

Exhibit No.:
Issue: Gas Cost Allocations
Witness/Type of Exhibit: Thompson/Direct
Sponsoring Party: Public Counsel
Case No.: GR-94-328

**DIRECT TESTIMONY
OF
PHILIP B. THOMPSON**

Submitted On Behalf Of
Office Of The Public Counsel

LACLEDE GAS COMPANY
Case No. GR-94-328

July, 1994

FILED
JUL 7 1994
MISSOURI
PUBLIC SERVICE COMMISSION

)

Case No. GR-94-328

AFFIDAVIT OF PHILIP B. THOMPSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Philip B. Thompson, of lawful age and being first duly sworn, deposes and states:

1. My name is Philip B. Thompson. I am the Chief Public Utility Economist for the Office of the Public Counsel.


2. Attached hereto and made part hereof for all purposes is my direct testimony consisting of pages 1 through 8.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Philip B. Thompson
Philip B. Thompson

Subscribed and sworn to me this 7th day of July, 1994.

ay of July, 1994.


Bobbie J. Richards
Notary Public

My commission expires November 3, 1996.

BOBBIE J RICHARDS
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. NOV 3, 1996

1 DIRECT TESTIMONY
2 OF
3 PHILIP B. THOMPSON
4 LACLEDE GAS COMPANY
5 CASE NO. GR-94-328
6
7

8 Q. Please state your name and business address.

9 A. Philip B. Thompson, Office of the Public Counsel (OPC), P.O. Box
10 7800, Jefferson City, Missouri 65102.
11

12 Q. Please summarize your educational and employment background.

13 A. I have a B.A. in economics from Kent State University and a Ph. D.
14 in economics from the University of Arizona. My graduate fields of
15 study were Industrial Organization and Econometrics. I also taught
16 various economics courses while at Arizona and participated in
17 research projects investigating several aspects of the nuclear fuel
18 cycle.

19 From 1982 to 1984 I was a visiting instructor in the economics
20 department at Texas A&M University. I began my employment with
21 the Office of the Public Counsel in 1984 as a Public Utility Economist.
22 In 1986, I became Chief Public Utility Economist, the position I now
23 hold. During my tenure with the Office of the Public Counsel, I have
24 attended numerous conferences and seminars on a variety of topics
25 related to public utility regulation, and I have made presentations at
26 several such conferences. I currently serve as a member of the Gas
27 Research Institute Advisory Council and as the Chair of the

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1 Economics and Finance Committee of the National Association of State
2 Utility Consumer Advocates.

3
4 Q. Have you previously testified before this Commission?

5 A. Yes. I have testified in over sixty cases. The topics on which I
6 have testified include jurisdictional and class cost allocations, rate
7 design, adjustments to test year consumption data, applied industrial
8 organization theory (factors affecting the degree of competition in a
9 market), the appropriateness and proper form of economic develop-
10 ment rate discounts, the proper disposition of Take-or-Pay costs,
11 regulatory approaches to natural gas bypass and fuel switching, the
12 effect of nuclear plant ownership on the cost of capital of an electric
13 utility, the recovery of COS-related revenue losses, and alternative
14 methods of regulation. I have testified in cases involving gas,
15 electric, telecommunications, and water companies.

16
17 Q. What is the purpose of your testimony?

18 A. I will present Public Counsel's position on the questions to be
19 addressed in this proceeding regarding the existing PGA clause of
20 Laclede Gas Company (Laclede or Company).

21
22 Q. What are those questions?

23 A. On April 22 of this year, the Missouri Public Service Commission
24 (Commission) issued an Order that approved a stipulation and
25 agreement in Case No. GR-92-89, in which the parties to that case

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1 agreed, among other things, that GR-92-89 should be closed and this
2 one opened. The parties further agreed that the questions to be
3 examined in this (new) docket would include:

- 4 (1) whether the existing methodology for allocating any or
5 all of the Gas Supply Demand Charges; Capacity Reser-
6 vation Charges; Commodity-Related Charges; and Other
7 Non-Commodity-Related Gas Costs among Laclede's
8 customer classes and between seasonal periods should
9 be changed; and
10 (2) if any such change should be made what allocation
11 methodology should be adopted by the Commission?
12 (Order Establishing Docket and Setting Procedural
13 Schedule, Case No. GR-94-328, April 22, 1994)

14
15 Q. Please describe the existing methodology.

16 A. Commodity-Related Charges are allocated to all sales customers on
17 the basis of annual sales for those customers. Gas Supply Demand
18 Charges are allocated only to firm sales customers, on the basis of
19 annual sales to those customers. Capacity Reservation Charges,
20 which are associated with pipeline transportation costs, are allocated
21 on the basis of throughput to firm sales and firm transportation
22 customers. Take-or-Pay and Other Non-Commodity Related Gas
23 Costs, which are imposed on Laclede through actions at the Federal
24 Energy Regulatory Commission, are allocated on the basis of all sales
25 and transportation throughput.

26
27 Q. Is there a seasonal differential in the current rates?

28 A. Yes. Although there is no explicit seasonal allocation, Laclede's PGA
29 clause requires the Company to file a new rate whenever annualized
30 gas costs change by \$2,000,000 or more, which represents less than

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1 one percent of Laclede's annual gas costs. Seasonal changes in the
2 market price of gas far exceed one percent, guaranteeing that
3 Laclede's PGA rate will rise at the start of the heating season and fall
4 as warmer weather arrives.

5
6 Q. Does Public Counsel believe the current allocation methodology
7 should be changed?

8 A. No. First, the present approach is reasonable. Second, the
9 Commission is now in the process of reviewing the entire range of
10 issues surrounding the PGA clause, including whether there are
11 legal or economic reasons why the PGA clause should cease to exist.
12 The Commission has also begun a process that will result in the
13 establishment of gas Integrated Resource Planning rules, part of
14 which will consist of rules governing gas purchasing. There is
15 therefore a high probability that any change made now will be
16 superseded in the very near future.

17
18 Q. Is Public Counsel aware of changes that are favored by other
19 parties?

20 A. Yes. Based on position statements presented in GR-92-89, both the
21 Industrial Gas Users (IGU or Industrials) and Union Electric
22 advocate changes. IGU believes that "demand charges....should be
23 allocated among customer classes on a demand basis..." Union
24 Electric believes that "Ninety percent (90%) of the demand-related
25 portion of Laclede's purchased gas costs should be allocated to sales

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1 during the peak season of November through April and ten percent
2 (10%) to the non-peak season of May through October." I will
3 respond to these contentions in my rebuttal testimony, assuming
4 these parties maintain their positions in their direct testimony.

5
6 Q. Why do you believe the current demand allocations are reasonable?

7 A. Because of the existence of the transportation option for large
8 customers (i.e., with a billing demand greater than or equal to 1,500
9 therms and annual usage greater than or equal to 300,000 therms),
10 the gas sales market for those customers is competitive. Indeed,
11 Laclede now has many transportation customers. That the current
12 allocations are reasonable is evidenced by the fact that many
13 customers prefer to remain as sales customers rather than seek
14 transportation arrangements. Additionally, changing gas cost
15 allocations in the manner suggested by the Industrials would have
16 the greatest impact on those customers who cannot, because they are
17 too small, avail themselves of the transportation option.

18
19 Q. Why do you believe the current seasonal pattern of rates is reason-
20 able?

21 A. As I described above, the PGA mechanism includes those seasonal
22 variations that are a result of the workings of the gas market in
23 which Laclede participates. If the rates that Laclede pays for
24 service vary seasonally, those variations are transmitted through the
25 PGA mechanism as it currently exists.

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1 Q. Do you have any comments regarding Other Non-Commodity-Related
2 Gas Costs?

3 A. Yes. The parties have held several discussions in an effort to
4 resolve their differences regarding such costs. As a result of those
5 discussions, a Joint Recommendation resolving this issue has been
6 prepared and is being reviewed by the parties. I will therefore not
7 address this issue in this direct testimony, but reserve the right to
8 do so in subsequent testimony in the event the Joint Recommendation
9 is not ultimately executed by the parties.

10
11 Q. Does your belief that the allocations embedded in Laclede's PGA
12 clause are reasonable mean that OPC finds Laclede's PGA to be
13 beyond improvement?

14 A. No; some minor improvements could be made. Interruptible and
15 seasonal customers currently bear no share of pipeline demand costs
16 or gas supply demand costs, but clearly benefit from the existence
17 of the supply and pipeline contracts. Put simply, interruptible sales
18 customers would face a far different set of conditions without the
19 presence of firm sales customers.

20 Additionally, firm transportation customers, for whom Laclede
21 is providing stand-by service or sales service in addition to the
22 customer's transported volumes, do not pay a share of gas supply
23 demand costs. Such costs could not be avoided by these customers
24 if they were not a part of a system with firm sales customers.
25

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1 Q. Are you recommending that these shortcomings be addressed in this
2 proceeding?

3 A. No, I am not. First, as I stated earlier, we are soon likely to see far
4 more dramatic changes in the PGA than those that are likely to be
5 considered in this case. Second, the impact of making the changes
6 that would rectify these problems would be relatively small on the
7 customers who would benefit most-- firm sales customers. If we did
8 not expect major changes in Missouri gas cost regulation in the near
9 future, we would probably recommend that these changes be made,
10 despite their minor impact on the beneficiaries.

11 If, however, the Commission decides to make changes sug-
12 gested by other parties in this case, OPC would recommend adding
13 the following to the list of changes made. First, interruptible
14 customers should be allocated a portion of Gas Supply Demand
15 Charges and Capacity Reservation Charges. In making those
16 allocations, some recognition should be made that there is a chance,
17 however small, that such customers might be interrupted. Second,
18 firm transportation customers should be allocated a share of Gas
19 Supply Demand Charges that parallels the existing allocation of
20 Capacity Reservation Charges to these customers.

21

22 Q. Please summarize your testimony.

23 A. Public Counsel believes that Laclede's existing class and seasonal gas
24 cost allocations are reasonable and will remain so until the Commis-
25 sion finishes its work revamping the regulatory structure surround-

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1 ing gas purchasing and cost recovery practices. We therefore
2 recommend that Laclede's PGA clause be left as is until such
3 regulatory overhauls have been completed. If, however, the
4 Commission finds that any changes recommended by other parties
5 should be made, the changes I described on page 7 of this testimony
6 should also be made.

7
8 Q. Does this conclude your direct testimony?

9 A. Yes.