

Exhibit No.:
Issue: Cost of Service, Rate
Design
Witness: Daniel I. Beck
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2001-292
Date Testimony Prepared: May 22, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

DANIEL I. BECK

MISSOURI GAS ENERGY

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

Jefferson City, Missouri
May 2001

FILED²
MAY 22 2001
Missouri Public
Service Commission

TABLE OF CONTENTS
REBUTTAL TESTIMONY
OF
DANIEL I. BECK
MISSOURI GAS ENERGY
A DIVISION OF SOUTHERN UNION COMPANY
CASE NO. GR-2001-292

COST-OF-SERVICE.....	1
RATE DESIGN.....	3

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23

3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

11
12
13
14
15
16
17
18
19
20
21
22
23

12
13
14
15
16
17
18
19
20
21
22
23

13
14
15
16
17
18
19
20
21
22
23

14
15
16
17
18
19
20
21
22
23

15
16
17
18
19
20
21
22
23

17
18
19
20
21
22
23

22

23

Rebuttal Testimony of
Daniel I. Beck

1 A. Mr. Laderoute never actual claims that MGE will file another rate case in a
2 couple of years. Second, Mr. Laderoute never suggests that the current rate case or any future
3 rate case is or will be filed because of a deficiency in rate class revenues for one class. Instead,
4 Mr. Laderoute discusses a hypothetical example in which "Class B" is being subsidized by
5 "Classes A and C". In this hypothetical, Mr. Laderoute states "the costs attributable to it [Class
6 B] are actually \$1.10 [per Mcf], with the primary difference being primarily driven by costs
7 associated with Mains. Now, at some later time due to inflation, additional investments, and
8 other factors the costs is actually \$1.20." (Laderoute, Direct, Page 8, Lines 1-5) Mr. Laderoute
9 then goes on to state that "The best that it [the utility] can do is to file yet another rate case."
10 (Laderoute, Direct, Page 8, Lines 10-11)

11 In this hypothetical, Mr. Laderoute points to what I believe are the primary
12 causes for filing of rate cases: inflation and additional investments.

13 Q. On pages 11-13 of his Direct Testimony, Mr. Laderoute specifically points to
14 additional investment in Mains Plant in Service, Account 376, which, according to his
15 testimony, increased by 21.6% since MGE's last rate case. What are your impressions of this
16 discussion?

17 A. Mr. Laderoute correctly recognizes that subsidizes can and do exist between
18 and within classes. In fact, with regard to the Mains Extension Policy of MGE, I suspect that all
19 C-O-S and Rate Design witnesses in this case recognize the fact that the current extension
20 policy does not collect all extension costs before a new customer is served or within a very short
21 time (less than one year) after that new customer is initially served. This is not caused by a new
22 policy decision that was made by the Commission in MGE's two previous rate cases, GR-96-
23 285 and GR-98-140, but is, instead, a long-standing policy of the Missouri Public Service
24 Commission.

Rebuttal Testimony of
Daniel I. Beck

1 Q. Does Mr. Laderoute recommend that the Commission change MGE's
2 extension policy?

3 A. No. Instead, Mr. Laderoute's Direct Testimony on Page 56, Lines 20-22,
4 states "I would encourage the Commission to consider opening a generic docket to address
5 Facilities Line Extension policies." While the Staff participate in any generic docket that the
6 Commission deems necessary, I know of no reasonable combination of rate design and
7 extension policy that will not result in rate subsidies for certain customers or groups of
8 customers. In other words, I do not think that it is a reasonable expectation that rate subsidies
9 can be completely eliminated.

10 Q. Why do you think that rate subsidies exist for certain customers or groups of
11 customers?

12 A. While rate classes are created for similarly situated customers, the rates
13 cannot reflect each and every difference for each and every customer. For example, if two new
14 customers in the same size building on the same street are served by the exact same model of
15 meter but one of the meters was purchased by the company fifteen years ago (a meter is
16 commonly used in several locations during its service life) while the other meter was purchased
17 last week, the companies net cost for these two meters is completely different due to
18 depreciation of the older meter and to inflation over fifteen years. This difference in cost could
19 be considered a subsidy since the actual cost to serve one customer is less than the actual cost to
20 serve another, even though the two customers are similarly situated. However, if these two
21 customers remain on the system for a number of years, the difference between the net costs of
22 the meters will be diminish. In addition, the older meter will most likely be replaced before the
23 newer meter. By replacing the older meter, the direction of the subsidy is reversed since
24 additional meter cost has been incurred for one customer, but not the other. The point of this

Rebuttal Testimony of
Daniel I. Beck

1 example is that any rate design, which can reasonably be implemented, will not collect costs
2 perfectly at any given moment. A more realistic goal is that the correct revenues will be
3 collected from each customer over time.

4 Q. Does Mr. Laderoute's testimony point to any specific causes of subsidies for
5 MGE's system caused by?

6 A. Yes. Mr. Laderoute states that "As a result of this policy, existing customers,
7 be they Residential or LVS, are **subsidizing new customers.**" (Laderoute, Direct, Page 13,
8 Lines 5-6) By "this policy", Mr. Laderoute is referring to the Mains Extension Policy as
9 defined in MGE's Tariff.

10 Q. Are there reasons that a rate subsidy for new customers through the extension
11 policy should be allowed?

12 A. Yes. I have already explained how new customer rates are limited by the
13 complexity of a given rate design and, therefore, the company should attempt to collect the
14 correct revenue from that customer over the long term. In addition, I maintain that an extension
15 policy can affect a utility's ability to compete with other sources of energy for space heating,
16 water heating, etc. The Commission has Promotional Practices Rules that limit a utility's ability
17 to promote gas service. However, this rule is not intended to discourage new customers from
18 going on MGE's system.

19 Another consideration with regard to extension policy should be economic
20 development. An extension policy that discourages all new customers of a specific type
21 (residential, commercial and/or industrial) would have a negative effect on economic
22 development. In short, MGE's current Extension Policy is not designed solely to insure that
23 new customers receive no subsidizes.

Rebuttal Testimony of
Daniel I. Beck

1 Q. Do you agree with Mr. Laderoute's statement that the LVS "class has
2 essentially been static since the last case" (Laderoute, Direct, Page 11, Lines 16-17)?

3 A. No. Mr. Laderoute's own Supplemental Direct Testimony contradicts the
4 numbers on which he bases this assertion. In Schedule CDL-1 of his Direct Testimony, Mr.
5 Laderoute shows that there was an average of 430 LVS customers for the year ending on
6 September 1997. He then compares this with an average of 441 LVS customers for the year
7 ending December 2000 and concludes that the small change was primarily due to customers
8 switching from the SGS and LGS rate classes. However, his Supplemental Direct Testimony,
9 on page 9, lines 12-16, recognizes the fact the current LVS customer number is actually 471.
10 This means that the LVS class was the fastest growing rate class by percentage. In fact, based
11 on Mr. Laderoute's own numbers, the LVS class grew approximately 9.5% between cases while
12 the next fastest growing class, the SGS class, grew at a rate of 6%. While Mr. Laderoute may
13 still feel that this rate of growth should be ignored due to customer switching, it seems odd that
14 so many customers would switch to a rate class if they were being significantly overcharged, as
15 Mr. Laderoute's CCOS study would have the Commission believe.

16 Q. If Mr. Laderoute were correct that growth is due to switching, would that
17 raise other issues?

18 A. Yes. In my Direct Testimony on the issue of Large Customer Annualization
19 and Normalization at page 5, I testified regarding the development of Staff's large customer
20 switching adjustments. It is my experience that when customers switch from a class such as
21 SGS or LGS to a class like LVS during the test year, it almost always means that the company
22 will receive less marginal revenues from that customer after the switch. Therefore, if all of the
23 9.5% growth in the LVS class came from switching, it is very likely that the Company received
24 less revenue from those additional 41 customers.

Rebuttal Testimony of
Daniel I. Beck

1 Q. As the Staff witness regarding Large Customer Annualization and
2 Normalization adjustments, do you agree that there are 471 LVS customers?

3 A. No. I do not believe that number is accurate due to an erroneous formula in a
4 spreadsheet as well as several other adjustments that came to light after Direct Testimony was
5 filed. The latest information that I have received from the Company indicates that the correct
6 number is actually 495. I believe that 495 is the correct number of customers for the LVS class.

7 Q. Would the new number of LVS customers raise or lower percentage growth
8 for the LVS class?

9 A. It would raise the percentage growth for the LVS class to 15% since the last
10 rate case. This was the highest rate of growth experienced by any of the rate classes.

11 Q. Have you reviewed MGE's Rate Design Proposal?

12 A. Yes. I maintain that the rate design proposed by the Company would be a
13 significant change in policy for this Commission. As with most issues, there are positive and
14 negative aspects to MGE's rate design proposal. As MGE's points out, the proposed rate design
15 would lower the amount of additional revenue that would be collected during the winter months.
16 However, to achieve a lower revenue increase in the winter, more revenue would have to be
17 collected during the summer.

18 Q. Wouldn't MGE's budget-billing plan, the ABC plan, result in the same
19 leveling of revenues?

20 A. No. The ABC plan attempts to charge the same amount each month of the
21 year. MGE's rate design proposal simply shifts some of the revenues that would otherwise be
22 collected in the winter to the summer. The proposed rate design would still collect most of the
23 revenue in the winter.

24 Q. Are there other aspects of the proposal that raise policy issues?

Rebuttal Testimony of
Daniel I. Beck

1 A. Yes. The Company's minimum bill proposal would include 20 Ccfs of gas
2 for each Residential customer. This would give customers the ability to use a minimum amount
3 of gas without incurring any additional margin charges. Twenty (20) Ccfs is approximately
4 equal to the amount of gas required for a water heater in the summer months. This minimum
5 bill structure could potentially be viewed as a promotional practice. To my knowledge, the
6 Commission not considered whether a minimum bill proposal like this is a promotional practice.

7 In addition, as with any change in rate structure, there will be winners and losers.
8 By using the term "winners and losers", I am simply trying to illustrate that if one customer
9 benefits from a rate design with a lower overall bill, then another customer will have a higher
10 overall bill. In this case, customers who use more gas than the average customer will receive a
11 lower annual bill as will customers with usage that is more than the minimum for all the months
12 of the year. On the other hand, customers who use less gas than the average customer or who
13 use little or no gas for several months each year will likely pay a larger annual bill.

14 Q. Are you saying that the proposal should be rejected because some customers
15 could be negatively impacted?

16 A. No. I am simply pointing out the fact that any change in rate structure will
17 impact some customers in a positive way while impacting other customers in a negative way.
18 This is a fact for all changes in rate design and I am suggesting that the Commission would need
19 to weigh the impacts against the overall merits of the proposal.

20 Q. Does this conclude your rebuttal testimony?

21 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's)
tariff sheets designed to increase rates)
for gas service in the company's Missouri)
service area.)

Case No. GR-2001-292

AFFIDAVIT OF DANIEL I. BECK


STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Daniel I. Beck, is, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



DANIEL I. BECK

Subscribed and sworn to before me this 22nd day of May 2001.



Notary Public

Joyce C. Neuner
Notary Public, State of Missouri
County of Osage
My Commission Exp. 06/18/2001

My Commission Expires: _____