

Exhibit No.: _____
Issue: Revised Tariffs to Increase Annual Revenues for Natural Gas Service
Witness: Louie R. Ervin Sr.
Exhibit Type: Rebuttal
Sponsoring Party: Missouri School Boards' Association
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

REBUTTAL TESTIMONY

OF

LOUIE R. ERVIN SR.

ON BEHALF OF

MISSOURI SCHOOL BOARDS' ASSOCIATION

**Jefferson City, Missouri
July 11, 2014**

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LOUIE R. ERVIN SR.**

MISSOURI SCHOOL BOARDS' ASSOCIATION

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1 **REBUTTAL TESTIMONY**

2 **OF**

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. Are you the same Louie R. Ervin who submitted direct testimony in this case**
10 **on behalf of the Missouri School Boards' Association (MSBA)?**

11 A. Yes.

12 **Q. What is the purpose of this testimony?**

13 A. The purpose of this testimony is to point out consensus and differences in
14 MSBA's position and/or the position(s) of SNG and staff regarding the transportation rate
15 schedule applicable to schools and to offer rebuttal arguments where warranted. Specifically, I
16 will address these issues:

17 (a) Telemetry Requirement;

18 (b) Cashout Daily Cashout, Tier and Price;

19 (c) Customer and Commodity Charges;

20 (d) Interruptible vs. Firm Distribution Delivery Service;

21 (e) SNG's Pipeline Allocation Method;

22 (f) Capacity Release; and

23 (g) Pool Operator Charge and Agreement.

24 **Q. What is the issue and positions regarding telemetry?**

1 A. MSBA does not object to staff’s proposal to put language from Section 393.310
2 RSMo in the School Transportation Program rate schedule which requires telemetry for schools
3 having annual usage greater than 100,000 therms.

4 **Q. What is a Cashout?**

5 A. Supply imbalances are created when a transportation customer’s delivered supply
6 to the Company’s distribution system is greater than or less than the customer’s actual usage.
7 Imbalances can be daily or monthly. Heretofore, Company carried the imbalance on its books
8 until the next month when MSBA and Company worked to offset the imbalance overage or
9 shortage during the following month(s). Company has proposed in this case not to carry over
10 imbalances but instead to cash them out (Cashout) after the end of the month. That is, if a
11 transportation customer under-delivers, then the Company supplies that difference. If the
12 transport customer over-delivers, then the Company retains that difference as part of its own
13 supply.

14 **Q. What are the issues and positions regarding Cashouts?**

15 A. There are three underlying Cashout issues. First, contrary to Section 393.310
16 RSMo, SNG is imputing artificial daily, rather than monthly, imbalances for schools and then
17 summing the daily imbalances to create an artificial monthly imbalance. As previously noted,
18 Section 319.310 RSMo prohibits daily metering for schools with annual usage greater than
19 100,000 therms. Thus, monthly metered schools are to be cashed out on a monthly basis using
20 the monthly imbalance as the difference between actual monthly usage and scheduled monthly
21 deliveries. However, SNG has provided a priority sequence to the pipeline for allocating daily
22 nominated deliveries to all transport customers without recognition of differences between daily
23 and monthly metered transportation customers. SNG then treats the difference between schools

1 daily scheduled deliveries and an artificially imputed daily allocation as daily imbalances which
2 are then summed for the month and called a monthly imbalance instead of correctly taking the
3 difference between monthly scheduled deliveries and actual monthly usage as the correct
4 monthly imbalance to be cashed out. I recommend that the Commission’s Order in this case
5 direct the Company to adhere to Section 393.310 RSMo and compute monthly Cashouts for
6 schools with usage less than 100,000 therms annually as the difference between monthly
7 scheduled deliveries and actual monthly usage as the correct monthly imbalance to be cashed
8 out.

9 **Q. What is the second issue and position regarding Cashouts?**

10 A. The second Cashout issue is the appropriate Tier in which monthly metered
11 schools should be cashed out. Company and MSBA agree that because currently all transporting
12 schools on the Company system are not required to have daily telemetry, but instead are monthly
13 metered, schools are to be cashed out in Tier-1. See Appendix A, which is SNG’s response to
14 MSBA’s Data Request No. 37, item (c). The Company proposes Cashout Tiers which have
15 progressively punitive Cashout prices at higher/lower percentages of imbalance. Stated another
16 way, the Company proposes to pay progressively lower Cashout prices for over-deliveries to
17 Company as the percentage of imbalance, or Tier, increases. Conversely, Company proposes to
18 charge progressively higher Cashout prices for under-deliveries to Company as the percentage of
19 imbalance, or Tier, increases.

20 **Q. Are progressive Cashouts common in the industry?**

21 A. Use of progressively punitive Cashouts for “daily” metered accounts by Tier is
22 relatively common in the industry as it provides a strong financial incentive to match daily
23 deliveries to daily usage to the maximum extent practical. To date, no other party has objected

1 to schools being cashed out in Tier-1 because they are “monthly” metered. I recommend the
2 Commission include the language in my direct testimony that effectively states that monthly
3 metered schools are to be cashed out in Tier-1.

4 **Q. What is the third issue regarding Cashout?**

5 A. The appropriate monthly Cashout price is the third Cashout issue. The Company
6 has proposed a Cashout price which is the highest of three potential prices, which are: (a) the
7 price Company paid for gas that month, (b) the Company’s Weighted Average Cost of Gas
8 (WACOG) from storage, or (c) Company’s Purchase Gas Adjustment (PGA). In my direct
9 testimony, I testified that the PGA was not an appropriate price because it is an out-of-period
10 pre-estimate of a price that contains more than just gas costs and is always trued-up with a factor
11 added or subtracted to future monthly PGAs. Although I did not object to the other two
12 proposed price determinates in my direct testimony, further discussions with Company and staff
13 have lead me to believe that a single “index-based” market price for the month in which the
14 imbalance is incurred is a more accurate reflection of Company’s actual costs and should be the
15 single price determinate for monthly Cashouts. It is not possible to accurately or fairly
16 implement a daily index or weekly average of daily indices for monthly metered accounts.

17 **Q. What “monthly” index-based market price do you propose for Cashouts?**

18 A. A good example for monthly Cashout is Missouri Gas Energy Company’s (MGE)
19 monthly index price. MGE serves transportation customers off the same pipeline and uses a
20 monthly “index-based” market price for Cashouts. See Appendix B, which is the Commission-
21 approved MGE rate Sheet No. 61.3 that contains the MGE Cashout price as: “Index price: The
22 index price shall be determined by the arithmetic average of the first-of-the month index prices
23 published in Inside F.E.R.C.’s Gas Market Report for the month immediately following the

1 month in which the imbalance occurred, for Southern Star Central Pipeline, Inc. f/k/a Williams
2 Gas Pipeline Central Inc. (Texas, Kansas, Oklahoma) (If Inside FERC’s Gas Market Report does
3 not publish an index price for Southern Star, then the alternate index price approved by FERC
4 for use by Southern Star Central will be substituted.)” I recommend the MGE tariff language for
5 monthly Index Price be adopted for SNG.

6 **Q. What is the issue and positions regarding Customer Charges and**
7 **Commodity Charges?**

8 A. The issue is whether schools participating in the Missouri School Transportation
9 Program should be billed customer and commodity charges approved for the Transportation
10 Class rate schedule or the rate schedule applicable to the customer class to which the school
11 would take retail sales service if it were not transporting.

12 **Q. Are schools that participate in the Missouri School Program transportation**
13 **or sales customers?**

14 A. Schools that participate in the Missouri School Program are transportation
15 customers. The Missouri School Program is an aggregation program whereby schools jointly
16 purchase natural gas and have it delivered, or transported, by the local utility under transport rate
17 schedules. The Company properly included schools that transport under the Transportation
18 Service Class Cost of Service (CCOS) in its original filing in this case. Staff also properly
19 included schools that transport under the transportation service customer class in its CCOS.
20 However, staff has proposed that transporting schools not be charged the transportation delivery
21 service rate for the transportation class in which schools belong, but, instead charge transporting
22 schools the delivery service rate under which a transporting school would take service if they

1 were retail sales bundled service customers, which they are not. MSBA objects to being a
2 transportation customer but being charged non-transportation rates.

3 **Q. Is there a precedent for the staff approach of charging the delivery service**
4 **rate under which schools would take service if they were retail sales bundled service**
5 **customer?**

6 A. Yes, under very specific and different circumstances. For example, Laclede Gas
7 Company and MGE charge transporting schools the delivery service rate under which schools
8 would take service if they were retail sales bundled service customers. When a school first
9 moves from bundled sales service to transportation service, to prevent any negative financial
10 impact to Company or other customers as prescribed under Section 393.310 RSMo, some
11 utilities have continued to be charged the non-supply or delivery charges schools would pay as a
12 retail sales bundled service customers. The retail service charges continue to be applied to
13 transporting schools until the implementation of the Company's next rate case, at which time the
14 Commission-approved rate would apply.

15 **Q. Under what customer class rate schedule do other Missouri utilities place**
16 **schools?**

17 A. Ameren's transportation rate schedule applies to schools in the Missouri School
18 Program as well as to other transport customers. Missouri Gas Energy and Laclede Gas
19 Company have rate schedules specifically applicable to schools in the Missouri School Program.
20 The issue here is that SNG and staff have developed class cost of service studies (CCOS) with
21 schools in the transportation class but the staff has recommended charging schools sales service
22 delivery rates that were developed for classes other than the transportation class which the
23 schools have been placed by both staff and Company in developing CCOS. To charge schools a

1 rate that was developed for other than the customer class for which a customer belongs would be
2 breaking the fundamental rate-making principal that rates should reflect costs. The schools have
3 been taking, and have been billed by SNG under a transportation rate for several years and
4 should continue in the Transportation Service class in which the Company and staff CCOS have
5 placed them.

6 **Q. What Customer Charges do you recommend for the transporting schools?**

7 A. I recommend more than one transportation Customer Charge for the
8 Transportation Class to more accurately assign intra-class costs, which is how the Commission
9 approved AmerenUE transportation rate schedule is structured. One customer charge in the
10 transportation rate should be for larger, daily metered customers that require large, more
11 expensive meters with electronics, telemetry and pressure regulators as well as larger, more
12 expensive service lines. Other customer charges should be for smaller monthly metered
13 customers. The larger daily metered customer charge should reflect what the Commission
14 approves based on staff and Company cost analyses. Because smaller, monthly metered
15 customers continue to have the same meter as they would have if taking service as retail sales
16 customers, the monthly metered customer charges should match what the Commission approves
17 for the retail sales service rates under which the smaller customers would take service if they
18 were not transport customers, whether or not they are schools. I recommend the transportation
19 class commodity charge approved by the Commission be applicable to transporting schools and
20 non-schools.

21 **Q. What is the issue regarding Interruptible vs. Firm Distribution Delivery**
22 **Service?**

1 A. Actually, to my knowledge, service to schools has never been interrupted. I
2 believe the issue is a matter of mislabeling school transportation agreements as “interruptible”.
3 My direct testimony explained that to prevent discrimination in favor of Company supply,
4 schools must be treated the same whether or not they purchase supply from the Company or
5 participate in the Missouri School Transportation Program. I know of no objection from any
6 other party to add language to the Company rate schedule to clarify this point.

7 **Q. What is the issue regarding SNG’s Pipeline Allocation Method?**

8 A. The issue is how SNG has Southern Star pipeline (SS) prioritize customer
9 deliveries for allocation or reduction purposes. See Appendix C, which is a summary of the 97
10 days from 2010 through 2013 that MSBA’s nominated supply deliveries were allocated or
11 reduced by SS following SNG’s allocation priority.

12 **Q. Will you explain how SNG’s Pipeline Allocation Method works?**

13 A. Yes, transportation customers provide advanced daily nominations for the
14 quantity of supply to be delivered from SS to Company’s system. My understanding is that SS
15 obtains after-the-fact daily meter readings at the delivery point meter(s) at the Town Border
16 Station(s) interconnection(s) with the Company system and then allocates or reduces the
17 nominated quantities of “total deliveries” to match the metered quantity for the system as a
18 whole and not on an actual individual customer basis.

19 **Q. When SS pipeline allocates, or reduces, nominated daily deliveries, does SNG
20 provide a prioritization method by which SS is to make the reduction?**

21 A. My understanding is that SNG has provided SS with a two-step prioritization: (a)
22 first reduce or allocate Company supply deliveries, then (b) allocate or reduce “all”

1 transportation customers' deliveries to obtain a match of actual to nominated "total" system
2 deliveries. By lumping all transportation customers together for allocation purposes it is
3 problematic because an individual transport customer can get its nominations cut/allocated even
4 if it actually uses exactly what it nominated and has no imbalance, just because the "total"
5 system deliveries did not match the total actual system metered quantity.

6 **Q. Is there a problem the SNG allocation prioritization method?**

7 A. Yes, the SNG prioritization is a major problem for schools which have monthly
8 metering and Cashout on a monthly basis. From 2010 through 2013, the schools had its
9 nominated deliveries reduced/cut on ninety-seven (97) days. See Appendix C. Schools' total
10 usage is relatively small and very rather predictable, particularly during non-winter months when
11 a large number of allocated cuts were implemented. Other large daily metered transportation
12 accounts, such as an asphalt plant, can have rather large daily variances, which can cause the
13 "total" system deliveries to be significantly mismatched. I recommend that SNG provide a
14 three step prioritization: (a) first reduce or allocate Company supply deliveries, next (b) allocate
15 or reduce transportation "daily metered" transport customer deliveries and, then (c) allocate or
16 reduce "monthly metered" transport customer deliveries to obtain a match of actual to nominated
17 "total" deliveries.

18 **Q. What is the issue regarding Capacity Release?**

19 A. The issue may be semantic, but staff's position is that "If capacity is excess then it
20 may be released..." MSBA's position is that Company has capacity when a school is a retail
21 sales customer and should be required to release it to the schools if requested, which is consistent
22 with Section 393.310 RSMo. Company has said that it could be harmed if the schools can pick

1 and choose when or if they want to take the release for only one year when the Company
2 contracts for capacity on a multi-year basis. MSBA has modified its position to a compromise
3 whereby the Company first offers to the schools the first right of refusal to purchase the capacity
4 at the price and for the term which the Company has contracted for said pipeline capacity.

5 **Q. What is the issue regarding Pool Operator Charge and Agreement?**

6 A. The difference between Company's proposed Pool Operator monthly fee of \$250
7 per month and MSBA's proposed \$0.004/therm, as set forth in Section 393.310 RSMo is only
8 about \$200 annually. MSBA believes either the \$250 per month or \$0.004/therm satisfies the
9 spirit of Section 393.310 RSMo and MSBA is willing to accept either, provided the Company
10 does not then implement a duplicative Administration and Balancing fee of \$0.004/therm as
11 contemplated by Section 393.310 RSMo.

12 **Q. Does this conclude your rebuttal testimony?**

13 A. Yes, it does.

14 **Q. Does your rebuttal testimony address any of the Public Counsel or other**
15 **party's issues?**

16 A. No. To my knowledge none of the Public Counsel or other parties has taken any
17 issue with our concerns.

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of)
Missouri, Inc.'s Filing of Revised Tariffs)
To Increase its Annual Revenues for) Case No. GR-2014-0086
Natural Gas Service)

AFFIDAVIT OF LOUIE R. ERVIN SR.

STATE OF IOWA)
)ss
COUNTY OF LINN)

Louie R. Ervin Sr., being first duly sworn on his oath, states:

1. My name is Louie R. Ervin Sr. I work in Cedar Rapids, Iowa and am employed by Latham & Associates as the Executive Vice President.

2. Attached hereto and made a part of hereof for all purposes is my Rebuttal Testimony on behalf of Missouri School Board's Association consisting of 12 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the questions therein propounded are true and correct.



Louie R. Ervin Sr.
Louie R. Ervin Sr.

Subscribed and sworn to before me this 9th day of July, 2014.

Susan J. Montag
Notary Public

My commission expires 12/1/2016