

Exhibit No.: _____
Issue: Revised Tariffs To Increase Annual Revenues for Natural Gas Service
Witness: Louie R. Ervin Sr.
Exhibit Type: Direct
Sponsoring Party: Missouri School Boards' Association
Case No.: GR-2014-0086
Date: May 30, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

DIRECT TESTIMONY

OF

LOUIE R. ERVIN SR.

ON BEHALF OF

MISSOURI SCHOOL BOARDS' ASSOCIATION

**Jefferson City, Missouri
May 30, 2014**

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MISSOURI SCHOOL BOARDS' ASSOCIATION

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3 **LOUIE R. ERVIN SR.**

4 **MISSOURI SCHOOL BOARDS' ASSOCIATION**

5 **CASE NO. GR-2014-0086**

6
7 **Q. Please state your name and business address.**

8 A. Louie R. Ervin, Sr., Suite 300, 150 First Avenue NE, Cedar Rapids, Iowa 52401

9 **Q. On whose behalf is your testimony presented?**

10 A. The Missouri School Boards' Association (MSBA).

11 **Q. By whom and in what capacity are you employed?**

12 A. I am Executive Vice President of Latham and Associates, an independent energy
13 consulting firm.

14 **Q. Will you briefly describe Latham and Associates?**

15 A. Latham & Associates (L&A) is an independent energy advisor. We are not an
16 affiliate of any utility, energy marketer, broker or pipeline. Among our client base are education
17 institutions, municipal utilities, rural electric cooperatives, industrials and commercial
18 enterprises. Over that past sixteen years, our firm has advised statewide school aggregate natural
19 gas and electric programs in Missouri, Illinois, Wisconsin, Minnesota, Nebraska and Kansas.

20 **Q. Please state your educational and relevant background business experience.**

21 A. More detailed information is provided in Appendix A. I have B.S. and M.S.
22 engineering degrees from the University of Missouri-Columbia, and an MBA from the
23 University of Iowa. I have over twenty five years of experience with Missouri, Louisiana and

1 Iowa utilities as well as sixteen years of energy consulting experience. My primary
2 responsibilities have been rates, regulations, contracts and operations.

3 **Q. Have you testified before courts, legislatures, and regulatory bodies?**

4 A. Yes, I have testified before the Federal Energy Regulatory Commission, the
5 Missouri Public Service Commission, the Illinois Commerce Commission, the Iowa Utilities
6 Board, the Iowa legislature and various state and federal courts.

7 **Q. Are you the same Louie R. Ervin who has testified before this Commission in**
8 **the original gas corporation cases held to implement Section 393.310 RSMo as it relates to**
9 **the aggregate purchasing and transportation of natural gas by Missouri school districts?**

10 A. Yes. In the late 1990's and early 2000, I drafted language which ultimately
11 became Section 393.310 RSMo, and I testified regarding its implementation. I have represented
12 the MSBA in rate cases and negotiated settlements with Missouri's investor-owned natural gas
13 utilities, which this Commission approved.

14 **Q. What is your current relationship to MSBA?**

15 A. My firm is advisor to MSBA on technical and rate matters relating to natural gas
16 transportation and I have served as an expert witness in many cases before the Missouri Public
17 Service Commission.

18 **Q. Will you briefly describe MSBA and its interest in this case?**

19 A. MSBA's membership consists of approximately 400 public school districts with
20 approximately 2,000 individual school locations. MSBA is a not-for-profit corporation which
21 serves as a trade association for its member school districts. The MSBA has sponsored an
22 aggregate natural gas purchasing program for Missouri schools since 1999. MSBA achieved
23 passage of legislation to allow Missouri schools to aggregate purchases and transportation of

1 natural gas which is codified as Section 393.310 of the RSMo. A number of schools in MSBA’s
2 program purchase natural gas distribution delivery services, or transportation, from Summit
3 Natural Gas (“SNG”) for delivery of third-party competitive commodity natural gas supply. As
4 sponsor, MSBA, in conjunction with its third party administrator and advisor, manages the
5 contractual relationships with utilities and suppliers to transport natural gas to approximately 256
6 Missouri school districts with annual consumption of approximately 32,000,000 therms.

7 **Q. What is the scope of this testimony filing?**

8 A. The purpose of my testimony is to point out inequities in SNG’s proposed
9 transportation tariff rate schedule applicable to schools and needed tariff clarifications and
10 Commission directives to correct those inequities. My testimony does not directly address the
11 cost of service or revenue requirement determinants, but I believe it is appropriate to file my
12 testimony at this time because the issues I raise could affect the allocation of the overall revenue
13 requirement among rate classes and ultimately rate design.

14 **Q. What is the purpose of this testimony filing?**

15 A. Absent a standalone school aggregation rate schedule containing all rates,
16 charges, terms and conditions, rather than referencing to other rate sheets, clarifying language
17 needs to be made to the SNG’s rate schedules as they relate to school natural gas aggregation.
18 Those tariff sheets needing clarifying language added are Original Sheet No. 45, Original Sheet
19 No. 46, and Original Sheet No. 49, all part of Missouri School Program Transportation Service
20 Rate Schedule.

21 **Q. What clarifying language do you recommend be made to the tariff rate**
22 **schedule?**

1 A. The following clarifying language additions are needed to Missouri School
2 Program Transportation Service Rate Schedule:

3 1. At the beginning of Paragraph 2.a. on tariff sheet Original
4 Sheet No. 45, add clarifying definition language: “For purposes of the
5 Missouri School Program, “Shipper”, “Participant”, “School District” and
6 “Customer” have the same meaning.”

7 2. Because Section 393.310 RSMo prohibits requiring telemetry or
8 special meters for eligible school entities, at the end of Paragraph 2.e. on Original
9 Sheet No. 46, add clarifying language: “Because not all schools have daily
10 telemetry, for purposes of the Missouri School Program, school imbalances will
11 be cashed out in Tier-1.”

12 3. To make clear that SNG’s interruption policy regarding constrains
13 on its delivery system does not discriminate between schools taking SNG supply
14 or third-party supply, add clarifying language at the end of Paragraph 9, Original
15 Sheet No. 49: “For purposes of the Missouri School Program, interruption,
16 curtailment or forced reduction of delivery services to schools receiving third-
17 party transported commodity supply will have the same priority and will be
18 handled in the same manner as interruptions would be for those same schools had
19 the schools been purchasing Company’s commodity supply.”

20 **Q. Does the Company agree that for purposes of the Missouri School Program,**
21 **“Shipper”, “Participant”, “School District” and “Customer” have the same meaning?**

22 A. Yes, it appears that the Company agrees that “Shipper”, “Participant”, “School
23 District” and “Customer” all have the same meaning for purposes of the Missouri School

1 Program as evidenced by Company filing in Appendix B, which consists of Company's
2 responses to MSBA Data Requests No 38a.

3 **Q. Does the Company agree that because not all schools have daily telemetry,**
4 **for purposes of the Missouri School Program, school imbalances will be cashed out in Tier-**
5 **1?**

6 A. Yes, it appears that the Company agrees that because not all schools have daily
7 telemetry, for purposes of the Missouri School Program, school imbalances will be cashed out in
8 Tier-1, as evidenced by Company filing in Appendix C, which consists of Company's responses
9 to MSBA Data Requests Nos. 37 a and c.

10 **Q. Does Section 393.310 RSMo prohibit costly special daily metering and**
11 **telemetry for schools that participate in the Missouri School Program?**

12 A. Yes, 393.310 RSMo prohibits requiring schools to have telemetry or special
13 metering. Section 393.310 RSMo states: "4. (3) Not require telemetry or special metering, except
14 for individual school meters over one hundred thousand therms annually.

15 **Q. Does the Company agree that schools in the Missouri Transportation**
16 **Program are not required to have telemetry or special metering?**

17 A. Yes, it appears that the Company does not require Missouri Transportation School
18 Program participants to have telemetry or special metering, as evidenced by Appendix C which
19 consists of Company Responses to MSBA's Data Requests Nos. 37a and c, which was earlier
20 referenced.

21 **Q. Do any of the schools on the SNG system that participate in the Missouri**
22 **School program use over one hundred thousand therms annually?**

1 A. No. Therefore, the “one-size-fits” all monthly charge for all transport customers,
2 schools or non-schools, does not accurately reflect costs for schools that do not have special
3 daily metering and telemetry.

4 **Q. Does the Company agree that for purposes of the Missouri School Program,**
5 **interruption, curtailment or forced reduction of delivery services to schools receiving third-**
6 **party transported commodity supply will have the same priority and will be handled in the**
7 **same manner as interruptions would be for those same schools had the schools been**
8 **purchasing Company’s commodity supply?**

9 A. No, it appears that the Company does not agree with MSBA’s position on the
10 priority of interruptions as evidenced by Appendix D, which is Company’s response to MSBA
11 Data Request No. 12 and states: “Company policy aligns with the tariff basically stating the
12 retailed bundled service customers have preference because the tariff requires it.” Therefore, a
13 change in the tariff is necessary to eliminate this discriminatory practice, which we have not
14 experienced with any other of multiple Midwestern utilities with which we actively advise
15 school natural gas aggregation programs, including other Missouri utilities.

16 **Q. What evidence do you present that demonstrates that the Company places a**
17 **lower priority on schools just because they transport?**

18 A. Appendix E is presented and consists of Company’s responses to MSBA Data
19 Requests Nos. 8 and 9. These responses clearly state that the Company offers firm delivery
20 service to its bundled retail customers but does not offer firm delivery service to its transport
21 customers. This practice is discriminatory in that the same school will be subject to interruption
22 if they transport third-party supply but will not be interrupted if they purchase Company’s
23 supply.

1 **Q. If the Commission orders these clarifications be added to Company’s**
2 **Missouri School Program rate schedule, do you believe the Company’s rate schedule**
3 **language will be consistent with the intent of Section 393.310 RSMo?**

4 A. Yes, with three more exceptions.

5 **Q. What other issues does MSBA want the Commission to address?**

6 A. MSBA asks that the Commission address the Cashout Price Determinate for
7 Transportation Service (TS), the Customer Charge for Transportation Service (TS) on Original
8 Sheet No. 29 and the Pool Operator monthly charge.

9 **Q. What is the issue regarding the Cashout Price Determinate for**
10 **Transportation Service (TS) on Original Sheet No. 36.**

11 A. The Company proposes to use the lowest of three price determinates when
12 crediting Shipper for imbalances that are over deliveries to the Company and the highest price
13 when charging Shipper for imbalances there are under deliveries. Aside from the punitive nature
14 of the proposed Cashout, the third price determinate, “Currently in effect Purchase Gas
15 Adjustment (PGA),” is inappropriate.

16 **Q. In what way is the “Currently in effect Purchase Gas Adjustment (PGA)”**
17 **inappropriate for a Cashout price determinate?**

18 A. As set forth on Original Sheets No. 50 through No. 59, it is clear that the current
19 month PGA is based on gas cost estimates that are not associated with the month in which the
20 imbalances occurred that are being cashed out. The current PGA is designed for retail sales
21 service customers and not transportation customers and it is a 12-month cost estimate or an
22 annual average estimate of costs that has no relationship to actual individual monthly costs
23 associated with imbalances. Per SNG’s proposed tariff, the Company can file up to four (4) PGA

1 filings per year, a required Winter PGA and three (3) Optional PGAs, which do not match the
2 month in which an imbalance occurs. The PGA can include costs such as gas purchases under
3 fixed-price contracts, Company's use of financial instruments, except call options for which only
4 cost reductions are expected, all of which are inappropriate for individual monthly Cashouts for
5 transportation customers. PGAs also contain out of period annual adjustments per the Actual
6 Cost Adjustment (ACA), which includes interest for the prior year, which also has no
7 relationship to imbalance cashouts.

8 **Q. Are there operating reasons why the Company's proposed Cashout should**
9 **be modified?**

10 A. Yes. It has not been uncommon, particularly during summer months when the
11 Company is making storage injections, for the Company to reduce the nominated deliveries
12 made by MSBA's Pool Operator, which is a Company-caused imbalance. The Company practice
13 of reducing school transport commodity deliveries in favor of receiving its own commodity
14 deliveries is discriminatory. Despite the transporting school having its own pipeline capacity,
15 they are treated with less priority than the same schools would be treated if they did not transport
16 third-party supply but instead purchased Company's commodity. As a result, the transporting
17 schools are prevented from fully utilizing pipeline capacity for which they pay full pipeline tariff
18 rates. Although schools pay full cost of service rates for use of the Company's delivery system,
19 when school chose transport service over Company commodity supply they are penalized. The
20 penalty is in the form of increased imbalances at punitive cashout prices when those imbalances
21 were, at least in part, created by the Company placing a higher priority on sales service supply
22 and curtailing MSBA commodity deliveries.

1 **Q. What action do you recommend the Commission take with regard to the**
2 **Cashout price determinates?**

3 A. For the foregoing reasons, I recommend that the Commission approve two of the
4 Company’s proposed price determinates, “Beginning Storage Weighted Average Cost of Gas
5 (WACOG) as calculated by Company for the Delivery Month” and “Actual Purchase WACOG
6 for the Delivery Month as calculated by the Company,” but reject the third price determinate,
7 “Currently in effect Purchase Gas Adjustment (PGA).” This recommendation will allow
8 Company to still charge the lowest price of the first two price determinates when crediting for
9 over deliveries and the highest of the two price determinates when charging for under deliveries
10 when cashing out imbalances for each month in which the imbalances occurred. I also
11 recommend that the Commission order the Company to treat delivery of commodity supply for
12 schools the same whether they receive Company commodity supply or third-party transported
13 commodity supply.

14 **Q. What is the issue regarding the monthly Customer Charge applicable to**
15 **school districts that transport under the Missouri School Program?**

16 A. Rate shock will occur to schools in the aggregation program if the Company’s
17 monthly charge per district is increased from \$50 per month per school district to \$300 per
18 month, a six fold increase. Because most schools on the SNG system are in small communities
19 and rural areas with smaller usage, the fixed monthly charge is a substantial component in these
20 schools overall costs, particularly during non-heating low usage months.

21 **Q. What Company costs are intended to be recovered in the monthly charge?**

22 A. Substantially, the monthly charge is intended to recover increased costs for
23 Company’s special daily metering and telemetry.

1 **Q. What monthly school administrative and aggregation charge do you propose**
2 **the Commission order?**

3 A. I recommend that the Commission order the \$50.00 per district per month charged
4 by SNG for Missouri School Program transportation services be increased by the same
5 percentage that is approved by the Commission for customer charges for the retail Commercial
6 rate schedule.

7 **Q. What is MSBA’s position on SNG’s proposed Pool Operator monthly charge**
8 **of \$250.00 per month?**

9 A. The proposed Pool Operator monthly charge of \$250 per month should be replaced
10 with an administration and balancing charge of \$0.004 per therm directly in the Missouri School
11 Program rate schedule rather via a charge included in a Pool Operator agreement. The Pool
12 Operator monthly charge is intended to recover Company’s costs for administering the Missouri
13 School Program and it is duplicative of the \$0.004/therm charge prescribed in Section 393.310
14 RSMo for administration and balancing services. Naturally, the Pool Operator passes the Pool
15 Operator charge on to schools; so, it would be more efficient and in keeping with Section
16 393.310 RSMo, if the Commission orders the Pool Operator monthly charge be replaced with an
17 administration and balancing charge of \$0.004 per therm.

18 **Q. Do any other Missouri gas utilities charge a monthly Pool Operator Charge**
19 **to the schools?**

20 A. No, not to my knowledge.

21 **Q. Does Section 393.310 RSMo speak to the \$0.004 per therm charge?**

22 A. Yes, Section 393.310 RSMo states:

1 “5. (2) Provide for the resale of such natural gas supplies, including related
2 transportation service costs, to the eligible school entities at the gas
3 corporation's cost of purchasing of such gas supplies and transportation,
4 plus all applicable distribution costs, plus an aggregation and balancing
5 fee to be determined by the commission, not to exceed four-tenths of one
6 cent per therm delivered during the first year;”

7 **Q. Does this conclude your direct testimony?**

8 A. Yes, it does.

