

Exhibit No.:
Issues: Class Cost of Service
Witness: Daniel I. Beck
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2009-0355
Date Testimony Prepared: October 14, 2009

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

DANIEL I. BECK

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

**Jefferson City, Missouri
October 2009**



Notary Public

Table of Contents

SURREBUTTAL TESTIMONY

OF

DANIEL I. BECK

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

EXECUTIVE SUMMARY.....	1
ERROR IN STAFF’S CLASS COST OF SERVICE REPORT.....	2
DIFFERENCES IN THE CCOS STUDIES	3

OF
DANIEL I. BECK
MISSOURI GAS ENERGY
CASE NO. GR-2009-0355

A. Daniel I. Beck, P.O. Box 360, Jefferson City, Missouri 65102.

A. Yes.

Q. Please summarize your surrebuttal testimony.

1. The Staff's Class Cost of Service and Rate Design Report mistakenly states that the Staff used a Capacity Utilization factor to allocate a portion of Mains. Although Staff did develop a Capacity Utilization factor, this factor was not used. Instead, Staff used a peak day demand allocator. No changes to the schedules and workpapers that accompanied the Staff's Report are required and, therefore, this error does not require any additional changes to Staff's recommendations.

1 2. The Rebuttal Testimony of Missouri Gas Energy witness F. Jay Cummings
2 confirms the importance of the mains and services allocators that were
3 discussed in my Rebuttal Testimony. In addition, MGE witness
4 Cummings' rebuttal points out a number of other differences between the
5 studies. After reviewing MGE's Rebuttal Testimony, I have concluded
6 that a few of the differences have a noticeable effect on the results of the
7 CCOS study results but most of the differences have no real affect on the
8 CCOS results.

9 3. I continue to recommend that the Commission use the Staff's CCOS study
10 as a starting point for designing rates in this case.

11 **ERROR IN STAFF'S CLASS COST OF SERVICE REPORT**

12 Q. Was there an error in the Staff's CCOS Report?

13 A. Yes. In an early draft of the CCOS Report, I had written a description of a
14 Capacity Utilization factor that was being considered for a portion of the allocation of Mains.
15 This discussion was included in the Staff CCOS Report on page 8, lines 2-12. While this
16 discussion is an accurate description of a Capacity Utilization factor and Staff did develop this
17 factor in its workpapers, ultimately the Staff chose to use a peak day demand allocator to
18 allocate the Integrated System component of mains.

19 Unfortunately a miscommunication resulted in this paragraph being included in my
20 testimony.

21 Q. How could this testimony be corrected?

22 A. The first full sentence beginning on Line 2 of page 8 should be revised and the
23 remaining four (4) sentences that describe the Capacity Utilization factor should be stricken.

1 The first full sentence is currently: “The Integrated System component was allocated using a
2 Capacity Utilization Factor.” It should read “The Integrated System component was allocated
3 using a peak day demand allocator.”

4 Q. Why did the Staff change from a Capacity Utilization factor to a peak day
5 demand allocator to allocate the Integrated System component?

6 A. While the Staff maintains that a peak day demand allocator and a capacity
7 utilization factor both have merit, the primary reason that the Staff chose to use the peak day
8 demand allocator for a portion of mains was that MGE allocated a portion of its mains using a
9 peak day demand factor. By choosing the peak day demand factor, which the Staff considers
10 to be reasonable, the Staff intended to narrow the differences between MGE’s allocation of
11 mains and the Staff’s allocation of mains. This change did not eliminate the differences
12 between MGE’s and Staff’s allocation of mains but it did narrow the differences.

13 **DIFFERENCES IN THE CCOS STUDIES**

14 Q. MGE witness Cummings lists twelve (12) different “major Methodology
15 Differences”. Do you agree with this characterization?

16 A. No. While I agree that there are twelve differences between the various CCOS
17 studies filed in this case, I would not agree with the declaration that all of these differences
18 are “major.” Dr. Cummings’ Exhibit FJC-10 provides a good summary of these differences
19 that I would use in support of my definition of major differences. However, this exhibit
20 includes both rate base dollars and expense dollars which can be confusing since rate base
21 dollars are not collected dollar for dollar from the customer.

22 Seven of the twelve differences show a rate-base related value but I would only
23 characterized three as being major. These three are: distribution mains, services and meters

1 (and meter installations), which account for \$508,414,234 of MGE's proposed rate base of
2 \$615,055,720, or nearly 83 percent of the rate base. For a fourth rate base item, Automated
3 Meter Reading, the Staff and MGE actually agree on allocation methods and this is only listed
4 because OPC used a different allocator. The remaining three differences are Miscellaneous
5 Intangible Plant, Measuring and Regulating Station Equipment and Customer Deposits, which
6 account for only about 2.2% of the proposed rate base and therefore will not result in major
7 differences to the final CCOS results.

8 Q. Based on expenses, which differences do you consider major?

9 A. Since the Depreciation and Amortization are related to the rate base, the
10 expense items that I looked at are commonly referred to as operations expenses. From an
11 operational expense perspective, in addition to the items already identified above, distribution
12 mains, services and meters (and meter installations), I consider two additional items to result
13 in major differences, Customer Accounts/ Collection Expenses and Uncollectible Expenses.
14 The remaining items are all less than 1% of the Company's proposed revenues in this case
15 and therefore will not have a major impact on the results of the CCOS study.

16 Q. In your Rebuttal testimony, you discussed the differences for mains and
17 services. Do you still support this testimony?

18 A. Yes.

19 Q. For meters and meter installations, MGE's witness Cummings raises the issue
20 of the average cost versus the median cost for meters. Do you agree that the median costs
21 should be used to allocate costs?

22 A. No. MGE witness Cummings' Rebuttal testimony expresses a preference for
23 the median costs for all of Staff's allocators that used a random sample: meters, mains, and

1 services. It appears that the criticism is not that the sample size was too small but, instead, the
2 sample resulted in “a relatively small number of outliers.” I flatly reject the notion that the
3 any value that is significantly different than the median value is an outlier and, therefore,
4 should be rejected. I contend that a sample size of 100 for each class is sufficient to provide a
5 reasonable estimate of the mean and, therefore, ALL values should be used. Based on my
6 experience, it is not abnormal for some customers to have land parcels, services or meters that
7 are larger than the average or median customer. There are a variety of reasons for this but it
8 does occur in both the sample and in real life.

9 Q. On page 18, MGE witness Cummings states that the costs for meters provided
10 by the company are the cost at the time the meter was replaced. What is your response?

11 A. Replacement meter costs is a term that is commonly used and I have never
12 seen it used in that context. Since the sample is random and its costs are used to develop a
13 weight, the resulting weight would still serve its purpose since it would capture significant
14 differences in costs between various meters.

15 Q. Your last two major differences were Customer Accounts and Collection
16 Expenses and Uncollectible Expenses. Please discuss these.

17 A. Customer Accounts and Collection Expenses is another account where the
18 differences between the Company’s allocator and the Staff’s is extremely small and,
19 therefore, is not a major difference between Staff and MGE (although the methods used to
20 develop the allocators is very different.) In contrast, Uncollectible Expenses is a major
21 difference. It is the Staff’s contention that MGE’s “direct assignment” of uncollectibles
22 doesn’t take into account the simple fact that the customers who caused these costs are NO
23 LONGER in the class where the costs were assigned since these customers are no longer on

Surrebuttal Testimony of
Daniel I. Beck

1 the system. Uncollectibles or bad debts are a cost of doing business that should be shared by
2 all of the current customers since the customers that caused the costs are no longer on the
3 system. If these individual customers were still on the system, then these costs should be
4 collected from each individual customer, regardless of their rate class. Interestingly, the
5 Company does use the CCOS allocator for miscellaneous revenues which are a credit to all
6 rate classes but directly assigns the uncollectible expenses.

7 Q. Does that conclude your Surrebuttal Testimony?

8 A. Yes.