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June 12, 2001

FEDERAL EXPRESS

Mr. Dale H. Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
Jefferson City, Missouri 65101

Re: **Missouri Gas Energy**
Case No. GR-2001-292

Dear Mr. Roberts:

Enclosed are the original and eight (8) conformed copies of **Statement of Position**, which please file in the above matter and call to the attention of appropriate Commission personnel.

An additional copy of the material to be filed is enclosed, which kindly mark as received and return to me in the enclosed envelope as proof of filing.

Thank you for your attention to this important matter. If you have any questions, please call.

Sincerely yours,

FINNEGAN, CONRAD & PETERSON, L.C.

By: 
Stuart W. Conrad

SWC:s
Enclosures
cc: All Parties

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FILED²
JUN 13 2001
Missouri Public
Service Commission

FILED²

JUN 13 2001

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Missouri Public
Service Commission

In the matter of Missouri Gas Ener-)
gy of Kansas City, Missouri re-)
quested authority to file a tariff)
reflecting a change in rates for)
its Missouri customers)

Case No. GR-2001-292

**MIDWEST GAS USERS' ASSOCIATION
STATEMENT OF POSITION ON SUPPLEMENTAL ISSUES
ON CLASS COST OF SERVICE**

Pursuant to earlier Commission orders, Intervenor Midwest Gas Users' Association (Midwest) submits its statement of position regarding the supplemental statement of issues that it submitted on May 30, 2001. This Statement of Position is without prejudice to Midwest's consideration of certain nonunanimous agreements that have been in various stages in the days immediately preceding this filing. Midwest will react to those settlement documents upon their receipt.

7.^{1/} Class Cost-of-Service/Class Revenue Allocations.

A. Class Cost of Service Studies

- a. In view of the MGE proposal to spread the revenue increase on existing rate class revenue levels, what weight, if any, should be given to class cost of service?

Midwest believes that substantial weight should be given to class cost of service and that it is the only reliable

^{1/}This number is understood to correspond to the numbering scheme on the more comprehensive statement of issues that is being separately submitted. If it does not because issues have been added or deleted from that listing, the proper number should be inserted.

indicator of whether or not a utility is providing service on a non-discriminatory cost-causal basis.

- b. Is one of the three class cost of service studies presented in this case more accurate than the others?

Midwest believes that the class cost of service study that has been submitted by Charles D. Laderoute is far more detailed, accurate and is superior to the other studies that have been provided in reflecting cost causation.

- c. In consideration specifically to the issues addressed in the Rebuttal Testimony of Midwest's witness, can specific differences in cost assignment and allocation methods account for the difference between the results of two or more cost of service studies?

Midwest believes that Mr. Laderoute has accounted for roughly 85% of the differences between the respective class cost of service studies. The major difference is not in main allocation, but rather is in the continuing assignment and allocation of sales related costs to transportation customers.

- d. Is it legal to not use cost of service results?

Given that public utility rates must be shown to be just, reasonable and non-discriminatory, Midwest believes it is not only unlawful but is poor public policy not to use class cost of service studies to evaluate inter-class revenue relationships.

- e. Is there a legal basis for the Commission to accept one of the cost of service studies and then choose to not use the results of that study in any way to establish the rate class revenue requirements?

Midwest believes that the purpose of having class cost of service studies is to evaluate the class rate relationships and to identify and, as much as possible, eradicate subsidies. Given this, if the Commission adopts a class cost of service study, it should use its results in the development of rates in the rate case. Inasmuch as Midwest believes that rates should be based on class cost of service, we do not believe that it is appropriate to adopt a class cost of service study, then fail or refuse to implement its findings.

- f. Are there differences between the cost of service study results presented in this case pertaining to costs other than joint or common costs?

Yes, there are substantial differences, as discussed in Mr. Laderoute's testimony. These differences account for roughly 85% of the differences between the MGUA and Staff class cost of service studies. Comparing the MGUA class cost of service with the OPC class cost of service the difference is also approximately 85% and of the difference 72% is associated with costs other than Mains.

- g. If cost of service is given a small amount of weight or no weight in the final setting of rate class revenue levels, what is the benefit of expending the resources to perform cost of service studies?

If the results of the studies are not to be used, there is little such benefit. However, since Midwest believes that such studies are the only means of identifying class subsidies that amount to unjust and unreasonable discrimination, such studies should be done.

- h. Can a cost of service study be used for reasons other than specifically to set rate class revenue levels - i.e. to assist in setting monthly Customer or Service charge levels?

Yes. A class cost of service study may be used for several purposes including evaluation of non-regulated activities by the utility, whether there are hidden areas of excessive costs and the like.

B. Establishing Class Revenue Levels

- a. Should rate class revenue levels be based on class cost of service?
- (1) If so, how much weight should be given?
 - (2) If not, what legal or regulatory guidelines should be used in setting class revenue levels?
 - (3) Aside from historical precedent, are there other reasons that a class cost of service study should not be used as the primary factor in setting rate levels?
 - (4) What weight should be given to factors other than cost in setting class rate levels?

Midwest believes that class rate revenue levels must be based on class cost of service, otherwise the regulator is in a never-never land and all decisions are arbitrary. Midwest believes that substantial weight should be given to such studies, but that once subsidies are identified, the Commission must make a decision regarding gradualism and appropriate shift within the particular rate case involved. It is at this level that factors other than cost should be considered at all and only to that limited extent.

- b. Is there a legal basis for not setting class revenue levels on the basis of costs?

Midwest does not believe that there is.

- c. In the general body of knowledge pertaining to gas local distribution company rate regulation, are rate class revenue levels set at or near the amounts included in a cost of service study?

Midwest believes that history shows that the failure to recognize the principle of cost causer/cost payer results not only in undue and unjust discrimination, but also results in poor pricing signals to customers, the inability of customers to properly evaluate conservation decisions, and the important principle of rate stability. Midwest believes that one reason that this utility has been frequently before the Commission in its short period of business in Missouri is because its rates are seriously out of balance and that the class of customers that is growing and requiring additional investment is not paying its cost of service to the utility. As a result, each new residential customer that is added requires not only subsidization by other classes of customers, but also by older residential customers whose rates must be higher than would be the case if these new customers were paying their way.

C. Specific Items of Costs to be Allocated

a. Joint and Common Cost Items

- (1) What method should be used to allocate mains among customer classes?

Mr. Laderoute's method, as indicated in his class cost of service study, should be used as it properly recognizes not only the importance of contribution to the size of the system and its capacity but the use of the system during the test year.

- (2) What method should be used to allocate meters and services among customer classes?

The method that is proposed by Mr. Laderoute assigns proper class cost responsibility for these items.

b. Major Cost Items Other than Mains to Be Allocated or Assigned

- (1) If cost causality is to be observed, to what class of customers should **AMR related costs including General Plant, Intangible Plant, associated Depreciation, and other related costs** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

As a result of agreements in 1993 that adopted burner-tip balancing for transportation customers on this system, transportation customers agreed to pay for the installation of their own electronic gas measurement equipment at costs up to \$5,000 per installation. They also agreed to bear the costs of a telephone line and other electric and electronic installations to permit the utility to "poll" these devices at its pleasure to identify usage levels. Other customers and customer classes were not asked to pay for this equipment. Accordingly, as AMR equipment is installed on sales' customers' meters, transportation customers should not be asked to bear any portion of these costs.

- (2) If cost causality is to be observed, to what class of customers should the value of **Storage Gas Inventory in Working Capital** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

Storage gas inventories are provided to assure reliable service to system supply customers and also to enable the utility to take advantage of spot market opportunities to purchase lower-cost gas for the benefit of these customers. The costs associated with storage gas inventory in working capital should be assigned to the sales customers and not to transporters who purchase their own gas supplies and may in some cases hold their own storage inventories, either directly or through brokers or marketers. This utility has no storage of its own and leases the storage that it has from Williams or other interstate pipelines just the same as other transportation customers.

Transportation customers pay transportation rates that compensate Williams or other interstate pipelines for balancing services. These storage costs do not provide service to transportation customers.

- (3) If cost causality is to be observed, to what class of customers should the value of *Working Cash for Purchased Gas in Working Capital* be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

See the above statement.

- (4) If cost causality is to be observed, what use should be made and what weight should be given to specific investment information for assignment of *Meters, Services and Regulators*? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

It is always preferable to directly assign specific items of plant in service where information exists to support that assignment. It is plainly wrong to allocate these cost items when they can be directly assigned and it is plainly wrong to assign them to customers other than those responsible for causing their costs.

- (5) If cost causality is to be observed, to what class of customers should the *Other Operating Revenues* be allocated or assigned. If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

Other Operating Revenues should be properly allocated to the transportation customers along with other customer classes. It is wrong to exclude transportation customers from this revenue allocation.

- (6) If cost causality is to be observed, to what class of customers should *Gas Supply related costs included in A&G Expenses* be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

All gas supply related costs that are included in A&G Expenses should be broken out and assigned to the system supply customers. Transportation customers incur these costs on their own, either as direct payments to producers, brokers or marketers, or as indirect payments where brokers or marketers perform gas acquisition services for the transportation customers.

- (7) If cost causality is to be observed, to what class of customers should the value of the **Gas component of Uncollectibles Expense** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

The gas commodity portion of Uncollectible Expense represents the value of the gas that was delivered to customers and used by them but for which these customers did not pay. It is plainly wrong to charge any portion of these costs to transportation customers who do not purchase their gas supplies from the utility.

- (8) If cost causality is to be observed, to what class of customers should the costs of **Sales Expenses** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

Sales and sales-related expenses should be charged to system supply customers. Since transportation customers purchase and provide their own gas supplies and look to the gas distribution utility only for the transportation service, they should not have to bear costs that are caused by the utility's activities in trying to sell additional gas to additional system supply customers.

Midwest submits these statements of position as a more complete statement of its positions on the expanded issue list.

Respectfully submitted,

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ATTORNEYS FOR MIDWEST GAS USERS'
ASSOCIATION

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by hand, electronic means or United States mail prepaid to all parties by their attorneys of record as disclosed by the pleadings and orders herein.

A handwritten signature in black ink, appearing to read "Stuart W. Conrad", written over a horizontal line.

Stuart W. Conrad

Dated: June 12, 2001