

Exhibit No.:

Issues: Class Cost-of-Service

Large Volume Rate

Transportation Terms

Witness: Donald Johnstone

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: MGUA & Superior

Bowen Asphalt

Case Number: GR-2009-0355

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~~Service~~ Commission

Surrebuttal Testimony of

Donald Johnstone

On behalf of

Midwest Gas Users' Association

and

Superior Bowen Asphalt Company, L. L. C.

October 2009



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Before the
Missouri Public Service Commission

Missouri Gas Energy

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Before the
Missouri Public Service Commission

Missouri Gas Energy

Case No. GR-2009-0355

Surrebuttal Testimony of Donald Johnstone

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A My name is Donald Johnstone, and my address is 384 Black Hawk Drive, Lake Ozark,**
3 **Missouri.**

4 **Q ARE YOU THE SAME DONALD JOHNSTONE THAT PREVIOUSLY SUBMITTED DIRECT**
5 **AND REBUTTAL TESTIMONY IN THIS PROCEEDING?**

6 **A Yes, I am.**

7 **SUMMARY**

8 **Q ON WHAT SUBJECTS HAVE YOU BEEN ASKED TO TESTIFY?**

9 **A I will be offering surrebuttal testimony in regard to the rate design for the Large**
10 **Volume rate, transportation terms of service, and class cost-of-service/spread of the**
11 **increase. I respond to the rebuttal testimonies of Mr. Cummings, and Mr. Feingold for**
12 **MGE and the rebuttal testimony of Mr. Haubensak for Constellation Energy.**

1 **Q PLEASE SUMMARIZE YOUR TESTIMONY.**

2 **A My surrebuttal testimony may be summarized as follows:**

- 3 • The current LV rate design should be maintained because there is no evidence that it
4 is unreasonable and the MGE alternative would change in a direction inconsistent with
5 the cost of providing large volume service. MGE's proposed elimination of the
6 seasonal differential would deny the reality of the cost caused by the winter seasonal
7 loads and the design day conditions that figure prominently as a cost causing factor in
8 the class cost-of-service studies. The rebuttal of Mr. Feingold in defense of the MGE
9 proposal completely sidesteps the matter of cost causation and is therefore
10 unpersuasive.
- 11 • After making the revenue neutral adjustments as described in this testimony, the LV
12 rate elements should be adjusted on an equal percentage basis as necessary to collect
13 any approved increase in revenue responsibility for the LV class.
- 14 • MGE offers no rebuttal on the matter of transportation terms and conditions, and like
15 the MGE direct testimony, again fails to identify any particular problems or
16 deficiencies in the present transportation terms and conditions. In the absence of
17 identified problems to be addressed the proposed changes to the present just and
18 reasonable tariff amount to mere arbitrary tinkering that should be rejected.
- 19 • The proposal to increase cashout costs and make them unsymmetrical should be
20 rejected because it would create subsidies flowing from transportation customers to
21 commodity customers and will tilt move away from a neutral incentive to achieve zero
22 monthly imbalance. Any apparent acceptance by Constellation of aspects of the MGE
23 proposal is misplaced and offers no useful support for any change.

- 1 • The class cost-of-service study submitted by MGE and the study I submitted in rebuttal
- 2 both illustrate that the LV class is providing too much revenue relative to cost, under
- 3 both present and proposed rates.
- 4 • The rebuttal testimony of Mr. Cummings is helpful to the extent that it illuminates
- 5 many of the cost of service issues, but misses the mark with respect to the cost of
- 6 small mains that is allocated to the LV class and the cost of gas inventory.
- 7 Nevertheless, the study is useful in establishing the need for and appropriateness of a
- 8 below average rate increase for the LV class.

9 **LARGE VOLUME RATE DESIGN**

10 **Q WHAT IS THE LARGE VOLUME RATE DESIGN ISSUE?**

11 A I have testified in support of the current seasonal large volume rate design. In the
12 seven off-peak months the volumetric rates are 37 % lower in the first usage block and
13 47% lower in the tail block as compared to the 5 on-peak winter months. MGE had
14 proposed to eliminate the seasonal difference and Mr. Feingold responded for MGE in
15 rebuttal.

16 **Q WHAT IS THE REBUTTAL OFFERED BY MR. FEINGOLD?**

17 A Mr. Feingold opines:

18 "the continuation of these seasonal rate differentials has no cost basis
19 and is not reflective of the load characteristics of the typical customer
20 served under this rate class." Feingold Rebuttal, pp. 3-4.

21 Thus, his rebuttal relies on two opinions:

- 22 1. No cost basis for a seasonal rate
- 23 2. The current design does not reflect the "typical customer."

1 **Q IS THERE A COST BASIS FOR THE RATE?**

2 A Yes, and the cost basis is readily apparent. The system peak occurs in the winter
3 when the weather is coldest, an undisputed fact. Thus the capacity of the distribution
4 system has been driven to a very significant extent by the seasonal impact of cold
5 weather load, another undisputed fact. Furthermore, in one form or another every
6 class cost-of-service study, including the study submitted by MGE, uses a measure of
7 winter seasonal demand in the allocation of costs among the classes.

8 Given the universal acknowledgement of the impact seasonal loads on costs it
9 is difficult to understand Mr. Feingold's reasoning.

10 Even if there were some dispute with the level or extent of the seasonal
11 differential, there can be no credible argument that there is no cost basis for a
12 seasonal rate design. It could only be defeated if there were other considerations that
13 would overwhelm the seasonal impacts cost impacts.

14 **Q DOES MR. FEINGOLD OBSERVE THAT FIXED CAPACITY COSTS ARE PAID UNIFORMLY**
15 **YEAR ROUND BY MGE?**

16 A Yes. Of course, that is the nature of fixed costs. Once incurred, they continue over
17 time without variation, but this defining characteristic of fixed costs does nothing to
18 explain why the costs were incurred in the first place - and sheds no light at all on the
19 question of whether or not they were incurred to serve seasonal demands. Mr.
20 Feingold mistakenly stops his analysis with a comment focused on the ongoing nature
21 of fixed cost and fails to address the reasons for incurring the fixed costs.

1 **Q LET'S TURN TO THE SECOND POINT RAISED BY MR. FEINGOLD'S REBUTTAL IN**
2 **OPPOSITION TO THE PRESENT SEASONAL RATE DESIGN. IS THE PRESENT DESIGN OF**
3 **THE LV RATE SOMEHOW DEFICIENT IN ITS ABILITY TO COLLECT APPROPRIATE**
4 **REVENUES FROM A TYPICAL CUSTOMER?**

5 **A No. In fact, most rate designs work well for typical customers and the present rate**
6 **design is no exception. Indeed, an important challenge for a rate design is to capture**
7 **cost causation in a way that produces equitable results for a wide range of customers**
8 **-- not just those with "typical" or "average" loads.**

9 **Q DOES THE LV RATE NECESSARILY APPLY TO CUSTOMERS THAT ARE NOT TYPICAL?**

10 **A Yes. One example of an acutely atypical load is that of asphalt companies that use no**
11 **gas at all during the coldest part of the winter season when the aggregate demands on**
12 **the system for service are the highest. Another example of customer loads that vary**
13 **from "typical" is raised in the Staff report. In normalizing the LV class loads Staff**
14 **divided customers into either of two groups, weather sensitive or non weather**
15 **sensitive. Both cannot be typical. Thus the LV class includes customers with loads**
16 **that are characterized as either weather sensitive or not. And for the non-weather**
17 **sensitive group there is a subgroup that consumes no gas at all on the coldest days of**
18 **the year.**

19 **Q DOES MR. FEINGOLD DEFINE OR DEFEND THE TYPICAL CUSTOMER HIS DESIGN IS**
20 **INTENDED TO SERVE, TO THE EXCLUSION OF ATYPICAL CUSTOMERS FOR WHOM HE**
21 **OFFERS NO REASONABLE DESIGN ALTERNATIVE?**

22 **A No.**

1 **Q IS THE PROPOSED MGE/FEINGOLD DESIGN EQUITABLE FOR ANY CUSTOMER THAT IS**
2 **NOT TYPICAL?**

3 **A No.** Mr. Feingold proposes a rate design that cannot produce an equitable cost-based
4 result for any customer other than his "typical" customer. For any other customer his
5 design will introduce subsidies.

6 It is strange indeed that Mr. Feingold would bring forth a discussion of "typical"
7 customers in rebuttal testimony in defense of his proposal. His testimony on the point
8 is vacuous.

9 **Q IS THE CURRENT SEASONAL RATE DESIGN IMPORTANT TO THE EQUITABLE**
10 **COLLECTION OF COSTS AMONG THE LV CUSTOMERS?**

11 **A Yes.** While it is appropriate for the more or less typical customers, it is perhaps most
12 important for the atypical customers. Indeed, it is the customers with lower annual
13 load factors and higher winter peaks that should pay a higher than average rate. That
14 is the effect of the current rate design. Conversely, customers with higher annual
15 load factors and relatively lower winter peaks should pay a lower average rate. Again,
16 that is the result of the current rate design. As a final example, customers that do not
17 contribute to the winter peak should pay an even lower than average rate and a rate
18 that is also lower than that paid by the higher load factor customers with a
19 contribution to the winter peak. Again, that is the result of the present rate design.

20 Of course, it is common knowledge that the delivery system is designed to
21 serve a demand that is far and away the highest in the winter period. As such, it is
22 the demand for natural gas in the winter period that is primarily responsible for many

1 of the capacity-related costs that are incurred by the system. In contrast to Mr.
2 Feingold's proposal, the present rate design reflects this reality.

3 **Q DOES THE RATE DESIGN PROPOSED BY MR. FEINGOLD ACCOUNT FOR SEASONAL**
4 **VARIATIONS IN CUSTOMER LOADS?**

5 **A** No. The rate is the same year round, during both the higher cost winter season and
6 the lower cost summer season. The important attribute of apportioning the cost of
7 service to customers with the LV class in a manner consistent with system costs is
8 absent from the company proposed rate design.

9 **Q DOES STAFF SUPPORT THE MGE PROPOSAL?**

10 **A** No. Staff position changed in its rebuttal testimony. It no longer supports the
11 MGE/Feingold proposal. Staff apparently contemplates the possibility of a separate
12 docket to study the matter.

13 **TRANSPORTATION TERMS**

14 **Q HAS MGE PROPOSED A NUMBER OF CHANGES IN THE TRANSPORTATION TERMS AND**
15 **CONDITIONS?**

16 **A** Yes, they have. In my direct testimony in this proceeding I opposed the changes
17 primarily based on the fact that MGE has shown no need or basis for change. At a
18 summary level the proposed changes include adjustments to the index prices at which
19 gas is bought from or sold to transportation customers pursuant to the cash-out
20 provisions, proposed changes in tolerance levels for cash-out penalties; periods of

1 daily balancing (PODB); and a number of language changes that are apparently
2 intended to encourage customers to match their supplies with their usage.

3 **Q DOES IT CONTINUE TO BE THE INTENT OF YOUR CLIENTS TO PAY COSTS WHICH ARE**
4 **INCURRED ON THEIR BEHALF WITH RESPECT TO TRANSPORTATION SERVICE?**

5 A Yes, it is their intent to pay their cost based on the allocated costs of the system
6 including, of course, those that are imposed directly by virtue of the transportation
7 services that are being provided to them.

8 **Q DOES IT CONTINUE TO BE THE INTENT OF YOUR CLIENTS TO COMPLY WITH THE**
9 **OPERATIONAL TERMS AND CONDITIONS OF THE TRANSPORTATION TARIFF?**

10 A Yes, it is. It is their intent to be responsible transportation customers and to operate
11 consistently within the requirements of the transportation terms and conditions.

12 **Q WHAT IS THE REBUTTAL TESTIMONY YOU WILL BE ADDRESSING IN REGARD TO**
13 **TRANSPORTATION TERMS?**

14 A I will respond to the rebuttal of Constellation witness Haubensak in which he
15 challenges specific statements in the Staff report.

16 **Q WHAT IS THE FIRST STAFF STATEMENT ON THE SUBJECT OF TRANSPORTATION**
17 **TERMS THAT IS CHALLENGED BY MR. HAUBENSAK?**

18 A The challenged statement is: "The ability of transport customers to buy and sell gas
19 from MGE is far more beneficial to the transport customer than to MGE or its 'firm'
20 customers." Mr. Haubensak asserts: "This statement is simply not accurate." He goes
21 on to discuss the issue, but several important implications of the Staff statement are

1 overlooked. First, the Staff statement is an empty conclusory remark that has no
2 study or quantification of any of the alleged benefits as it basis. However a more
3 important point is the incorrect and misguided implication that prices should be set
4 based according to the relative benefits of utility service - apparently as perceived by
5 Staff.

6 **Q IS THERE ANY MERIT TO THE STAFF ASSERTION THAT RATES, TERMS AND**
7 **CONDITIONS SHOULD BE MADE MORE ONEROUS BECAUSE OF THE STAFF'S**
8 **ALLEGATION OF OUTSIZED BENEFITS TO THE USERS OF TRANSPORTATION SERVICE?**

9 **A** There is no merit to this assertion and it is wrong on many levels. First, there is the
10 implicit suggestion that prices for utility services should be set higher or lower
11 according to benefits received. That is a prescription for arbitrary preference and
12 undue discrimination in the utility services provided and tariff rates charged. It is
13 well established that the cost of the services provided, while not the only
14 consideration, is a primary consideration in the development of equitable rates. For
15 example, consider a laundry on one side of a street that imposes a load that is
16 identical to that of a small industrial customer on the other side of the street. Please
17 further assume that all material aspects of the services provided have equivalent
18 costs. However, suppose that the laundry business is highly profitable while the small
19 industrial is merely getting by. Should the laundry pay higher rates?

20 Please consider a change in the hypothetical replacing the small industrial with
21 a medical facility that provides medical care that is important to the health and well-
22 being of the recipients - at prices that are extraordinarily profitable for its doctor

1 owners. Should laundry or the medical facility pay a higher price for the same utility
2 service?

3 The point illustrated by the hypothetical is that the benefits of utility service
4 do not have a large role to play in utility rate design, but the discussion so far
5 addresses the issues as between customers. Staff also suggests that relative benefits
6 between MGE and its customers should be considered.

7 **Q SHOULD THE RELATIVE BENEFITS BETWEEN MGE AND ITS TRANSPORTATION**
8 **CUSTOMERS BE A CONSIDERATION IN THE DESIGN OF TRANSPORTATION RATES,**
9 **TERMS AND CONDITIONS, AS ADDRESSED IN THE REBUTTAL OF MR. HAUBENSAK?**

10 **A** No. Mr. Haubensak addresses the Staff statement by pointing out that MGE "will
11 always be able to recover any incremental costs or any fluctuations in gas prices
12 caused by transportation customer activity, which is fine." All is not fine on this front
13 under the MGE proposal. All is not fine, first as a matter of principle and second as a
14 matter of the non-cost-based proposals.

15 **Q WHY IS ALL NOT "FINE" AS A MATTER OF PRINCIPLE?**

16 **A** As a regulated public utility MGE is entitled to an opportunity recover its prudently
17 incurred expenses and a fair return on its investment. The entitlement is the same
18 with respect to transport customers as it is for commodity customers. There is no
19 special profitability to be conferred on MGE for providing service to transport
20 customers. There is no basis for higher rates or more onerous terms and conditions
21 due to any benefits that may or may not exist as perceived by Staff.

1 Similarly, there is no special consideration due to commodity customers as a
2 preference over transport customers. Both the bundled commodity service and
3 transport service are well established services provided by MGE as well as other gas
4 distribution utilities in the State of Missouri, and other gas utilities around the
5 country.

6 **Q WHY IS ALL NOT "FINE" FOR LACK OF A COST BASIS IN THE MGE PROPOSED**
7 **TRANSPORT RATES TERMS AND CONDITIONS?**

8 **A**Under the MGE proposal transport customers would be charged a rate for transport
9 cash out services that greatly exceeds the cost of the service provided. Similarly,
10 when accepting transport customer gas MGE would provide compensation far smaller
11 than the cost of the gas received. Since the transactions would be accounted for
12 under the PGA where there is a dollar for dollar pass through to commodity customers
13 of MGE's prudently incurred costs, the impact is a transfer of the profits to commodity
14 customers. Excessive and discriminatory rates charged by MGE do not become
15 acceptable simply because the windfall benefits are transferred to commodity
16 customers through the operation of the PGA. Instead of the unjust enrichment of MGE
17 owners, the result would be the unjust enrichment of commodity customers because
18 an unjust preference would be provided to them at the expense and detriment of
19 transport customers individually and as a class.

20 **Q ARE YOU UNALTERABLY OPPOSED TO ANY CHANGES IN THE MONTHLY CASH-OUT**
21 **POSITION?**

1 A No. My clients are committed to working with MGE to maintain a system that operates
2 well for all concerned and that preserves the integrity of the system; however, there
3 has been no rebuttal from MGE to my testimony in which I observe that the monthly
4 cash-out provisions are working well and there is no need to make changes. There is
5 no testimony that establishes any deficiency in the current tariff provisions. Neither
6 is there any documentation of a problem nor any illustration to support the
7 proposition that the proposal would produce an equitable result among MGE, transport
8 customers and commodity customers

9 A **DOES MR. HAUBENSAK PROPOSE A CHANGE IN THE TRANSPORT TERMS AND**
10 **CONDITIONS AS THEY PERTAIN TO AN OPERATIONAL FLOW ORDER (OFO)?**

11 A Yes. By his testimony it appears that he would like to restrict MGE's use of an OFO to
12 those times when it is needed thereby avoid unnecessary use of the OFO.

13 Q **DO YOU AGREE WITH THE SUGGESTION THAT MGE SHOULD NOT UNNECESSARILY OR**
14 **ARBITRARILY EXERCISE ITS RIGHT TO DECLARE AN OFO?**

15 A Yes.

16 Q **WILL THE TARIFF LANGUAGE PROPOSED BY MR. HAUBENSAK FIX THE PROBLEM HE**
17 **INTENDS TO ADDRESS?**

18 A Perhaps, although it appears to me that broad discretion to declare an OFO would
19 remain with MGE due to the following language that is part of what Mr. Haubensak
20 proposes: "... when necessary to maintain the overall operational integrity of all or a
21 portion of the Company's system"

1 **Q CAN YOU SUGGEST AN ADDITIONAL APPROACH?**

2 A I suggest greater accountability for MGE. The circumstances that support any call for
3 an OFO should be disclosed. More specifically, a comprehensive description of the
4 reasons for the OFO should be posted not less than 72 hours in advance of the
5 implementation of the OFO (except that the advance notice might be accelerated in
6 the situation where a longer notice is not possible in the context of emergency
7 conditions). Of course, notice of the OFO should continue to be provided as far in
8 advance as practicable to provide transporters with a reasonable opportunity to
9 respond to the OFO conditions.

10 **Q WHAT HAS BEEN THE STAFF POSITION WITH REGARD TO THE CHANGES THAT HAVE**
11 **BEEN PROPOSED BY MGE IN THE TRANSPORTATION TERMS AND CONDITIONS OF**
12 **SERVICE?**

13 A It is my understanding that Staff accepted, in its direct testimony, the several
14 proposals of MGE. Consequently, this rebuttal testimony that addresses the MGE
15 proposals should be considered to address any Staff support for these proposals as
16 well, since Staff like MGE did not document any problems with the terms and
17 conditions that are part of the present Commission approved MGE tariff. We
18 encourage all parties, including Staff, to consider the points raised in various
19 settlement conferences and in the formal record as it reaches its final position on
20 these issues for the purposes of litigating the case.

1 **CLASS COST-OF-SERVICE STUDY / SPREAD OF INCREASE**

2 **Q WHAT HAS BEEN THE REBUTTAL ON THIS SUBJECT?**

3 A Staff and MGE both address issues related to the class cost-of-service studies. A
4 number of issues are raised.

5 **Q MGE WITNESS CUMMINGS STATES THAT MGE DOES NOT INCLUDE THE COSTS**
6 **ASSOCIATED WITH ELECTRONIC GAS MEASUREMENT IN THE ASSET ACCOUNTS. DOES**
7 **THIS ADDRESS THE CONCERN YOU RAISED IN YOUR DIRECT TESTIMONY?**

8 A Subject to verification of the asserted facts, his response appears to address the
9 concern.

10 **Q WHAT WAS YOUR CRITICISM OF THE MGE METHOD FOR ALLOCATION OF**
11 **DISTRIBUTION MAINS?**

12 A I made the observation that smaller mains are not useful in providing service to larger
13 customers, simply because they do not have sufficient capacity to be useful for service
14 to large volume customers.

15 **Q DOES MGE WITNESS CUMMINGS DISAGREE WITH YOUR TESIMONY ON THIS POINT??**

16 A Yes. His response is that the zero intercept method addresses the problem.

17 **Q DOES THE ZERO INTERCEPT APPROACH TO A CUSTOMER COMPONENT ADEQUATELY**
18 **ADDRESS YOUR CONCERN?**

19 A Yes and no. No in the sense that the limited capacity of small mains render them
20 practically useless in service to large volume customers. This is a capacity issue, not a

1 customer component issue. Absent explicit analysis the study will overallocate costs
2 to large volume customers.

3 However, my answer is yes in the sense that I agree with the MGE approach for
4 the purposes of this proceeding because it produces a result that is more reasonable
5 that the alternatives that are available.

6 **Q ON THE SUBJECT OF DISTRIBUTION MAINS COST ALLOCATION, DOES MR. CUMMINGS**
7 **DISAGREE WITH THE STAFF'S USE OF PEAK DAY AS OPPOSED TO DESIGN DAY?**

8 **A** Yes, and I agree with his criticism.

9 **Q WHY DID YOU USE THE STAFF'S PEAK DAY DEMANDS IN THE REBUTTAL CLASS COST-**
10 **OF-SERVICE STUDY THAT YOU SUBMITTED?**

11 **A** It was my intent to use a consistent set of costs and usage data based on Staff's
12 revenue case. However, in so doing I observed that the distribution mains allocation
13 factor will allocate too much cost to the LV class and too little cost to the more
14 weather sensitive classes.

15 **Q WHAT IS THE EFFECT OF THE ABOVE TWO CONSIDERATIONS, THE SMALL MAINS**
16 **ISSUE AND THE DESIGN DAY VERSUS PEAK DAY ISSUE?**

17 **A** The effect is to overstate the cost to the LV class in my rebuttal study.

18 **Q DID MR. CUMMINGS RESPOND TO YOUR CRITICISM OF HIS ALLOCATION OF GAS**
19 **INVENTORY INVESTMENT?**

20 **A** His response was limited in that he apparently did not grasp the issue.

1 **Q PLEASE EXPLAIN THE GAS INVENTORY COST ISSUE AND ITS IMPORTANCE FOR**
2 **TRANSPORTATION CUSTOMERS?**

3 A By definition the large volume gas transportation customers supply their own gas and
4 in some instances purchase their own storage through the pipeline or from third
5 parties. As such very little of MGE's cost of gas inventory, if any, is properly allocated
6 to them. The MGE class cost-of-service study fails to address this reality and instead
7 allocates the cost among the classes based on volumes.

8 Mr. Cummings apparently has not thought about this carefully and submitted a
9 study that overallocates the cost of gas inventory to the large volume customers.

10 **Q DID MR. CUMMINGS ADDRESS THE ALLOCATION OF METER READING EXPENSE IN HIS**
11 **REBUTTAL?**

12 A Yes. He explains that due to the use of either automated or electronic meter reading
13 for all customer classes, there is no basis for using an allocation factor that
14 incorporates any weighting. His analysis is persuasive.

15 **Q DOES THIS ALLOCATION OF METER READING EXPENSE IMPACT THE CLASS COST-OF-**
16 **SERVICE STUDY YOU SUBMITTED IN REBUTTAL?**

17 A Yes. I used density weighted customers in the allocation. However, in his rebuttal
18 testimony Mr. Cummings explains that weighting is not appropriate because MGE's use
19 of automated meter reading places all customers on an equal footing in meter reading
20 expense. Therefore, my rebuttal study should have used unweighted customer
21 numbers and that would have reduced the amount of cost allocated to the LV class.

1 Q PLEASE SUMMARIZE YOUR SURREBUTTAL ON MATTERS RELATING TO THE CLASS
2 COST OF SERVICE STUDIES?

3 A MGE witness Cummings missed the mark in his criticism of my direct testimony on the
4 subjects of distribution mains and gas supply inventory. As a consequence it follows
5 that the MGE class cost-of-service study allocates too much cost to the LV class and
6 overstates the cost of serving the LV class.

7 While I submitted a class cost-of-service study in rebuttal to illustrate and
8 correct several of the problems with studies submitted by MGE and Staff, even my
9 rebuttal study allocates too much cost to the LV class. In particular, the use of peak
10 day weather instead of design day weather, the lack of analysis to avoid the allocation
11 of the cost of small mains to large customers for whom they can provide no service,
12 and use of weighted instead of unweighted customers in the allocation of meter
13 reading expense all lead to a somewhat overstated cost of serving the LV class in my
14 rebuttal class cost-of-service study.

15 Q IN YOUR DIRECT TESTIMONY YOU RECOMMENDED THAT THE LV CLASS REVENUE
16 RESPONSIBILITY BE SET AT A LEVEL NO HIGHER THAN INDICATED BY THE MGE CLASS
17 COST-OF-SERVICE STUDY. DOES THAT RECOMMENDATION STAND?

18 A Yes. This would result in a smaller than average percentage increase for the LV class.
19 It could also be characterized as a revenue neutral reduction for the LV class before
20 the spread of any overall increase that may be approved.

1 **Q DOES MIDWEST GAS USERS' ASSOCIATION HAVE A GENERAL POSITION ON MATTERS**
2 **RELATED TO COST-BASED RATES ALONG WITH THE TERMS AND CONDITIONS OF**
3 **TRANSPORTATION SERVICE?**

4 **A.** Yes it does. Although I have not been involved with Midwest for a long period, I am
5 advised that MGUA has long been a consistent advocate at this Commission and at
6 FERC for cost-based rates on interstate pipelines and downstream distribution
7 companies. Originally, Midwest represented what were termed the Large Commercial
8 Interruptible and Large Industrial Interruptible customers on the combined
9 transportation and distribution systems that consisted of what is now Southern Star
10 Central Pipeline and MGE, including their predecessors, back into the 1950s. As
11 transportation developed from sales service with FERC Orders Nos. 436, and 500, and
12 then into the unbundled transportation system of Order No. 636, Midwest continued its
13 advocacy of these interests. Insofar as terms and conditions of transportation are
14 concerned, Midwest advocates commercially reasonable and operationally justified
15 terms and conditions that seek to recover costs from those who cause those costs to
16 be incurred. Midwest does not seek to move costs for which transporters are
17 responsible to system supply customers, and does not support costs associated with
18 system supply customers being moved to transporters. Local distributors such as MGE,
19 like pre-Order 636 pipelines, have a significant challenge not to favor their bundled
20 service offerings over unbundled transportation-only services. Within the context of
21 cost-based utility services, Midwest continues to work with both LDCs and interstate
22 pipelines to develop workable solutions to operational problems that do not collect
23 revenues from one group of customers based on costs that are properly attributed to

1 another group, and that encourage responsible behavior from all market participants
2 including the local distribution company.

3 **Q. HOW DOES THIS POSITION DEVELOP IN THIS CASE?**

4 A. Midwest members seek to make responsible use of the MGE system and do not seek to
5 shift costs that their usage causes to other classes of customers. At the same time,
6 terms and conditions of transportation service need to be carefully analyzed so that
7 they do not result in unintended consequences that may be detrimental to the very
8 problems that are sought to be addressed by changes. It is important, therefore, that
9 the "rules of the road" be appropriate and clearly set forth. It is also important that
10 cost differentials be well thought through and not create "profit centers" at the
11 expense of transporters either for the MGE or for system supply customers. The LDC
12 should not be put in a position that introduces conflicts of financial interest, either for
13 their own account or for the account of any subgroups of customers.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes, it does.

Appendix A
Qualifications of Donald E. Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO 65049.

3 Q PLEASE STATE YOUR OCCUPATION.

4 A I am President of Competitive Energy Dynamics, L. L. C. and a consultant in the field
5 of public utility regulation.

6 Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

7 A In 1968, I received a Bachelor of Science Degree in Electrical Engineering from the
8 University of Missouri at Rolla. After graduation, I worked in the customer engineering
9 division of a computer manufacturer. From 1969 to 1973, I was an officer in the Air
10 Force, where most of my work was related to the Aircraft Structural Integrity Program
11 in the areas of data processing, data base design and economic cost analysis. Also in
12 1973, I received a Master of Business Administration Degree from Oklahoma City
13 University.

14 From 1973 through 1981, I was employed by a large Midwestern utility and
15 worked in the Power Operations and Corporate Planning Functions. While in the
16 Power Operations Function, I had assignments relating to the peak demand and net
17 output forecasts and load behavior studies which included such factors as weather,
18 conservation and seasonality. I also analyzed the cost of replacement energy
19 associated with forced outages of generation facilities. In the Corporate Planning
20 Function, my assignments included developmental work on a generation expansion

1 planning program and work on the peak demand and sales forecasts. From 1977
2 through 1981, I was Supervisor of the Load Forecasting Group where my
3 responsibilities included the Company's sales and peak demand forecasts and the
4 weather normalization of sales.

5 In 1981, I began consulting, and in 2000, I created the firm Competitive Energy
6 Dynamics, L.L.C. As a part of my twenty-five years of consulting practice, I have
7 participated in the analysis of various electric, gas, water, and sewer utility matters,
8 including the analysis and preparation of cost-of-service studies and rate analyses. In
9 addition to general rate cases, I have participated in electric fuel and gas cost reviews
10 and planning proceedings, policy proceedings, market price surveys, generation
11 capacity evaluations, and assorted matters related to the restructuring of the electric
12 and gas industries. I have also assisted companies in the negotiation of power
13 contracts representing over \$1 billion of electricity.

14 I have testified before the state regulatory commissions of Delaware, Hawaii,
15 Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio,
16 Pennsylvania, Tennessee, Virginia and West Virginia, and the Rate Commission of the
17 Metropolitan St. Louis Sewer District.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas)
Energy and Its Tariff Filing to)
Implement a General Rate) Case No. GR-2009-0355
Increase for Natural Gas)
Service)

Affidavit of Donald Johnstone

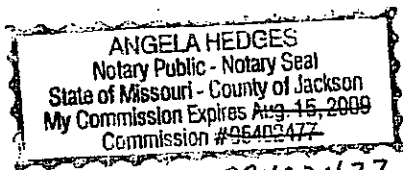
State of Missouri)
County of Jackson) SS

Donald Johnstone, of lawful age, on his oath states: that he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.

Donald Johnstone
Donald Johnstone

Subscribed and sworn before me this 14th day of October, 2009

Angela Hedges
Notary Public



9/22/2013

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