

Exhibit No.:

Issue:

Customer Charge;
Class Cost of Service Study;
Allocation of Gas Cost

Witness:

R. Lawrence Sherwin

Type of Exhibit:

Surrebuttal Testimony

Sponsoring Party:

Laclede Gas Company

Case No.:

GR-99-315

Laclede Gas Company

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SURREBUTTAL TESTIMONY

OF

R. LAWRENCE SHERWIN

August 1999

SURREBUTTAL TESTIMONY OF R. LAWRENCE SHERWIN

Q. Please state your name and address.

A. My name is R. Lawrence Sherwin, and my business address is 720 Olive Street, St. Louis Missouri 63101.

Q. Are you the same R. Lawrence Sherwin who previously filed direct and rebuttal testimony on behalf of Laclede Gas Company ("Laclede" or the "Company") in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by Daniel I. Beck on behalf of the Missouri Public Service Commission, to the rebuttal testimony filed by Hong Hu on behalf of the Office of the Public Counsel ("OPC" or "Public Counsel"), and to the direct testimony of Donald Johnstone and of John W. Mallinkrodt, both on behalf of Missouri Industrial Energy Consumers.

The issues I will be addressing are: (1) the Customer Charge level for Residential General Rate customers, (2) differences in the Class Cost of Service studies and (3) allocation of gas costs.

Q. Are other Laclede Gas Company witnesses filing surrebuttal testimony addressing related topics?

A. Yes. I direct your attention to the surrebuttal testimony of Michael T. Cline in particular, because his testimony also responds to the rebuttal testimony of Mr. Beck.

1 CUSTOMER CHARGE FOR RESIDENTIAL GENERAL

2 Q. Please identify the rebuttal testimony to which you will
3 respond in this area.

4 A. I am responding to OPC witness Hong Hu's rebuttal
5 testimony. I will discuss the average costs allocable to a
6 customer charge for the Residential General rate class.

7 Q. Ms. Hu's rebuttal testimony includes \$9.66 as a revised
8 Residential customer-related cost total for recovery
9 through the customer charge. Do you agree with this
10 revision?

11 A. No. This revision only corrects the glaring computational
12 error in the computer spreadsheet which had caused Ms. Hu
13 to substantially understate the customer charge she
14 recommended in her direct testimony. Ms. Hu did not correct
15 another spreadsheet error which is also discussed in my
16 rebuttal testimony. In addition to these spreadsheet
17 errors, I believe Ms. Hu's "corrected" calculations are
18 still far below the appropriate level of costs for the
19 items she says she means to include in the customer charge
20 on page 3, lines 14-18 of her rebuttal testimony.

21 Q. Please explain.

22 A. Referring to the NARUC Gas Distribution Rate Design Manual,
23 Ms. Hu states that the customer charge should include, as
24 an example, the costs "associated with service lines,
25 regulators, meters, recurring meter reading expenses and
26 the administrative costs of servicing the account". Despite
27 use of the term "associated with", Ms. Hu's study ignores

1 the depreciation and property taxes associated with service
2 lines, regulators and meters. Likewise, pension, health
3 insurance and payroll taxes associated with meter readers
4 are ignored. These items would clearly fall under the NARUC
5 customer charge cost definition referred to by Ms. Hu. My
6 rebuttal testimony also included an allocation of
7 supervision and engineering related to service and meter
8 expenses as appropriate.

9 It is almost unimaginable that a party would allocate
10 payroll cost to Laclede's customer charge and dispute the
11 allocation of payroll taxes and employee benefits thereon.
12 Supervision, depreciation and property taxes associated
13 with the customer charge portion of property items such as
14 meters and services should also clearly be allocated.
15 Revision of OPC's study for these items justifies Laclede's
16 customer charge, as indicated by the \$12.64 Monthly Customer
17 Charge shown for Residential customers on Schedule 2
18 attached to my rebuttal testimony, computed using the
19 Office of Public Counsel worksheet, as corrected and
20 modified.

21 Q. Do any of these costs vary with the volume of gas sold?

22 A. No, they do not. As they do not, I would describe them as
23 fixed costs.

24 Q. Should the level of customer charges for other utilities
25 dictate the level of customer charge for Laclede Gas
26 Company, as Ms. Hu suggests on page 2, lines 9-15 of her
27 rebuttal testimony?

1 A. No, only Laclede's costs should be used to determine
2 Laclede's customer charge. A proposal to use other
3 utilities' rates as the basis for setting this charge leads
4 to circular reasoning, since Laclede's charges could then
5 be used as evidence of the appropriate level of other
6 utilities' charges, in another proceeding. This Commission
7 should continue to utilize the demonstrated cost of each
8 utility for setting that utility's rates.

9 CLASS COST OF SERVICE STUDIES

10 Q. Please list the witnesses to which you are responding in
11 this area.

12 A. Mr. Johnstone and Mr. Mallinkrodt, both testifying on
13 behalf of MIEC.

14 Q. What is your response to Mr. Johnstone's testimony
15 regarding Laclede's Cost of Service Study ("C-O-S")?

16 A. Mr. Johnstone contends that Laclede's C-O-S study pays
17 little heed to cost causation and should be given little
18 weight. Although the Laclede C-O-S method uses a method of
19 allocating costs which is different than that chosen by Mr.
20 Johnstone, the approach used in the Laclede C-O-S study is
21 nonetheless an accepted and appropriate method of utility
22 cost allocation and can be given due weight in the
23 determination of revenue responsibility.

24 Q. What points of Mr. Mallinkrodt's rebuttal testimony will
25 you address?

26 A. Like Mr. Johnstone, Mr. Mallinkrodt infers that the average
27 and excess methodology should have no bearing upon the

1 allocation of costs in this case. I point out again that
2 this methodology is accepted for purposes of cost
3 allocation and should be afforded due consideration in
4 determining inter-class revenue responsibility.

5 GAS COST

6 Q. Please comment on Staff witness Beck's testimony on page 2,
7 line 19 through page 3, line 6 and page 4, lines 15-17
8 regarding gas cost.

9 A. Mr. Beck testifies in the first passage that including a
10 portion of gas cost in Laclede's base rates blurs a normally
11 definite line between gas cost and non-gas cost. In the
12 second passage (page 4, lines 15-17), he maintains that "any
13 revenue shift in this case should be based on non-gas costs".

14 Q. Are these two positions inextricably linked to one another?

15 A. No. The first position relates to the mechanics of
16 Laclede's Purchased Gas Adjustment ("PGA") clause. Should
17 Mr. Beck's stated position be acted upon, resulting in a
18 zero-base methodology being built into Laclede's PGA
19 clause, it would still be appropriate and necessary to
20 consider the allocation of gas costs in the determination
21 of any revenue shifts in this case.

22 Q. Are you now recommending that Laclede's PGA be modified as
23 suggested by Mr. Beck?

24 A. No. Staff's position and that of other parties that have
25 made similar recommendations on this issue seem to be based
26 upon a fondness of uniformity among methodologies among
27 Missouri's gas distributors rather than any type of cost-

1 benefit analysis. I do not see any benefit to Laclede's
2 customers and I think the costs would be substantial.
3 However, if such a change were made to the PGA, I am
4 convinced that it would be necessary to allocate Laclede's
5 gas costs between classes before the consideration of any
6 revenue shifts in this case. Whether base gas costs remain
7 in Laclede's tariff rates or not, somehow total gas costs
8 must be allocated between classes, and our PGA is set up to
9 only allocate based on Firm and Interruptible rate category
10 totals for the entire system, not to individual rate
11 classes. Because the classes have a variety of load factors,
12 this system-wide Firm and Interruptible allocation would
13 not be correct for allocating to particular classes. Staff
14 may wish that gas costs were allocated in Laclede's PGA, but
15 because they are not, such costs must be allocated here.

16 Q. Should a desire to achieve uniformity among methodologies
17 dictate whether or where an allocation of gas costs should
18 be performed for Laclede Gas Company?

19 A. No. Similar to my discussion concerning the customer charge
20 issue, the approved rates or ratemaking methods for each
21 utility should be determined upon the specific costs and
22 circumstances of that utility, not upon rates or ratemaking
23 methods that have used in the past for other utilities in
24 the state.

25 Q. Does this complete your surrebuttal testimony?

26 A. Yes.

