

Exhibit No.: _____
Issue: Rate Design, City Gates
Witness: Michael R. Spotanski
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GR-92-314

BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI PIPELINE COMPANY
Case No. GR-92-314

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ACCOUNTING DEPT.
PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY
OF
MICHAEL R. SPOTANSKI
ON BEHALF OF
LACLEDE GAS COMPANY

FILED
JAN 15 1993
MISSOURI
PUBLIC SERVICE COMMISSION

Jefferson City, Missouri
January, 1993

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Pipeline Company)
for authority to file tariffs increasing rates)
for gas transportation services to customers)
within its service area.)

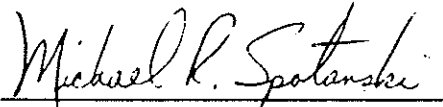
CASE NO. GR-92-314

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael R. Spotanski, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael R. Spotanski. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Senior Rate Analyst of Laclede Gas Company.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony, consisting of 6 pages.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.



Michael R. Spotanski

Subscribed and sworn to before me this 15th day of January, 1993.



Adele M. Follmer
Notary Public, State of Missouri
Commissioned in Franklin County

My commission expires: June 11, 1996

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TESTIMONY OF MICHAEL R. SPOTANSKI

3

4 Q. Please state your name and business address.

5 A. My name is Michael R. Spotanski. My business address is 720 Olive Street, St. Louis,
6 Missouri, 63101.

7 Q. What is your present position?

8 A. I am Senior Rate Analyst in the Tariff and Rate Administration Department of Laclede
9 Gas Company.

10 Q. How long have you held this position and briefly describe your duties.

11 A. I was appointed to my present position in January 1992. In this capacity, I am
12 responsible for analyses of cost of service studies and rate design proposals relating to
13 Laclede's pipeline suppliers of natural gas. I am also responsible for the preparation and
14 analysis of studies which allocate Laclede's cost of service to individual rate classes.

15 Q. What is your educational background?

16 A. I graduated from Southern Illinois University, Carbondale, in 1982, with a Bachelor of
17 Science Degree in Accounting.

18 Q. Please describe your experience with Laclede.

19 A. I joined Laclede in December 1981 as Staff Auditor in the Internal Audit Department. I
20 was subsequently made Senior Auditor before being named Administrative Accountant
21 in Corporate Accounting in July 1984. From there I was appointed Assistant Manager of
22 Customer Accounting where I served until October 1985 when I was promoted to
23 Supervisor of Management Payroll. I held that position for two years prior to being

1 named Assistant Manager of the Budget Department in November 1987. I acted in that
2 capacity until November 1988 when I was promoted to Manager of Financial Planning,
3 where I served until the appointment to my present position.

4 Q. Have you previously filed testimony before this Commission?

5 A. Yes, I submitted cost allocation and rate design testimony in Laclede's last two general
6 rate cases, Case Nos. GR-90-120 and GR-92-165.

7 Q. What is the purpose of your testimony in this case?

8 A. My testimony will address the cost allocation and rate design testimony of Fidelity
9 Natural Gas Company ("FNG") witness Matzdorff and Staff witness Proctor, as well as
10 the city gate issue discussed in the testimony of FNG witnesses Matzdorff and Dunn.

11

12 **RATE DESIGN**

13 Q. Please summarize the rate structures proposed for the Missouri Pipeline Company
14 ("MPC") system by the parties to this proceeding?

15 A. FNG witness Matzdorff endorses the existing system-wide rate design for the MPC
16 system. Staff witness Proctor proposes to establish two zones on the MPC system in
17 recognition of higher overall unit costs to deliver gas to the southern portion of the MPC
18 system.

19 Q. Do you believe that average system-wide rates are appropriate for the MPC system?

20 A. No, I do not. Application of an average system-wide rate fails to recognize the increased
21 investment and higher overall unit cost to deliver gas to the southern portion of the MPC
22 system. The result is that deliveries of gas on the south end of the system are
23 cross-subsidized by deliveries on the north end of the system.

1 Q. Who is the primary beneficiary of the existing system-wide rates?

2 A. Attachment A to the Hearing Memorandum presents MPC's agreed upon volumes
3 separated into Zone 1 and Zone 2 volumes as proposed by Dr. Proctor. The vast majority
4 of the Zone 2 volumes shown are transported by MPC to an affiliated company, Missouri
5 Gas Company ("MOGAS"), for ultimate delivery to Fort Leonard Wood. These volumes
6 are transported pursuant to a contract between the Fort and another affiliated company,
7 Omega Pipeline Company, which is the parent of MPC and MOGAS. Thus, under the
8 existing system-wide rate structure, deliveries of gas to an MPC affiliate are
9 cross-subsidized by deliveries to Laclede and its customers. I believe such
10 cross-subsidization is inequitable. Deliveries on the north end of the system should not
11 be required to bear the additional MPC costs associated with providing gas service on the
12 south end.

13 Q. You stated previously that Staff witness Proctor proposes to establish two zones on the
14 MPC system. Please explain this proposal.

15 A. Under Dr. Proctor's proposal, Zone 1 would be charged a lower rate, and would include
16 the northern delivery points including St. Charles, West Alton, Washington, and
17 extending to the Washington interconnect with the Laclede Pipeline, which moves gas
18 from MPC to Laclede's distribution system in west St. Louis County as well as to the city
19 of Pacific. Zone 2 would start at that point and extend to the south and southwest to the
20 point where MPC's system terminates and deliveries are made to MOGAS. Zone 2
21 customers would be charged a higher rate reflecting the higher unit cost of service, and
22 would include the delivery points to the south including Union, St. Clair, Sullivan, and
23 MOGAS.

1 Q. Do you agree with the zone rate structure proposed by Dr. Proctor in his direct
2 testimony?

3 A. I agree that the zone rate concept and the specific zone boundaries proposed by Dr.
4 Proctor more accurately reflect cost of service differences than do system-wide rates. As
5 a result, the subsidization which occurs in the application of a single rate system-wide is
6 lessened. However, the plant data supplied to Dr. Proctor for use in his direct testimony,
7 filed on December 11, 1992, contained classification errors which substantially
8 understated the cost differential between the two zones.

9 Q. Have these errors been corrected and, if so, are the resulting rates presented in the
10 record?

11 A. Yes, the errors have been corrected and, along with agreed upon adjustments to volumes
12 and various other adjustments, the corrections are reflected in the rates presented as
13 Attachment A to the Hearing Memorandum to be filed in this case. I believe that the
14 rates proposed in Attachment A, which are either supported or not opposed by all parties
15 to this proceeding other than FNG, reflect an appropriate cost allocation and rate design
16 to be applied to the MPC system.

17 Q. Would Laclede be subject to the higher Zone 2 rates under the rate structure proposed by
18 Dr. Proctor?

19 A. Yes. Deliveries to Laclede at the Union and St. Clair take-points would be subject to the
20 higher Zone 2 rates. However, Laclede recognizes that these zone rates are the only way
21 in which all of Laclede's customers are spared the cost of subsidizing gas deliveries to the
22 higher cost Zone 2 extension of MPC's system.

CITY GATE ISSUE

1

2 Q. You also wished to address the city gate issue discussed by FNG witnesses Matzdorff and
3 Dunn. Please explain that issue.

4 A. In its filing, MPC included the cost of the FNG city gate in MPC's rate base. FNG
5 witness Matzdorff objects to such inclusion because FNG reimbursed MPC for such
6 facilities. In addition, FNG witness Matzdorff argues that all MPC-owned city gate
7 facilities should be removed from rate base and the associated costs directly assigned to
8 the individual customers being served by such facilities.

9 Q. How has Staff dealt with city gate facilities?

10 A. Staff witness Gibbs removed from MPC's case the rate base related to the FNG city gate,
11 for which MPC has been reimbursed. The Staff, however, includes all MPC-owned city
12 gate facilities in MPC's rate base.

13 Q. Do you agree with the Staff's inclusion of the remaining city gate facilities in rate base?

14 A. Yes. Under traditional regulatory principles, the non-reimbursed costs of city gate
15 facilities incurred by a regulated pipeline company are included in rate base to be borne
16 by all customers. They are not directly assigned or attributed to individual customers.
17 As such, city gate facilities are treated no differently than any other form of plant
18 investment.

19 Q. Do you believe there is a reasonable justification for departing from such practice in the
20 instant case?

21 A. No. Mr. Matzdorff argues that, because FNG agreed to pay for its city gate facilities, all
22 other customers should pay for the city gate facilities serving them. But, Mr. Matzdorff's
23 argument fails to recognize that FNG received other consideration in exchange for its

1 payment for its facilities which Laclede did not receive. In his direct testimony, FNG
2 witness Dunn states:

3 In spite of the clear pattern of load growth and the need for different
4 capacity each year, Missouri Pipeline demanded that Fidelity contract for
5 a higher level of capacity than needed to meet its initial load. After
Fidelity contacted the Commission and also agreed to purchase its own
city gate, MPC modified its position and lowered the level of contract
demand for the initial year of operation (pp. 11 & 12)(emphasis added).

6 The other consideration received by FNG (i.e. the reduced contract demand) presumably
7 offsets - - at least in part - - the amount that FNG would be required to pay toward other
8 MPC city gate facilities if such facilities are included in rate base. Thus, it does not
9 appear that FNG has been discriminated against in the instant case.

10 Q. Does this conclude your testimony?

11 A. Yes, it does.