

Exhibit No.:

Issues: Cost of Service and
Rate Design

Witness: Anne E. Ross

Type of Exhibit: Surrebuttal

Sponsoring Party: MoPSC Staff

Case No.: GR-97-272

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

ANNE E. ROSS

ASSOCIATED NATURAL GAS COMPANY

A DIVISION OF ARKANSAS WESTERN GAS COMPANY

CASE NO. GR-97-272

Jefferson City, Missouri

September, 1997

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1 SURREBUTTAL TESTIMONY

2 OF

3 ANNE E. ROSS

4 ASSOCIATED NATURAL GAS COMPANY

5 A DIVISION OF ARKANSAS WESTERN GAS COMPANY

6 CASE NO. GR-97-272

7
8 Q. Please state your name and business address.

9 A. My name is Anne E. Ross and my business address is Missouri Public
10 Service Commission, P. O. Box 360, Jefferson City, Missouri, 65102.

11 Q. Are you the same Anne E. Ross who has previously filed testimony in
12 this case?

13 A. Yes, I am.

14 Q. Do you have any corrections to your rebuttal testimony?

15 A. Yes. There were two typographical errors on Schedule 2 of my
16 rebuttal testimony. The SEMO district Large Volume Service proposed customer
17 charge should be \$12,500.00, rather than \$1,250.00, and the SEMO district Large
18 Volume Service cost-of-service (C-O-S) Margin Commodity Rate Per Ccf -
19 Transportation should be \$0.0320, not \$0.0206.

20 Q. Do you have any revisions to your C-O-S studies?

21 A. Yes. In response to information received from the Associated Natural
22 Gas Company (ANG or Company), Staff witness Dan Beck has provided revised
23 Meter/Regulator and Distribution Service Line allocators for the SEMO district class

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1 C-O-S study. I recalculated the SEMO class C-O-S study using these allocators. The
2 result is shown on Schedule 1.

3 Q. Does this revision affect your rate proposals for the SEMO district?

4 A. Yes. The revised rate proposals are shown on Schedule 2.

5 Q. What is the purpose of your surrebuttal testimony?

6 A. The purpose of my surrebuttal testimony is to address the rebuttal
7 testimony of Company witness Donna R. Campbell regarding the Staff's proposed Large
8 General Service tariff class. I will also address Noranda Aluminum Inc. (Noranda)
9 witness John W. Mallinckrodt's rebuttal testimony concerning the Large Volume Service
10 customer charge.

11 Q. What is your understanding of Company witness Donna R.
12 Campbell's objections to Staff's Large General Service tariff class?

13 A. I believe that Ms. Campbell has two objections to the grouping of
14 industrial firm, commercial interruptible and industrial interruptible customers into a class
15 that I have called Large General Service. Her first criticism is that these customers are
16 dissimilar as to usage levels. Second, Ms. Campbell claims that firm and interruptible
17 customers receive a different type of service, pointing out that the customers receiving
18 interruptible gas are interrupted due to conditions and problems on the pipeline.

19 Q. What are your comments regarding Ms. Campbell's first criticism -
20 that is, that the customers in this new Large General Service class vary as to size, and her
21 recommendation that "...the Commission maintain the present rate classes because they
22 distinguish customers according to their...size." (Campbell, Rebuttal, p. 15, lines 11-12)?

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1 A. I agree with Ms. Campbell that the customers in the proposed Large
2 General Service C-O-S class do vary in size, but disagree that this point fatally flaws the
3 proposed Large General Service class. I also disagree with her assertion that the current
4 rate classes do a better job in grouping customers as to size. For example, customers
5 currently being served under the Company's Industrial Interruptible Service tariff range
6 from a maximum usage of 1,071 Ccf/month to a maximum usage of 204,751 Ccf/month,
7 while the smallest and largest customers in the Commercial Interruptible Service class
8 range from 1,312 Ccf/month to 234,339 Ccf/month. For my C-O-S study, I did group
9 all of these customers together in a single class that I called Large General Service. The
10 point, however, is that the smaller customers in this C-O-S class can elect to take service
11 on the new Small General Service tariff, which has a lower customer charge and a higher
12 usage charge; while the larger customers can take service on the new Large General
13 Service tariff class, with a higher customer charge and a lower usage charge. In other
14 words, the customers will sort themselves out in regard to the correct tariff class. We
15 have enough individual customer information that, when the Commission decides the
16 class revenue requirements in this case and the corresponding rates are set, Staff and
17 Company can work together to identify the most economical class for each of these
18 customers and place them in the proper classes. Thus, the Company will not suffer any
19 revenue loss as a result of this rate-switching that occurs after the new rates are set. As I
20 said in my direct testimony, I believe that after we have done this analysis, these
21 customers should be notified as to the most economical rate.

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1 Q. What are your comments regarding the Company's argument that
2 customers receiving interruptible gas supply service should pay a different margin, or
3 non-gas rate, than other customers?

4 A. I do not believe that the nature of the gas supply received by the
5 customer should affect the margin (non-gas) rate that the customer pays. If an individual
6 customer wishes to take interruptible gas supply service, with the corresponding risk of
7 being cut off by the pipeline on a peak day, they can certainly choose to do that. The
8 risk that this customer is **not** taking is the risk that they will be curtailed by Associated
9 Natural Gas due to an inability of ANG to get the customer's gas from the City Gate to
10 the customer. I have seen no evidence from ANG that there are capacity constraints on
11 the ANG delivery system which have resulted in ANG having to interrupt its service to
12 customers. Therefore, the local distribution system service received by firm customers is
13 the same as the service received by the interruptible customers. For that reason,
14 customers currently designated as Interruptible should pay the same margin, or non-gas
15 rate, as customers not designated as Interruptible.

16 Q. What are your comments on Noranda witness John W. Mallinckrodt's
17 Large Industrial Interruptible Service customer charge?

18 A. First, note that the current Large Industrial Interruptible Service
19 consists of the same customer as Staff's proposed Large Volume Service tariff;
20 therefore, when I refer to the Large Volume Service class I am referring to the same
21 customer as Mr. Mallinckrodt. As far as the proper level for the Large Volume Service
22 customer charge, Staff has calculated a cost-of-service based customer charge of

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1 approximately \$1,700 per month, which is much lower than the current customer charge
2 of \$12,500 per month. During the period June, 1982 through November, 1990, the
3 customer and/or facilities charge for Noranda has ranged from a low of \$94/month to a
4 high of \$23,929.80/month. There have been no new facilities or material changes in the
5 service received by Noranda since the 1990 case, when the \$12,500 customer charge
6 was established through negotiation; so I agree that, as Mr. Mallinckrodt points out,
7 there is not a cost-of-service justification for the higher customer charge, and probably
8 wasn't at the time of the last case.

9 Q. Do you have any idea as to why the parties would settle on such a
10 high customer charge for Noranda in the prior case?

11 A. Yes, I do. Prior to the 1990 case, Noranda went off the ANG system
12 for several months, choosing to burn an alternate fuel at their plant. As a result, ANG
13 lost all customer charge and commodity, or non-gas, revenue designed to be collected
14 from Noranda during this time period. With a \$23,929.80 monthly customer charge, and
15 the usage associated with a customer the size of Noranda, this lost revenue was not
16 inconsequential. As a result of the last rate case, Case No. GR-90-152, a provision was
17 added to ANG's tariffs to allow for the Company to collect all "avoided" customer
18 charges in a situation like that, where a customer chooses to go off the system for a short
19 time. I believe that it is reasonable to assume that the \$12,500 customer charge was set
20 at a level to allow ANG to collect some of this lost revenue should Noranda decide to
21 switch to alternate fuel in the future (post 1989). At the same time, when the customer
22 charge is increased, the usage charge is reduced. With the customer charge being a non-

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1 avoidable charge, the lower usage charge makes natural gas more competitive with
2 alternate fuels.

3 Q. Should the Company be allowed to collect more than the customer-
4 related costs in the customer charge for Noranda?

5 A. In certain situations, competitive pressures need to be considered. It
6 can be argued that the Company has sized facilities and incurred costs with Noranda in
7 mind. In addition, not all of these costs fall in the category that analysts classify as
8 customer-related costs, and typically recover in the customer charge. A non cost-of-
9 service based customer charge for a special contract customer can be justified in order to
10 recover a portion of these costs should that customer decide to switch to alternate fuel,
11 and at the same time lower the usage charges to keep natural gas more competitive with
12 alternate fuels.

13 Q. What is your recommendation for the Large Volume Service
14 customer charge and commodity rate?

15 A. My recommendation is that the Commission weigh the three major
16 factors - cost-of-service, competitive pressure, and customer impact - when determining
17 the proper customer charge for Noranda. The higher customer charge and lower usage
18 charge allows Noranda to purchase natural gas at a lower incremental cost. From a
19 competitive fuels perspective, this is good policy. From a customer impact perspective,
20 if Noranda maintains its high load factor use, keeping a high customer charge would
21 have no impact on their total bill. Since the Staff is recommending a C-O-S decrease for
22 Noranda, there is no customer impact reason to reduce its customer charge. It is my

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1 opinion that competitive and customer impact reasons for maintaining the current
2 customer charge outweigh the pure cost-of-service rationale for reducing it.

3 Q. Does this conclude your surrebuttal testimony?

4 A. Yes, it does.

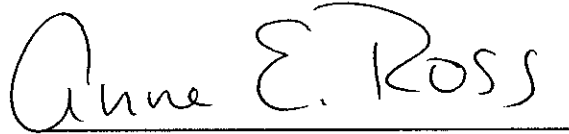
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Associated Natural)
Gas Company's Tariff Revised Designed)
to Increase Rates for Gas Service to) CASE NO. GR-97-272
Customers in the Missouri Service)
Area of the Company.)

AFFIDAVIT OF ANNE E. ROSS

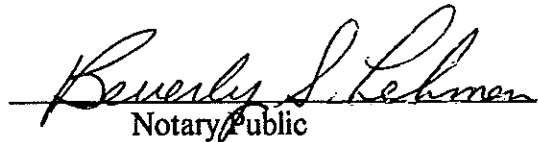
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Anne E. Ross, of lawful age, on her oath states: that she has participated in the preparation of the foregoing written testimony in question and answer form, consisting of 7 pages of testimony to be presented in the above case; that the answers in the attached written testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.



Anne E. Ross

Subscribed and sworn to before me this 3rd day of August, 1997.


Notary Public

My commission expires _____

BEVERLY S LEHMEN
NOTARY PUBLIC STATE OF MISSOURI
CALLAWAY COUNTY
MY COMMISSION EXP. MAR. 9, 1998

ASSOCIATED NATURAL GAS COMPANY - SEMO DISTRICT REVISED COST-OF-SERVICE SUMMARY
CASE NO. GR-97-272
TEST YEAR ENDED DECEMBER 31, 1996

	TOTAL	RESIDENTIAL	SMALL GENERAL SERVICE	LARGE GENERAL SERVICE	LARGE VOLUME
RATE BASE	\$17,317,995	\$10,529,484	\$3,374,352	\$2,337,537	\$1,076,622
REQUESTED RETURN	9.4100%	9.4100%	9.4100%	9.4100%	9.4100%
RETURN ON RATE BASE	\$1,629,623	\$990,824	\$317,527	\$219,962	\$101,310
O & M EXPENSES	\$5,629,099	\$3,925,554	\$943,227	\$534,681	\$225,637
DEPRECIATION EXPENSE	\$971,796	\$641,050	\$171,218	\$112,376	\$47,152
TAXES OTHER THAN INCOME	\$677,956	\$461,219	\$114,305	\$69,869	\$32,564
INCOME TAXES	\$575,131	\$349,684	\$112,062	\$77,630	\$35,755
TOTAL EXPENSES	\$7,853,982	\$5,377,507	\$1,340,812	\$794,555	\$341,108
TOTAL C-O-S	\$9,483,605	\$6,368,331	\$1,658,338	\$1,014,518	\$442,418
OTHER REVENUES	\$80,472	\$48,424	\$8,160	\$10,998	\$12,890
REQUIRED MARGIN REVENUE	\$9,403,133	\$6,319,907	\$1,650,178	\$1,003,520	\$429,528
CURRENT MARGIN REVENUES	\$8,984,988	\$5,231,371	\$1,734,372	\$1,433,315	\$585,930
AVERAGE GAS REVENUES	\$15,468,121	\$9,762,491	\$4,183,953	\$1,521,677	\$0
ZERO REVENUE INCREASE PLUG	(\$418,145)	(\$281,038)	(\$73,381)	(\$44,625)	(\$19,101)
C-O-S MARGIN REVENUES @ 0%	\$8,984,988	\$6,038,869	\$1,576,797	\$958,895	\$410,427
AVERAGE GAS COSTS	\$15,468,121	\$9,762,491	\$4,183,953	\$1,521,677	\$0
REVENUE INCREASE AT	\$0	\$0	\$0	\$0	\$0
REVENUE ABOVE (BELOW) COS	(\$0)	(\$807,498)	\$157,575	\$474,420	\$175,503
% INCREASE WITHOUT GAS COSTS	0.00%	15.44%	-9.09%	-33.10%	-29.95%
% INCREASE WITH GAS COSTS	0.00%	5.39%	-2.66%	-16.05%	-29.95%

ASSOCIATED NATURAL GAS COMPANY
CASE NO. GR-97-272
TEST YEAR ENDED DECEMBER 31, 1996

<u>DISTRICT</u>	<u>C-O-S CLASS</u>	<u>CUSTOMER CHARGE</u>		<u>MARGIN COMMODITY RATE PER CCF - SALES</u>		<u>MARGIN COMMODITY RATE PER CCF - TRANSPORTATION</u>	
		<u>C-O-S</u>	<u>PROPOSED</u>	<u>C-O-S</u>	<u>ADJUSTED</u>	<u>C-O-S</u>	<u>ADJUSTED</u>
Butler	Residential	\$7.47	\$7.00	\$0.1752	\$0.1812	N/A	N/A
	Small General Service	\$12.57	\$12.50	\$0.1520	\$0.1524	N/A	N/A
	Large General Service	\$156.41	\$156.40	\$0.0892	\$0.0892	\$0.0834	\$0.0834
	Large Volume Service	N/A	N/A	N/A	N/A	N/A	N/A
Kirksville	Residential	\$6.13	\$7.00	\$0.0864	\$0.0765	N/A	N/A
	Small General Service	\$9.54	\$12.50	\$0.0689	\$0.0562	N/A	N/A
	Large General Service	\$237.91	\$240.00	\$0.0494	\$0.0493	\$0.0452	\$0.0451
	Large Volume Service	N/A	N/A	N/A	N/A	N/A	N/A
SEMO	Residential	\$6.74	\$7.00	\$0.1265	\$0.1230	N/A	N/A
	Small General Service	\$10.51	\$12.50	\$0.0916	\$0.0829	N/A	N/A
	Large General Service	\$212.15	\$215.00	\$0.0617	\$0.0615	\$0.0536	\$0.0534
	Large Volume Service	\$1,668.14	\$12,500.00	N/A	N/A	\$0.0303	\$0.0202
Revised							