

Exhibit No.: _____

Issues: Revenue Adjustments
and Rate Design

Witness: F. Jay Cummings

Sponsoring Party: Missouri Gas Energy

Case No.: GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

SURREBUTTAL TESTIMONY OF

F. JAY CUMMINGS

Jefferson City, Missouri

June 12, 2001

Exhibit No. 204
Date 6-25-01 Case No. GR-2001-292
Reporter Stewart

SURREBUTTAL TESTIMONY OF F. JAY CUMMINGS

CASE NO. GR-2001-292

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SURREBUTTAL TESTIMONY OF F. JAY CUMMINGS

CASE NO. GR-2001-292

June 12, 2001

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

2 A. My name is F. Jay Cummings. My business address is 504 Lavaca, Suite 800,
3 Austin, Texas 78701.

4
5 **Q. DID YOU PROVIDE DIRECT TESTIMONY, UPDATED DIRECT**
6 **TESTIMONY, AND REBUTTAL TESTIMONY IN THIS PROCEEDING?**

7 A. Yes, I filed each of these testimonies on behalf of Missouri Gas Energy
8 ("Company").

9
10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. I address the rebuttal testimony of the Missouri Public Service Commission Staff
12 ("Staff") pertaining to rate design. I also discuss Midwest Gas Users' Association
13 ("MGUA") witness Laderoute's comments on my direct testimony pertaining to
14 revenue allocation to customer classes. Finally, I comment on the absence of any
15 rebuttal testimony of the Staff pertaining to the low-income fixed credit tariff rate
16 proposed by the Office of the Public Counsel ("OPC").

1
2
3 **1. RATE DESIGN**

4 **Q. WHAT COMMENTS DO YOU HAVE REGARDING RATE DESIGN?**

5 A. As explained on page 3 of my rebuttal testimony, the Staff, OPC and the Company
6 have reached an agreement on customer charge changes for each of the customer
7 classes. Upon Commission determination of the overall revenue increase and the
8 distribution of the increase to customer classes, rates would be designed to collect
9 the revenue increase from each class through the agreed-to customer charges and
10 necessary changes in the volumetric rates for each class. On pages 6 and 7 of his
11 rebuttal testimony, Staff witness Beck discusses the Company's as-filed residential
12 minimum bill rate design. I will not address Mr. Beck's rebuttal testimony at this
13 time because the minimum bill structure is not a part of the agreed-to rate design.
14 In the event that the Commission does not accept the agreed-to rate design, the
15 Company reserves the right to address the issues raised by Mr. Beck, as well as
issues raised by Staff and other parties through additional testimony.

1 **2. CLASS COST OF SERVICE/CLASS REVENUE ALLOCATION**

2

3 **Q. ON PAGE 44, LINE 22 THROUGH PAGE 45, LINE 2 OF HIS REBUTTAL**
4 **TESTIMONY, MGUA WITNESS LADEROUTE CLAIMS THAT THE**
5 **COMPANY BELIEVES THAT COST OF SERVICE SHOULD NOT BE**
6 **CONSIDERED IN ESTABLISHING REVENUE ALLOCATIONS TO**
7 **CUSTOMER CLASSES. IS HE CORRECT?**

8 A. Absolutely not. As I explained in some detail on page 9 of my direct testimony,
9 cost of service study results as well as other factors are appropriately considered in
10 developing class revenue allocations. His allegation appears to be based on the
11 fact that the Company developed direct cost studies supporting proposed service
12 charges in this proceeding, but the Company did not perform a fully-allocated class
13 cost of service study. His leap of logic is astounding. The service charge cost
14 studies involve identification and quantification of the time and resulting labor cost
15 associated with providing specific services, such as a connect or reconnect. These
16 studies are straightforward and do not involve the myriad of assumptions required
17 in fully-allocated class cost of service studies, including those needed to allocate
18 the cost of facility investments that serve multiple classes and to allocate expenses
19 that are incurred to provide service to multiple classes. Furthermore, the Company
20 correctly anticipated that the class cost of service studies developed by the parties
21 would produce a wide range of conflicting results. As a result, the studies would
22 not provide clear guidance to the Commission. The Company expected, as was
23 correct, that its revenue allocation recommendation would provide a result

1 somewhere in between the extremes of other parties' cost of service study-based
2 recommendations.

3
4 **Q. WHAT IS THE THRUST OF MGUA WITNESS LADEROUTE'S**
5 **CRITICISM OF THE COMPANY'S PROPOSED REVENUE**
6 **ALLOCATION?**

7 A. MGUA witness Laderoute criticizes the Company's proposal because he believes
8 that "[T]here is no evidence in this case that such a proposal would bring the rate
9 levels of this company closer to a cost basis"(page 47, lines 8-9). While Mr.
10 Laderoute's statements are correct if one accepts his cost of service study results,
11 the inescapable fact remains that the Staff, OPC, and MGUA cost of service studies
12 produce a wide range of contradictory results. The Company's proposal strikes a
13 reasonable middle ground among the various results and recommendations.

14
15 Mr. Laderoute apparently believes that a decision-maker can consider only cost of
16 service study results in rendering a decision on class revenue allocation. I disagree.
17 On pages 45 and 46 of his rebuttal testimony, MGUA witness Laderoute attacks
18 each of the five factors other than cost of service that I mentioned in my direct
19 testimony (page 9, lines 15-16) may be considered by decision makers in spreading
20 a required revenue increase to customer classes. Mr. Laderoute indicates that he
21 agrees with only one of these factors - - fairness. Fairness to him means
22 "reasonable" cost of service study results, presumably his cost of service study
23 results. But, couldn't a decision-maker reasonably consider it "fair" not to reduce

1 revenue levels to any one customer class when faced with a large overall revenue
2 increase that must be recovered from all classes? Similarly, gradualism to Mr.
3 Laderoute means cost-based rates. But, couldn't gradualism mean increasing the
4 revenues of a class that is furthest below its cost of service to a greater extent than
5 revenues are increased to other classes? The combination of Mr. Laderoute's cost
6 of service study results, which show the residential class to be furthest from its cost
7 of service, and the Company's alternative revenue allocation recommendation
8 presented on page 6 of my rebuttal testimony is consistent with this interpretation
9 of gradualism at least for the residential and large volumes service classes.

10
11 In short, preparation of cost of service studies is not a science. Cost of service
12 study results must be balanced with practical judgments in determining how to
13 spread a required revenue increase.

14
15 **3. LOW-INCOME FIXED CREDIT TARIFF RATE PROPOSAL**

16
17 **Q. PLEASE COMMENT ON THE ABSENCE OF ANY STAFF REBUTTAL**
18 **TESTIMONY CONCERNING OPC'S PROPOSAL FOR THE**
19 **IMPLEMENTATION OF A LOW-INCOME FIXED CREDIT TARIFF**
20 **RATE.**

21 **A.** Given the Staff's vigorous opposition to the low-income energy assistance plan
22 proposed by the Company in Case No. GO-2001-393, I find it curious that the Staff
23 did not provide a recommendation pertaining to the OPC low-income proposal

1 through its rebuttal testimony. The OPC proposal is very difficult to analyze
2 because it is based on a host of assumptions and projections, many of which are
3 difficult, if not impossible, to quantify in advance of implementation of the
4 proposal. This is particularly true in Missouri, where, to the best of my knowledge,
5 experience with programs of this type is non-existent. Under these circumstances,
6 the inability of the Staff to formulate a position in the time between the filing of
7 OPC's proposal (April 26, 2001) and the deadline for filing rebuttal testimony
8 (May 22, 2001) is understandable. My point here is not to criticize the effort of the
9 Staff, but to reiterate the fact that thorough assessment and resolution of
10 implementation, cost, and customer impact issues associated with the OPC proposal
11 requires significantly more time than is available under the procedural schedule in
12 this case (see Rebuttal Testimony of F. Jay Cummings, pp. 12-21).

13
14 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

15 **A. Yes.**

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.

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Case No. GR-2001-292

AFFIDAVIT OF F. JAY CUMMINGS

STATE OF TEXAS

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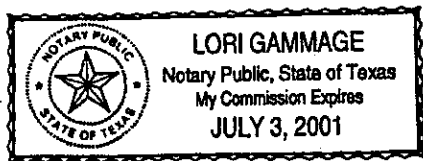
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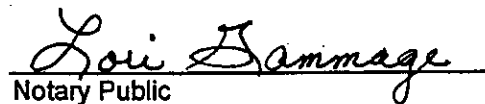
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F. Jay Cummings, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony 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.


F. JAY CUMMINGS

Subscribed and sworn to before me this 8th day of June 2001.




Notary Public

My Commission Expires: July 3, 2001