERVING THE CUSTOMER CLASSES BE DETERMINED?**

11 A An accepted approach is a fully allocated class cost-of-service study. As a part of
12 these studies costs are investigated and analyzed to determine the reasons that costs
13 are incurred. Once cost causation is determined, costs are allocated among the classes
14 based on factors that correspond to the cost causation. For example, some costs are
15 caused by the need to provide service on the coldest day of the year, the day on which
16 the maximum delivery capacity is needed to provide reliable service. A proper class
17 cost-of-service study will identify the costs that are incurred for this purpose and then
18 allocate those costs among the classes according to their respective contributions to
19 the need for capacity on the design day. This is an approach that is followed in the
20 MGE class cost-of-service study submitted by Mr. Cummings.

1 **Q HAVE YOU REVIEWED THE STUDY SUBMITTED BY MR. CUMMINGS?**

2 A I have performed a preliminary review. While I would agree with much of the study,
3 there are aspects which lead to a potential overstatement of the costs allocated to
4 the large volume transportation customers. In particular, the study allocates the cost
5 of electronic metering to the customers, even though transportation customers are
6 required to pay for the metering up front. There are also substantial gas inventory
7 costs and cash working capital costs allocated to the transportation customers that
8 appear to be excessive. Finally, there are typically substantial costs incurred for
9 distribution mains that are not and cannot be used to provide service to the larger
10 customers. Unfortunately, the company's study does not make the separation of costs
11 necessary to shield the large customers from such costs that are not incurred to serve
12 them.

13 **Q ACCORDING TO THE MGE CLASS COST-OF-SERVICE STUDY, SHOULD THE RATES FOR**
14 **TRANSPORTATION CUSTOMERS GO UP OR GO DOWN?**

15 A The rates should go down. Even though the study has sent too much cost to the large
16 volume transportation customers, it nevertheless concludes that their rates should go
17 down not up. According to the MGE study the revenues for the large volume class are
18 102.29% of the allocated costs. Thus, a downward adjustment is in order for the large
19 volume rate.

1 **SPREAD OF THE INCREASE**

2 **Q DOES MGE PROPOSE AN INCREASE FOR THE LARGE VOLUME CUSTOMERS?**

3 A Yes. The proposal would increase the large volume rate in contradiction of the results
4 of its class cost-of-service study. If the proposal were implemented the rates would
5 not move to a cost-based level; nor would they move in the correct direction for the
6 large volume customers.

7 **Q WHAT IS YOUR RECOMMENDATION FOR THE LARGE VOLUME RATE?**

8 A It should be reduced at least to a level no higher than indicated by the MGE class cost-
9 of-service study, which would still leave the rate on the on the high side of cost for
10 the reasons explained above.

11 **STRUCTURE FOR THE LARGE VOLUME RATE**

12 **Q IS THE SYSTEM DESIGNED TO SERVE A DESIGN DAY WINTER PEAK LOAD?**

13 A Yes, and the MGE class cost-of-service study accounts for this by allocating demand-
14 related costs among the rate classes based on the design day class loads.

15 **Q IN THE DESIGN OF RATES, IS IT APPROPRIATE TO REFLECT THE EFFECT OF THE**
16 **SEASONAL COSTS THAT ARE CAUSED BY THE SEASONAL PEAK?**

17 A Yes. Of course, my focus is on the large volume rate. The present seasonal design is
18 reasonable and should be continued.

1 **Q PLEASE EXPLAIN WHY THE PRESENT SEASONAL STRUCTURE OF THE LARGE VOLUME**
2 **RATE IS REASONABLE.**

3 A The present seasonal structure of the large volume rate properly collects more from
4 customers that impose higher costs due to the seasonal aspect of their usage.
5 Similarly, the present seasonal structure also properly collects less from those
6 customers that have relatively lower usage in the peak season. Conversely, if the
7 seasonal structure is not maintained, costs will be inappropriately shifted among
8 customers within the large volume class and inappropriate subsidies would be created.

9 **TRANSPORTATION SERVICE**

10 **Q DOES MGE PROPOSE STRICTER BALANCING AND OTHER PROVISIONS FOR**
11 **TRANSPORTATION CUSTOMERS?**

12 A Yes. However, MGE testimony provides no documentation of any need for change.

13 The current rates, terms, and conditions are to be presumed reasonable and so
14 to the extent it is alleged that there may be particular problems, it is necessary to
15 first identify any problems that need to be addressed. Otherwise, change for the sake
16 of change would be arbitrary and objectionable.

17 To the extent there are problems that need to be addressed, the particular
18 problems must first be defined and documented. If MGE does this, my clients will be
19 prepared to cooperate in the development of a reasonable remedy. Otherwise, the
20 terms and conditions must remain as they are, inasmuch as MGE has provided no
21 identification and documentation of problems.

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

2 **A Yes, it does.**

Appendix A
Qualifications of Donald E. Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO 65049.

3 Q PLEASE STATE YOUR OCCUPATION.

4 A I am President of Competitive Energy Dynamics, L. L. C. and a consultant in the field
5 of public utility regulation.

6 Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

7 A In 1968, I received a Bachelor of Science Degree in Electrical Engineering from the
8 University of Missouri at Rolla. After graduation, I worked in the customer engineering
9 division of a computer manufacturer. From 1969 to 1973, I was an officer in the Air
10 Force, where most of my work was related to the Aircraft Structural Integrity Program
11 in the areas of data processing, data base design and economic cost analysis. Also in
12 1973, I received a Master of Business Administration Degree from Oklahoma City
13 University.

14 From 1973 through 1981, I was employed by a large Midwestern utility and
15 worked in the Power Operations and Corporate Planning Functions. While in the
16 Power Operations Function, I had assignments relating to the peak demand and net
17 output forecasts and load behavior studies which included such factors as weather,
18 conservation and seasonality. I also analyzed the cost of replacement energy
19 associated with forced outages of generation facilities. In the Corporate Planning
20 Function, my assignments included developmental work on a generation expansion

1 planning program and work on the peak demand and sales forecasts. From 1977
2 through 1981, I was Supervisor of the Load Forecasting Group where my
3 responsibilities included the Company's sales and peak demand forecasts and the
4 weather normalization of sales.

5 In 1981, I began consulting, and in 2000, I created the firm Competitive Energy
6 Dynamics, L.L.C. As a part of my twenty-five years of consulting practice, I have
7 participated in the analysis of various electric, gas, water, and sewer utility matters,
8 including the analysis and preparation of cost-of-service studies and rate analyses. In
9 addition to general rate cases, I have participated in electric fuel and gas cost reviews
10 and planning proceedings, policy proceedings, market price surveys, generation
11 capacity evaluations, and assorted matters related to the restructuring of the electric
12 and gas industries. I have also assisted companies in the negotiation of power
13 contracts representing over \$1 billion of electricity.

14 I have testified before the state regulatory commissions of Delaware, Hawaii,
15 Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio,
16 Pennsylvania, Tennessee, Virginia and West Virginia, and the Rate Commission of the
17 Metropolitan St. Louis Sewer District.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas	)	
Energy and Its Tariff Filing to	)	
Implement a General Rate	)	Case No. GR-2009-0355
Increase for Natural Gas	)	
Service	)	

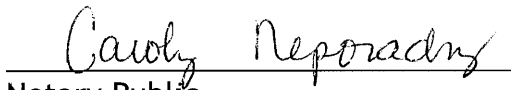
Affidavit of Donald Johnstone

State of Missouri	)	
	)	ss
County of Camden	)	

Donald Johnstone, of lawful age, on his oath states: that he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.


Donald Johnstone

Subscribed and sworn before me this 3rd day of September, 2009


Notary Public



CAROLYN NEPORADNY
My Commission Expires
August 30, 2013
Camden County
Commission #09452654