

# EXHIBIT

Exhibit No.: \_\_\_\_\_

Issue(s):

Cost of Service Study

Witness/Type of Exhibit:

Busch/Surrebuttal

Sponsoring Party:

Public Counsel

Case No.:

GR-2001-292

## **SURREBUTTAL TESTIMONY OF JAMES A. BUSCH**

Submitted on Behalf of the Office of the Public Counsel

**MISSOURI GAS ENERGY**

**Case No. GR-2001-292**

June 12, 2001

Exhibit No. 114  
Date 6-25-01 Case No. GR-2001-292  
Reporter Stewart

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the matter of tariff revisions of Missouri Gas )  
Energy, a division of Southern Union Company, )  
designed to increase rates for natural gas service )  
to customers in the Missouri service area of the )  
company. )

Case No. GR-2001-292

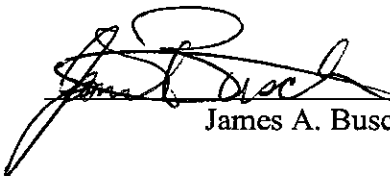
**AFFIDAVIT OF JAMES A. BUSCH**

STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )

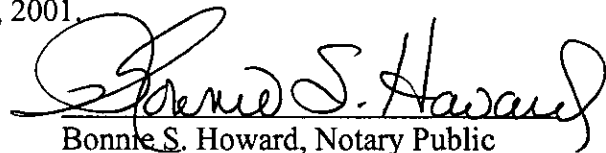
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James A. Busch, of lawful age and being first duly sworn, deposes and states:

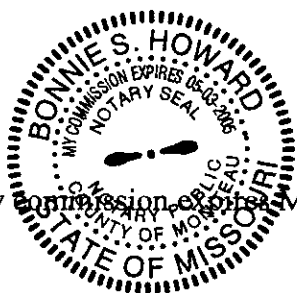
1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 9 and Schedules JAB-SR-1 and JAB-SR-2.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
James A. Busch

Subscribed and sworn to me this 12th day of June, 2001.

  
Bonnie S. Howard, Notary Public

My commission expires May 3, 2005.



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1 of my rebuttal testimony, I indicated that the personnel in this department work to  
2 make sure that MGE has sufficient capacity to deliver natural gas to all customers.  
3 This statement could be construed as implying that MGE personnel are  
4 responsible for acquiring the capacity for LVS customers. The statement in my  
5 rebuttal testimony is only true for LVS customers who are also sales customers.  
6 In this proceeding there is at least one LVS customer that receives service from  
7 MGE. However, my argument that these costs should be allocated to all classes  
8 still remains.

9 Q. Please explain why these costs should be allocated to all customer classes.

10 A. According to MGE tariffs, LVS customers who are currently transport only  
11 customers may become sales customers as well. Further, the capacity and supply  
12 arrangements that MGE arranges for sales customers can provide benefits for the  
13 entire LVS class. In instances where a non-sales LVS customer needs more  
14 natural gas than it nominated, the customer can rely on MGE to keep its natural  
15 gas flowing and pays nothing for this unless his actual consumption was out of  
16 balance with his nomination amount at the end of the billing period. The natural  
17 gas purchased by MGE for sales customers but used by a non-sales LVS customer  
18 can provide a benefit to the LVS customer who then should bear some of the  
19 burden of those costs. Even during times when the LVS customer would have to  
20 pay a penalty for this situation, the LVS customer obviously received benefit from  
21 the fact that the natural gas was there and available. Therefore, since this class  
22 receives a benefit, it should pay a share of the costs.

1 Q. In Mr. Laderoute's rebuttal testimony, he indicates that there are several areas  
2 where he disagrees with your study. Please list those areas.

3 A. The areas where Mr. Laderoute identifies disagreements are: AMR related costs,  
4 Electronic Gas Measuring (EGM), natural gas related issues (storage inventory  
5 and working capital), meters, services, regulators, other operating revenues, gas  
6 supply, uncollectibles, sales expense, and mains. Public Counsel witness Hong  
7 Hu will address the differences in the mains allocator in her surrebuttal testimony.  
8 I will address Mr. Laderoute's other concerns.

9 Q. Please address the differences between Public Counsel and Mr. Laderoute in  
10 regard to natural gas related issues.

11 A. As noted above, Mr. Laderoute takes exception to my allocating various costs to  
12 the LVS class in regard to certain natural gas related issues. Specifically, the  
13 areas are storage gas inventory, working cash for purchased gas in working  
14 capital, and gas supply personnel expense. These three main areas encompass  
15 four of the sixteen issues discussed by Mr. Laderoute in his testimony. Mr.  
16 Laderoute claims that no costs associated with these accounts should be allocated  
17 to the LVS class because customers in the LVS class are responsible for acquiring  
18 their own natural gas supplies and pipeline capacity. He further indicates that if a  
19 LVS customer does take more natural gas than it nominates, it pays a penalty.

20 Q. Do you agree with Mr. Laderoute's argument that LVS customers should not bear  
21 a portion of these costs?

22 A. No. The fact that extra supplies of natural gas or excess capacity can be made  
23 available to an LVS customer means that this class receives benefits from the

1 Company's efforts in these areas. If MGE did not have the natural gas available,  
2 through either flowing supplies or storage levels, the LVS customers would not  
3 have the ability to acquire any extra natural gas. The capacity and storage levels  
4 that MGE maintains help to insure that the Company will have available resources  
5 to provide natural gas to **all** of its customers, not just sales customers.

6  
7 Furthermore, customers in the LVS class can be either transport only or sales  
8 customers. Currently, at least one customer is a sales customer. If a transport  
9 customer decides it wants to be a sales customer, it can do so. It makes sense to  
10 therefore allocate some of the costs of these activities to all rate classes.

11 Q. Mr. Laderoute indicates that any LVS customer taking too much natural gas or  
12 using stored natural gas will have to pay a penalty. Please comment on this.

13 A. Penalties are charged to LVS customers on a daily basis: 1) during times of an  
14 MGE curtailment, and/or 2) during times of an interstate pipeline interruption or  
15 curtailment, and/or 3) in the event no nomination exists for such customer (zero  
16 nomination). (Source: MGE tariffs P.S.C. MO. No. 1, Original, Sheet No. 61.3)

17 Another fact to keep in mind is that MGE has a monthly balancing agreement  
18 with Williams, its main pipeline. This means that a LVS customer on the  
19 Williams Pipeline system does not have to worry about balancing their supplies  
20 on any given day. The customer only needs to be in balance over the course of a  
21 month. This means that the LVS customer can purchase a lower amount of  
22 supplies than may be needed for a peak day usage knowing it can take excess  
23 natural gas from MGE only to take less at some other time to stay in monthly

1 balance. According to Mr. Michael Langston, Vice President of Gas Supply for  
2 Southern Union Company, in his rebuttal testimony in Case No. GR-98-140, page  
3 4, lines 18 – 20; “The burner-tip balancing agreement does allow such customers  
4 to have nominal day to day variances, during periods that are not critical on the  
5 system.” Mr. Langston further points out on page 19, lines 2 – 4 of his rebuttal  
6 testimony in that proceeding, “In general, if there are shortfalls in deliveries, it is  
7 MGE’s system supply and transportation agreements that provide the swing  
8 capability necessary to maintain reliable and safe deliveries to all customers,  
9 including transportation customers.” This is a benefit from a being a part of  
10 MGE’s system and the services provided by MGE concerning storage inventory,  
11 etc.

12 Q. Do you agree with Mr. Laderoute’s view on sales expense?

13 A. No. Increasing customers to MGE’s system will help lower the amount of fixed  
14 costs that are allocated to all customer classes. Therefore, any costs associated  
15 with this account should be allocated to all classes.

16 Q. Please discuss uncollectibles.

17 A. Mr. Laderoute claims that the amount in the uncollectible account should be  
18 divided between natural gas commodity costs and margin revenues. He asserts  
19 that the natural gas commodity portion should only be allocated to sales  
20 customers. However, Mr. Laderoute fails to make an adjustment for the LVS  
21 customer who takes sales service, and any potential LVS customer who may be a  
22 sales customer. Therefore, my methodology is a more reasonable methodology.

1 Q. Please discuss the allocation of the other operating revenue accounts mentioned  
2 by Mr. Laderoute.

3 A. It is curious that Mr. Laderoute separates the natural gas commodity portion out  
4 of uncollectibles expense, but he does not make the same separation with regard  
5 to late payment charge revenues. To be consistent, one would think that these two  
6 items should be treated in the same way. I did that in my study, allocating them  
7 both with respect to each class' cost of service. Mr. Laderoute does not. He  
8 allocates less of the expense to his client and more revenues to his client  
9 respectively.

10 Q. Mr. Laderoute in his COS study does not allocate any of the AMR costs to the  
11 LVS class. Do you agree with this allocation methodology?

12 A. With respect to the allocation methodology regarding AMRs, Mr. Laderoute may  
13 have a valid point. I have sent Data Requests to MGE asking for clarification  
14 regarding this issue. Dependent upon the response from the Company, I may be  
15 inclined to agree with Mr. Laderoute. My main apprehension at this time is what  
16 happens when an existing SGS or LGS customer switches to the LVS class. As  
17 acknowledged by Mr. Laderoute, a customer switching to the LVS class is  
18 responsible for some of the growth in that class. When a customer switches  
19 classes, what happens to the AMR equipment? Is it returned to MGE or does that  
20 customer still retain use of it? If the customer still retains some use of the AMR  
21 device, the LVS class should then bear some of the responsibility for the costs  
22 incurred by the Company regarding AMR.



1 Q. Mr. Laderoute also states that you should allocate all of the costs incurred for  
2 EGM to the LVS class. Do you agree with this?

3 A. Yes. These costs are properly allocated to the LVS class since this is the only  
4 class incurring these charges. I have updated my class COS study to reflect this  
5 fact.

6 Q. Finally, Mr. Laderoute criticizes your allocators regarding services, meters, and  
7 regulators. Are these criticisms valid?

8 A. His criticism regarding the meter/customer ratio in my meters and services  
9 allocator does have some validity. I have updated my allocators for this account  
10 in my revised class COS study by adjusting the meter/customer and  
11 service/customer ratios for each class. The new ratios are now 1 for residential,  
12 SGS, and LGS, and 1.07 for LVS to account for the 30 extra meters and services  
13 discussed by Mr. Laderoute. Also, I am awaiting Data Request responses that  
14 should be received shortly. If after reviewing those Data Requests I have further  
15 changes, I reserve the right to file supplemental surrebuttal containing an updated  
16 COS study.

17  
18 Mr. Laderoute also criticizes the data that I used, indicating that his methodology  
19 is better because he uses actual costs for the LVS and LGS customer classes.

20 Attached to my testimony as schedule JAB-SR-2 is Public Counsel Data Request  
21 608 and the response of MGE in which I asked MGE to provide the typical costs  
22 for meters, services, and regulators. The response given was not sufficient to use  
23 in my study since it did not provide the costs that I requested. Therefore I utilized

1 the data that Ms. Hu used in GR-98-140, similar to what Mr. Laderoute did in his  
2 original study.

3 Q. Why did you ask for typical costs instead of actual costs?

4 A. According to page 33 of the NARUC Gas Distribution Rate Design Manual,  
5

6 "Plant facilities such as gas services and meters are  
7 allocated to the rate schedules by using allocation factors  
8 designed to reflect the various cost differentials among  
9 classes. To accomplish this weighted computation for gas  
10 services, the typical **current** cost to construct gas services  
11 for each class is determined. The class gas service costs are  
12 then divided by the typical residential gas service cost. The  
13 resulting ratio is a weighting factor which is then multiplied  
14 by the number of customers in each class. The product of  
15 this calculation then becomes the basis of the gas service  
16 allocation factor."  
17

18 Q. Please indicate the changes you have made to your COS study.

19 A. Attached as schedule JAB-SR-1 are the results of my revised COS study. At this  
20 time, I have used the updated Staff numbers found in Staff Accounting schedules  
21 that were received in early June. Next, I changed the allocator for EGM. Finally,  
22 I updated the allocator involving meters and services. As stated earlier, I am  
23 awaiting Data Request responses regarding AMRs and meters, services, and  
24 regulators. If the information in those responses is sufficient to cause me to  
25 change my current allocation methodology, I reserve the right to file a  
26 supplemental COS study at that time.

27 Q. Can you summarize the impact of your changes on the various classes?

28 A. Yes. As shown below the impact of the changes is that the residential and SGS  
29 classes have gone up slightly while the LGS and LVS classes have gone down

1           slightly. Ms. Hu in her surrebuttal testimony will discuss if these changes are  
2           significant enough to warrant an alternate rate design recommendation.

3  
4                           CHANGE IN COST OF SERVICE PERCENTS

5

	<u>Residential</u>	<u>SGS</u>	<u>LGS</u>	<u>LVS</u>
6   Direct Study	68.85%	18.91%	1.72%	10.52%
7   Surrebuttal	68.22%	19.41%	1.77%	10.6%

8

9           Q. Does that conclude your surrebuttal testimony?

10          A. At this time.

**OFFICE OF PUBLIC COUNSEL**

Cost of Service Study  
MGE Case No. GR-2001-292

<b>TOTAL COST OF SERVICE SUMMARY:</b>		<b>TOTAL</b>	<b>RESIDENTIAL</b>	<b>SMALL GS</b>	<b>LARGE GS</b>	<b>LARGE VOLUME</b>	<b>UMGL</b>
1	O & M Expenses	60,721,386	41,657,583	11,978,413	1,037,781	6,044,786	2,823
2	Depreciation Expenses	20,469,582	14,331,698	3,776,677	347,366	2,013,751	90
3	Taxes	17,063,787	11,541,213	3,292,071	311,390	1,919,058	54
4							
5	TOTAL - Expenses and Taxes	98,254,755	67,530,493	19,047,161	1,696,537	9,977,595	2,968
6							
7	Current Revenue (non-gas)						
8	Rate Revenue (non-gas)	134,997,108	92,596,320	28,511,937	3,030,681	10,855,170	3,000
9	Other Revenue	4,327,224	2,952,300	839,475	76,478	458,876	95
10							
11	TOTAL - Current Revenues	139,324,332	95,548,620	29,351,412	3,107,159	11,314,046	3,095
12	Current Revenue Percentage	100.00%	68.58%	21.07%	2.23%	8.12%	0.00%
13							
14	OPERATING INCOME	41,069,577	28,018,127	10,304,251	1,410,622	1,336,450	127
15							
16	TOTAL RATE BASE	490,511,378	328,935,268	95,486,851	9,126,805	56,960,755	1,698
17							
18	Implicit Rate of Return (ROR)	8.37%	8.52%	10.79%	15.46%	2.35%	7.46%
19							
20	OPC Recommended Rate of Return	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
21							
22	Recommended Operating Income With						
23	Equalized (OPC) Rates of Return	42,919,746	28,781,836	8,355,099	798,595	4,984,066	149
24							
25	Class COS at OPC's Recommended Rate of Return	141,174,501	96,312,329	27,402,260	2,495,133	14,961,661	3,116
26	Revenue Percentage	100.00%	68.22%	19.41%	1.77%	10.60%	0.00%
27							
28	Allocation of Difference Between Current						
29	Revenue and Recommended Revenue	1,850,169	1,262,300	358,930	32,699	196,199	40
30							
31	Margin Revenue Required to Equalize						
32	Class ROR - Revenue Neutral	139,324,332	95,050,030	27,043,330	2,462,434	14,765,462	3,076
33	Revenue Percentage	100.00%	68.22%	19.41%	1.77%	10.60%	0.00%
34							
35	Rev. Neutral Shift to Equalize Class ROR	0	(498,590)	(2,308,082)	(644,726)	3,451,416	(18)
36	Rev. Neutral Shift PERCENTAGE to Equalize Class ROR		-0.54%	-8.10%	-21.27%	31.80%	-0.62%
37							
38	Recommended Revenue Neutral Shift = 1/2 indicated shift	0	(249,295)	(1,154,041)	(322,363)	1,725,708	(9)
39	OPC Recommended Revenue Neutral Shift PERCENTAGE		-0.27%	-4.05%	-10.64%	15.90%	-0.31%
40	Class Revenue Percentages After Rec. Rev. Neutral Shift	100.00%	68.40%	20.24%	2.00%	9.36%	0.00%

**MISSOURI GAS ENERGY**

A division of Southern Union Company

**Office of Public Counsel - Missouri**  
**DATA INFORMATION REQUEST RESPONSE**

**Missouri Rate Case No: GR-2001-292**

Data Request No 0608

**Requested From:** Michael Noack

**Date Requested:** 03/30/01

**Information Requested:**

Please provide the typical cost for meters, services, and regulators, and the typical cost for installing meters, services, and regulators for each customer class. Also, please provide an explanation of what costs determine the "typical" cost.

**Requested By:** James Busch

**Information Provided:**

Please refer to the response to MGUA DR 201 which is attached.

*The information provided in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to promptly notify the requesting party if, during the pendency of Case No. GR-2001-292 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.*

Date Response Received: \_\_\_\_\_

Signed By:   
Manager Pricing Regulatory Affairs

Date: 4/19/01

Schedule  
JAB-SR-2

APR 20 2001

**MISSOURI GAS ENERGY**  
A division of Southern Union Company

**Midwest Gas Users Association**  
**DATA INFORMATION REQUEST RESPONSE**  
**Missouri Rate Case No: GR-2001-292**  
Data Request No 0201

Requested From: Michael Noack

Date Requested: 04/05/01

**Information Requested:**

Please provide the average cost by rate class for Meters, Meter Installations, House Regulators and House Regulator Installations analysis by rate class. Describe how the values were determined.

Requested By: Stuart Conrad

**Information Provided:**

The cost of meters, meter installations, house regulators and house regulator installations are not tracked by rate class in the continuing property records. However, for meter connection settings less than 2 inches, the Company has determined the following average cost of meters, meter installations, house regulators and house regulator installations out in place for customers in calendar year 2000:

Meters (Acct. 381) - \$57.35

House Regulators (Acct. 383) - \$22.19

Meter and House Regulator Installations (Acct. 382) - \$175.11

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Date Response Received: \_\_\_\_\_

Signed By:   
Manager Pricing Regulatory Affairs

Date: 4/19/01

Schedule  
JAB-SR-2

APR 20 2001