

Exhibit No.:
Issue: Cost-of-Service, Rate
Design and Weather
Normalization
Witness: Daniel I. Beck
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-99-315

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

DANIEL I. BECK

LACLEDE GAS COMPANY

CASE NO. GR-99-315

FILED²

AUG 19 1999

*Missouri Public
Service Commission*

Jefferson City, Missouri
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7 Q. Please state your name and business address.

8 A. My name is Daniel I. Beck and my business address is P. O. Box 360,
9 Jefferson City, Missouri 65102.

10 Q. Are you the same Daniel I. Beck who has previously filed testimony in this
11 case?

12 A. Yes, I am.

13 Q. What is the purpose of your Surrebuttal Testimony?

14 A. I will respond to various parties' statements regarding weather normalization,
15 class cost-of-service and rate design issues in this case.

16 **Weather Normalization**

17 Q. On page 3, lines 1-2 of Laclede Gas Company (Laclede or Company) witness
18 Patricia A. Krieger's Rebuttal Testimony states "Like the Company, Staff first estimates
19 water heating usage." Do you agree with this statement?

20 A. No. Although Staff did use water heating estimates for the General Service
21 Classes, the weather normalization analysis that I supported in my Direct Testimony did
22 not separately estimate water heating since my analysis was performed on the larger
23 customers with base usage that is generally related to industrial processes not water
24 heating. The Company did not weather normalize these customers.

1 Q. Did Ms. Krieger's Rebuttal Testimony specifically address your Direct
2 Testimony regarding weather normalization?

3 A. No. Even though one could assume that Ms. Krieger's statement was not
4 intended to address my analysis, I believe that this clarification needs to be made.

5 **Class Cost-of-Service**

6 Q. Both the Company and the Missouri Industrial Energy Consumers (MIEC)
7 raised the issue of allocation of gas costs. How do you respond to their statements?

8 A. It is my understanding that this rate case was filed by Laclede to increase the
9 non-gas revenues of the Company. Staff and OPC's class cost-of-service (C-O-S) studies
10 addressed the allocation of the non-gas costs that support the non-gas revenues. I cannot
11 understand how the Company could make a statement like "Without a definitive
12 determination of the gas costs properly includable in revenues by rate class, and an
13 allocation of at least the fixed components of the gas costs, the Commission can have no
14 confidence in Staff's and OPC's studies." (R. Lawrence Sherwin, Rebuttal, page 7, line
15 26 to page 8, line 3). MIEC made similar comments like "As a result, any conclusions
16 that could otherwise be drawn from their studies are hostage to the assumptions
17 [regarding gas costs]." (Donald E. Johnstone, Rebuttal, page 3, lines 6-7).

18 In my opinion, one of the Company's own witnesses supports the exclusion of
19 gas costs from revenues when Michael T. Cline's Rebuttal Testimony states that "These
20 items [capacity release revenues and off-system sales net revenues] are intrinsically gas
21 cost-related and therefore properly subject to the GSIP provisions of the Company's PGA
22 clause." (page 5, line 26 to page 6, line 1). It appears that the Company would have the

1 Commission believe that gas costs should be excluded for revenue purposes but must be
2 required in C-O-S studies.

3 Q. Is the recovery of gas costs a relevant concern of the Company?

4 A. Yes. However, the Company is assured that these gas costs will be recovered
5 in the PGA/ACA mechanism that is referred to in Mr. Cline's statement. This process
6 compares the sum of the gas costs to the revenues collected from the gas-related base
7 rates and the PGA/ACA rates.

8 Q. Do you know of any circumstance that would support the need for a C-O-S
9 study that includes both gas and non-gas costs?

10 A. Yes. If the PGA/ACA mechanism was eliminated and both gas and non-gas
11 revenues were collected in this proceeding, then the requirement for C-O-S studies that
12 include both gas and non-gas costs would be valid. I know of no such proposal in this
13 case.

14 Q. Is this the first C-O-S study that Staff has filed that excluded gas costs from
15 the cost of service study?

16 A. No. In all gas rate cases with which I have been involved, Staff has
17 consistently filed C-O-S studies that excluded the allocation of gas costs. This includes
18 the two previous rate cases filed by Laclede.

19 Q. Does Staff use the revenues that are associated with gas costs in the rate
20 design process?

21 A. Yes. One way to assess the impact of a non-gas rate change is to include the
22 revenues which offset gas related costs. However, this does not require a reallocation of

1 these revenues or costs.

2 Q. Mr. Cline's testimony also indicated that Staff's recommendation to remove
3 gas costs from base rates should not be taken "seriously" since "the amount of base gas
4 costs that should be removed from each rate schedule" was not "indicated". Do you have
5 a response?

6 A. Yes. In Mr. Cline's Direct Testimony on pages 3-4, Mr. Cline discusses the
7 gas cost rates that are included in Laclede's current revenues. For example, on page 3,
8 lines 11-13, Mr. Cline states "The base cost of gas per therm for firm and interruptible
9 rate schedules is 28.489 cents and 23.570 cents, respectively, as set out on Sheet No. 28-d
10 of Laclede's tariff." Staff position is and has been that these same rates be moved from
11 base rates and added to the PGA rates.

12 Q. Would this movement "necessitate nine factors" (Cline, Rebuttal, page 4, line
13 9) instead of the three different PGA factors used today?

14 A. No. Only the same three PGA factor categories (firm, interruptible and
15 transportation) would be required.

16 Q. If a C-O-S study did not allocate costs to the subgroups of the General Service
17 Class, Residential (RES) and the small Commercial/Industrial (Small C&I or SGS), does
18 the value of that C-O-S study to the Commission become questionable?

19 A. Yes. If a C-O-S study does not differentiate between these two rate classes
20 that account for most (RES - 80%, SGS - 15 %) of the Company's non-gas revenues, I
21 maintain that the study would have little or no value to the Commission. Neither the
22 Company nor MIEC submitted C-O-S studies that separated the RES and SGS rate

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1 classes.

2 Q. Did the parties' rebuttal testimony discuss the allocation of meters and
3 regulators?

4 A. Both of MIEC witnesses, Mr. Sherwin of Laclede, and Hong Hu of the Office
5 of Public Counsel (OPC) discuss the allocation of meters and regulators in their rebuttal
6 testimonies. Although it may seem like a small distinction, the Staff is the only party that
7 has a separate allocator for meters and another allocator for regulator (and a third
8 allocator for Industrial Measuring and Regulating Equipment). Staff maintains that a
9 separate allocator for each FERC account, when possible, should be developed. For this
10 reason, I believe Staff's allocation of meter and regulators (Accounts 381, 383, and 385)
11 is superior to the allocators used by the other parties.

12 Q. Is it your position that a separate allocator should be developed for each FERC
13 account?

14 A. No. However, I maintain that separate allocators should be developed when
15 possible.

16 Q. Did you read the comments of Mr. Sherwin regarding the study that was the
17 basis of OPC's meter allocator (and the basis of the meter allocator used by MIEC in its
18 updated position which was filed in rebuttal testimony)?

19 A. Yes. Mr. Sherwin indicated that "the Company has serious reservations
20 whether the sample data was statistically valid".

21 Q. Do you share in these concerns?

22 A. Yes. Staff received the same information as OPC from the Company in

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1 Laclede's Rate Case No. GR-96-193. Staff was not comfortable with the meter and
2 regulator information and therefore developed separate meter and regulator allocators in
3 Case No. GR-96-193. Staff used the same methodology in the current case (Case No.
4 GR-99-315).

5 To illustrate the concern regarding this sample, one need only consider the fact
6 that the cost of the most expensive meter in the C&I sample is approximately equivalent
7 to the sum of the 63 lowest cost meters in the sample. If one large meter would have
8 been added or subtracted from the sample, the allocation of costs between the RES and
9 SGS classes would have been altered the class responsibility by **millions** of dollars. In
10 addition any change in the sample would have affected the allocation of costs to all
11 classes. Since the results from the random sample of 70 customers can be significantly
12 altered by the subtraction of one of the customers in the sample, Staff is also concerned
13 about the validity of this sample.

14 Q. Did Staff use the sample information to develop services allocators?

15 A. Yes. However, the services data does not have the same validity concerns as
16 the meters and regulators data. This is illustrated by the fact that the cost of the most
17 expensive service line in the C&I sample is approximately equivalent to the sum of the 8
18 lowest cost service lines. Therefore, the validity of the service line data is not nearly as
19 much of an issue as it is with meters and regulators.

20 Q. Did you read MIEC witness John W. Mallinckrodt's Rebuttal Testimony with
21 regard to the allocation mains?

22 Yes and I would like to comment on several issues raised by Mr. Mallinckrodt.

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1 Specifically, on page 3, lines 13-15, of Mr. Mallinckrodt's Rebuttal Testimony, he states
2 "Witness Beck has not filed any testimony in this proceeding to support the allocators
3 used in the Staff's COSS. Therefore, there is nothing in the record in this case to support
4 or even discribe the Staff's [mains] allocation factors." However, in my Direct
5 Testimony regarding cost-of-service, on page 1, lines 17-18, I state "I updated the C-O-S
6 study filed by Staff in Case No. GR-98-374 which was Laclede's previous rate case." I
7 testified to the issues of "Cost-of-Service Allocations of Mains, Services, Meters, and
8 Regulators" in that case which is a part of the Commission file and is available for
9 viewing by any member of the general public. Additionally, since Mr. Mallenckrodt was
10 a expert witness on the issue of mains allocation for MIEC in that case, he should be
11 familiar with this information.

12 Q. What other issues do you have with Mr. Mallenckrodt's discussion of Staff's
13 mains allocator.

14 A. In Mr. Mallenckrodt's discussion of Staff's mains allocator, Mr. Mallenckrodt
15 refers to "transmission and distribution mains". Transmission mains and distribution
16 mains are booked in accounts 367 and 376, respectively. However, Mr. Mallenckrodt's
17 allocator was only used to allocate account 376, distribution mains.

18 Q. What is your response to Mr. Mallenckrodt's statement on page 6, lines 11-13,
19 where he states "Therefore, the single biggest problem in the Staff's method is the failure
20 to account for the fact that lower pressure facilities are not used in providing service to
21 large customers"?

22 A. Staff continues to support its allocation of mains. After reviewing MIEC's

1 | workpapers, it appears that Mr. Mallenckrodt did not attempt to determine if there were
2 | any specific customer classes that are not served by the smaller pressure system but
3 | instead stated that "almost all of MIEC customers were served by either Supply Feeder or
4 | Intermediate Pressure services" [Mallenckrodt, Direct, page 4, lines 15-16]. The problem
5 | is that MIEC customers are a sub-group of several C-O-S classes and MIEC is not a C-O-
6 | S class in any of the parties' C-O-S study. In addition, the term "almost all" implies that
7 | some MIEC customers do benefit from the smaller pressure system.

8 | **Rate Design**

9 | Q. Did the parties' rebuttal testimony address the topic of customer charges?

10 | A. Yes. OPC witness Hong Hu revised her customer charge recommendation for
11 | the Residential Class from \$8.50 to \$10.00. Since the Residential customer charge is
12 | currently at \$12.00, this would amount to a decrease of \$2.00.

13 | The Company's witness Mr. Sherwin stated that Staff's customer charge
14 | calculations "improperly omitted costs" [Sherwin, Rebuttal, page 2, line 21]. The
15 | Company has similar criticisms of OPC's customer charge calculations and the Company
16 | characterizes both OPC and Staff's customer charge calculations as "an allocation of direct
17 | costs with careful inclusion of related indirect costs." [Sherwin, page 5, lines 13-15]. It is
18 | Staff's position that indirect costs should carefully be **excluded** from the customer charge
19 | calculation. Staff only included those costs which are direct costs to serve a customer
20 | class?

21 | Q. After reading the Company's rebuttal testimony regarding customer charges,
22 | has Staff's recommendation changed?

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1 A. No. Staff continues to recommend a SGS Customer charge of \$13.80 which
2 was also proposed by the Company. Staff also continues to support no change to the
3 customer charges for the other customers.

4 Q. Has Staff changed its position on revenue shifts between classes?

5 A. No. Based on expected revenue increases in this case, I continue to
6 recommend no revenue shifts between classes in this case.

7 Q. Does this conclude your Surrebuttal Testimony?

8 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE 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 DANIEL I. BECK

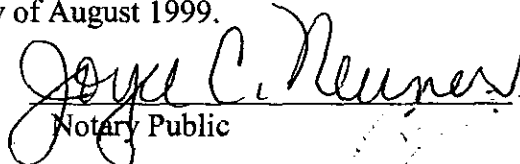
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Daniel I. Beck, is of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



DANIEL I. BECK

Subscribed and sworn to before me this 19th day of August 1999.



Notary Public

Joyce C. Neuner
Notary Public, State of Missouri
County of Osage
My Commission Exp. 06/18/2001

My Commission Expires: _____