

Exhibit No.: **303**
Witness: Charles D. Laderoute
Type of Exhibit: Surrebuttal
Issue: Cost of Service Study,
Rate Design and
Tariff Issues
Sponsoring Party: Midwest Gas Users'
Association
Case No.: GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

SURREBUTTAL TESTIMONY OF

CHARLES D. LADEROUTE

June 12, 2001

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Exhibit No. 303
Date 6-25-01 Case No. GR-2001-292
Reporter Stewart

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

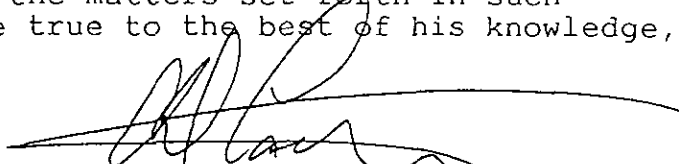
In the Matter of Missouri Gas)
Energy's tariff sheets designed to)
increase rates for gas service in)
the Company's Missouri service)
area.)

GR-2001-292

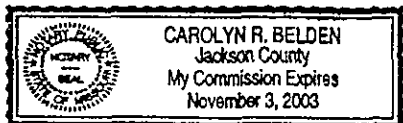
AFFIDAVIT OF CHARLES D. LADEROUTE

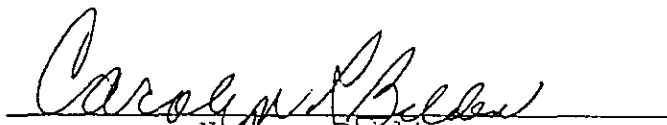
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Charles D. Laderoute, 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.


Charles D. Laderoute

Subscribed and sworn to before me this 11th day of June, 2001.




Notary Public

[SEAL]

My Commission expires: Nov. 3, 2003

**SURREBUTTAL TESTIMONY OF
CHARLES D. LADEROUTE**

1 Q. Please state your name, occupation and address.

2 A. My name is Charles D. Laderoute. I am an energy consultant
3 and President of Charles D. Laderoute, Ltd., 5114 Amazonia
4 Road, St. Joseph, Missouri 64505.

5 Q. By whom have you been retained?

6 A. My testimony is on behalf of the Midwest Gas Users' Associa-
7 tion ("MGUA")

8 Q. Are you the same Charles D. Laderoute who has previously
9 filed testimony in this case?

10 A. Yes.

11 Q. What is the purpose of your Surrebuttal Testimony in this
12 proceeding?

13 A. I address portions of the Rebuttal Testimony of Missouri Gas
14 Energy ("MGE") witness Dr. Cummings, Staff Witness Beck and
15 Office of the Public Counsel ("OPC") Witnesses Busch and Hu.
16 The areas I focus on are related to cost of service studies
17 ("COSS"), setting rate levels, rate design issues and their
18 Rebuttal Testimony in respect to my Direct Testimony with

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1 respect to these matters. Finally, I am sponsoring a Re-
2 vised Schedule CDL-Reb-5.

3 Q. Please explain Schedule CDL-Reb-5 Revised.

4 A. In developing the associated spreadsheet, I inadvertently
5 referred to the wrong fixed charge rate in the determination
6 of the revenue requirements associated with Services, Me-
7 ters, House Regulators and EGM Equipment. Se Lines 5 - 8 of
8 the attached Schedule CDL-Reb-5 Revised Pages 2 and 3. The
9 cells which changed are highlighted in grey. In addition,
10 some formulas did not get copied for Rows 12 and 13, Columns
11 c - e. These have been corrected on Pages 2 and 3 of this
12 Schedule. The information is then carried forward to Sched-
13 ule CDL-Reb-5 Revised Page 1. Based on this modified and
14 corrected data, the net effect indicates that by focusing on
15 just the cost items shown, I can account for 84% of the
16 difference between my COSS and that of the Staff and 83% of
17 the difference between my COSS and that of the OPC. No
18 other conclusions within my Rebuttal Testimony are affected.

19 MGE Witness Dr. Cummings

20 Q. At Page 4, Lines 15 - 16 of his Rebuttal, Dr. Cummings
21 states that "class cost of service study findings tend to

1 vary widely among analysts and do not provide clear guidance
2 to the decision maker". Please comment.

3 A. I have several comments. First, MGE in its last two cases
4 sponsored cost studies. Mr. Noack also sponsored a cost
5 study in the last MGE rate case. Second, it is true that
6 cost studies often vary. That does not mean that one study
7 is not better than others. That does not mean that each
8 study is based on sound cost allocation methods and general-
9 ly accepted rate making principles. Gas cost studies can
10 vary primarily on three factors: the method used to allocate
11 Mains, cost assignment and other allocators. In my experi-
12 ence, when more than one study is presented, often one or
13 more of the studies are flawed, to a greater or lesser
14 extent, by using inappropriate assignments or allocators.
15 As I indicated in my Rebuttal, the difference between my
16 study and that of Staff really has virtually nothing to do
17 with how we each allocated Mains.

18 Looking at my COSS versus the OPC study, their use of
19 RSUM to allocate Mains is not the driving force behind
20 the differences. In sum, cost studies may vary, but it
21 does not necessarily follow that: 1) cost should be
22 meaningless in setting rate levels or 2) all cost
23 studies are equally bad or inaccurate.

1 Q. At Page 5, Lines 21 - 24 of his Rebuttal, Dr. Cummings
2 indicates that the MGE proposal in spreading the revenue
3 increase "accomplishes moderation in the increase to both
4 the residential and LVS class". Please comment.

5 A. Compared against the OPC COSS, I guess one could make that
6 claim. However, simply because the MGE proposal allocates
7 less of an increase to LVS than the OPC study or less to the
8 Residential class than the MGUA study, does not mean that
9 the MGE approach is desirable, correct or best. It is
10 flawed since it has no cost basis.

11 OPC Witness Busch

12 Q. At Page 1, Lines 22 - 23 of his Rebuttal Testimony, Mr.
13 Busch suggests that LVS customers should be allocated Gas
14 Inventory costs associated with Working Capital because "If
15 a LVS customer decides to switch from transport to sales, it
16 would have the right to stored gas like any Residential, SGS
17 or LGS customer". Please comment.

18 A. First, that certainly is no reason to allocate costs to the
19 LVS class - just because they might do something. Second,
20 it is doubtful that MGE holds in Gas Inventory some amount
21 of gas on the offhand chance that a LVS customer might
22 switch from Transport to Sales. There is one customer on

1 LVS that is currently a Sales customer and that customer did
2 not switch from Transport to Sales. They switched from rate
3 LGS last year.

4 Q. At Page 2, Lines 1 - 2, Mr. Busch indicates:

5 Storage is also used for system reliability.
6 This is the same reliability that transport
7 customers need to ensure the deliverability
8 of their required volumes.

9 Do you agree?

10 A. No. MGE has no on-system storage. Any storage that it has
11 is upstream. That storage is used for winter gas supply to
12 Sales customers and may be used to an extent for system
13 reliability. However, since it takes place upstream, MGE
14 has no on-system storage, MGE has no compression, and LVS
15 customers are burner tip balanced, this Storage serves no
16 purpose for Transport customers. Deliverability of LVS
17 Transport customers gas is performed by the pipelines - not
18 by MGE.

19 Q. Does the fact that there is one Sales customer on Rate LVS
20 mean that any Sales related costs should be allocated to the

1 Transport customers on LVS? See Mr. Busch's Testimony at
2 Page 2, Lines 8 - 10.

3 A. No. As I indicated in my earlier testimony, if it desirable
4 that Sales customers be allowed to stay on Rate LVS, then
5 those LVS Sales customers should bear the costs they cause.
6 I performed a full COSS just to show what these costs are.
7 The other LVS customers did not cause these costs. This
8 should not be used as an excuse to load costs up on custom-
9 ers who do not cause them.

10 Q. Mr Busch indicates at Page 2, Lines 11 - 14 that you didn't
11 take this customer into consideration. Is that correct?

12 A. No. As I just indicated, I performed a complete COSS just
13 to identify the costs that this customer causes. See my
14 Supplemental Direct Testimony at: Page 3 Lines 10 - 15, Page
15 5 through Page 7 Line 16, Page 10 Line 13 - Page 11 Line 11,
16 and Page 12 Line 12 - Page 13 Line 2. Within my COSS to
17 account for this customer, I in fact allocated all appropri-
18 ate costs due to having one Sales customer on Rate LVS.
19 Just because this one Sales customer is on Rate LVS does not
20 mean that all LVS loads, usage, et cetera should be included
21 in a COSS study as if they were Sales customers. There are
22 basically three options: 1) This rate should be closed to
23 Sales and the customer returned to Rate LGS - where he was

1 early last year before he switched. In its last case MGE
2 proposed that this rate should not allow sales. 2) If the
3 customer is allowed to stay, then he should bear all the
4 allocated costs that he causes. I have clearly identified
5 these costs and discussed them in my Supplemental Testimony.
6 3) As a final option, the least desirable, all the costs
7 that he causes should be assigned to the LVS class and borne
8 by the other LVS customers. This is the least fair of these
9 three choices.

10 Q. At Page 2, Lines 15 - 22, Mr Busch argues that LVS customers
11 should also be allocated Sales Expenses, again because Sales
12 customers are allowed on this rate. Do you agree?

13 A. No. For the same reasons that I just stated with respect to
14 Gas Inventory related costs. Again, this issue is just
15 being used inappropriately as leverage to load costs up to a
16 class that does not cause them.

17 Q. At Page 3, Lines 1 - 7 Mr. Busch indicates that "gas supply
18 personnel not only work to acquire supplies of natural gas,
19 but they also work to make sure that MGE has sufficient
20 capacity to deliver natural gas to all customers. There-
21 fore, these costs need to be assigned to all classes." Do
22 you agree?

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1 A. No. Capacity has nothing to do with these people's func-
2 tion. Capacity is the ability of the system to carry the
3 gas and is a function of sizing the system. The referenced
4 personnel work to supply commodity gas for Sales customers.
5 Now Mr. Busch may have meant something other than capacity.
6 If so, it is still inappropriate. If he meant deliverabil-
7 ity or reliability, these do not matter as well since MGE
8 has no on-system storage or compression and does not balance
9 the LVS Transportation customers. The LVS customers are
10 burner tip balanced - their balancing is done upstream on
11 the transporting pipeline.

12 Q. Mr. Laderoute, at least with respect to Gas Inventory and
13 these payroll costs related to gas supply, are their circum-
14 stances where some portion of these costs might in fact be
15 allocated to transportation customers?

16 A. Yes. If MGE were in fact providing balancing services, then
17 some portion of the costs would be allocable to LVS (trans-
18 port) customers. However, they would not be allocated some
19 proportionate amount of the full costs in a one step alloca-
20 tion. For example, if MGE provided balancing, it might be
21 found that say, XX% of the indicated costs were considered
22 balancing related. In that case, transport customers would
23 receive an allocated portion of only XX% of the costs. The

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1 other 100 - XX% of the costs would be allocated to Sales
2 customers. But since balancing is done upstream on the
3 transporting pipeline, MGE does not provide balancing and
4 therefore none of these costs should be allocated to LVS
5 customers.

6 Staff Witness Beck

7 Q. Mr. Laderoute, with respect to Witness Beck's Rebuttal
8 Testimony at Page 1, Lines 22 - 24 and Page 2, Lines 1 - 12,
9 does Mr. Beck miss the point you were trying to make?

10 A. Yes. It is possible for a utility to add Mains, add Ser-
11 vices add customers and not file rate cases for years.
12 Embedded in the costs that are embedded in a rate are depre-
13 ciation, return, income taxes et cetera. As plant is added,
14 the additional sales or delivery of Mcf generate additional
15 revenue which covers some portion of return and deprecia-
16 tion, among other costs. My point was simply that if a rate
17 is set too low - in particular not set on the basis of
18 costs, then there is a higher probability that the utility
19 will have to file more frequent rate cases if much of its
20 growth is taking place within the classes whose rates are
21 not covering costs.

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1 Q. At Page 3, Lines 6 - 8, Mr. Beck indicates "I know of no
2 reasonable combination of rate design and extension policy
3 that will not result in rate subsidies for certain customers
4 or groups of customers". He goes on to say that "I do not
5 think that it is a reasonable expectation that rate subsi-
6 dies can be completely eliminated". Please comment.

7 A. With respect to the first portion of quoted material, I
8 would encourage the Staff to review Extension Policies used
9 in other jurisdictions by other utilities. They might find
10 that there are better policies than that currently in place.
11 With respect to both quoted portions, setting rates at or
12 near costs would be a major step in reducing subsidies. For
13 example, I clearly laid out in my Rebuttal Testimony a
14 number of areas in which the Staff and OPC COSS differ from
15 mine. One of the areas was AMR meters. These meters cannot
16 be used by and are not put in place for, LVS customers. The
17 subsidy that LVS provides to Sales customers in the Staff
18 and OPC COSS could easily and appropriately be eliminated by
19 not allocating those costs to LVS customers. That would be
20 reasonable.

21 Of course it would not be possible to entirely elimi-
22 nate subsidies. But it is fairly easy and quite rea-
23 sonable to use cost as an important factor in setting

1 rates. It is quite reasonable to work from the as-
2 sumption that costs should be borne by the cost caus-
3 ers. In the instant case, that is easy to do since in
4 my Rebuttal Testimony I have clearly identified well
5 over a dozen cost items that should not be allocated to
6 the LVS class.

7 Q. With respect to Mr. Beck's testimony at Page 3, Line 10
8 through Page 4, Line 14, do you agree that a gas LDC should
9 collect the correct amount of revenue from a customer over
10 the long term?

11 A. I only agree partially with Mr. Beck. Of course I
12 understand that at some point in time a customer is
13 sharing in a slice of the system and that slice is
14 composed of older facilities that are more depreciated
15 and newer facilities which are not. In terms of the
16 rates one is paying, a customer should be paying a rate
17 based on costs. Period. If a customer is on the
18 system for only three years, they should be paying the
19 costs on average attributable to the rate class they
20 are on for that three year period. And that can only
21 happen if the rate is based on some nuance of cost!

1 Q. At Pages 5 and 6 of his Rebuttal Testimony, Mr. Beck dis-
2 cusses the number of LVS customers. Specifically at Page 5
3 Lines 1 - 15 he believes that your evidence is contradicto-
4 ry. In addition, apparently some numbers have changed.
5 Please comment, elaborate and clarify, to the best of your
6 knowledge.

7 A. The evidence that I presented was not contradictory. In
8 fact, based on numbers available to me, I consistently used
9 the same number of customers for LVS throughout my work.
10 Over the course of this and the last two MGE rate cases,
11 there has been a lot of confusion regarding the number of
12 meters, billing equivalents and number of customers on Rate
13 LVS. In the instant case, several factors are involved.

14 First, apparently an error was found in the original
15 files that MGE used to build up number of meters and
16 billing equivalents for LVS based on year-end 2000
17 updated filing. (See Witness Beck's Rebuttal Testimony
18 at Page 6 Lines 3-6.) Unfortunately no one told me
19 about this error, nor supplied me with the corrected
20 spreadsheet. Second, apparently in the process of
21 correcting the error, MGE supplied Mr. Beck with a file
22 that included another error or at least was subject to
23 misinterpretation. Apparently this file was developed

1 as part of Settlement discussions which I personally
2 did not take part in and that data was not supplied to
3 me as well. Based on that data, Mr. Beck arrived at
4 his number of customers for LVS of 495. However, that
5 value is not the number of customers, but the number of
6 Meters. Moreover, it was wrong in that it had double
7 counted the additional 30 Meters that are in place for
8 LVS customers with more than one Meter. Mr. Noack
9 informed me on May 31 that based on data at that time,
10 the correct number of Meters for LVS is in fact 465
11 which includes the additional 30 Meters. Thus the
12 actual number of customers is less than 465. Third, I
13 misinterpreted the data that I originally used - though
14 the impact within my COSS actually hurts the LVS class.

15 Finally, there is the issue of "at the Company convenience"
16 versus "at the customer convenience" issue.
17 (Beck Response to MGUA DR No. 354.) Neither Mr. Beck
18 nor I made an issue of this in this case and this is
19 just another complicating factor in dealing with LVS
20 customers, billing units and Meters.

21 Based on MGE data filed in this case, for the test year
22 I assumed there were 441 billable customers on Rate

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1 LVS. I assumed these billable customers had an addi-
2 tional 30 Meters that serve them. Within my COSS from
3 the start, I acknowledged (incorrectly) that there were
4 441 customers with 471 Meters. See for example Page 40
5 Lines 1 - 9 and Page 41 Lines 21 - 25 of my Direct
6 Testimony. The number of customers that I used within
7 my COSS for the LVS class was 471. See Direct Testimo-
8 ny Schedule CDL-7 Page 20 Line 28 LVS column. That was
9 carried to my later COSS revision and correction.

10 Until May 25, the date that I received Mr. Beck's
11 Rebuttal testimony, I had seen no information presented
12 by any party that would lead me to believe that the
13 number of LVS customers was not 441 with some of these
14 customers having multiple meters so that the total
15 number of meters I used was 471. This was based on MGE
16 filed data. At Page 6, Lines 5 - 6 of his Rebuttal
17 Testimony, Mr. Beck indicates that "The latest informa-
18 tion that I have received from the Company indicates
19 that the correct number is actually 495". As I indi-
20 cated above that too is wrong. As confirmed in a
21 telephone call with Mr. Noack on May 31, the number of
22 Meters in place for LVS customers is 465. Based on the
23 data that MGE submitted in this case, there are 15

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1 customers in LVS who have multiple Meters. These 15
2 customers have 61 Meters in total - 31 billable at the
3 full rate and 30 billable at the 50% discount. This
4 data was taken from the MGE file: LVS Discount Me-
5 ters.xls. Note that it only pertains to determining
6 information for customers who get discounts. There
7 very well might be other customers with two Meters who
8 would not be included in this file. This is a bit
9 confusing, but what one can conclude is that the actual
10 number of LVS customers, based on the 465 value, cannot
11 be greater than 450.

12 Finally, at Page 5, Lines 6 - 8 of Mr. Beck's Rebuttal,
13 he misstates or misconstrues my testimony. I did not
14 state that the change between 1997 and 2000 was due to
15 customers switching from SGS and LGS. I clearly indi-
16 cated in my Direct Testimony at Page 11, Lines 9 - 14
17 that, based on the data I had available, all of the
18 customer additions to LVS for 2000 was a function of
19 customers switching from Rates SGS and LGS. Mr. Beck
20 in fact confirmed this in his Response to MGUA DR No.
21 354 Part G.

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1 Q. At Page 5 Lines 12 - 15 of his Rebuttal Testimony, Mr. Beck
2 indicates that "it seems odd that so many customers would
3 switch to a rate class if they were being significantly
4 overcharged, as Mr. Laderoute's CCOS study would have the
5 Commission believe". Do you agree?

6 A. No, this statement is not meaningful. A customer switches
7 from one rate to another based on the existing rate rela-
8 tionships. If they are economically and financially better
9 off on Rate A than Rate B, they switch to Rate A. This has
10 nothing to do with any cost of service studies that were or
11 were not used to develop those rates. With respect to
12 customers switching from SGS and LGS to LVS during 2000,
13 with the exception of one customer, they switched to take
14 advantage of Transportation. Customers switching to LVS
15 transportation take into consideration the price of commodi-
16 ty gas as well as the base rate. In such cases, the custom-
17 er calculates their bill on Rate SGS and LGS, as appropri-
18 ate, and compares that to what their cost would be on rate
19 LVS plus the cost of them securing their own gas. In 2000,
20 one customer switched to LVS Sales from LGS.

21 Q. At Page 5 Lines 16 - 24, Mr. Beck discusses customers switc-
22 hing to LVS and states that this "almost always means that

1 the company will receive less marginal revenues from that
2 customer after the switch". Please comment.

3 A. I fail to see the point. When values are normalized for a
4 rate case, for larger LDCs such as MGE, there will always be
5 commercial and industrial customers switching between rates.
6 An analyst takes this into consideration as best they can
7 and then proceeds with further analysis. As I indicated
8 above, the customers themselves switch only if it is to
9 their advantage. The advantage is usually a function of
10 money saved on the new rate.

11 Mr. Beck goes on to state that if all the changes in
12 the number of customers on Rate LVS over the past three
13 years came from switching, the Company likely received
14 less revenue. If the Company receives less money after
15 a customer switches from one rate to another, I fail to
16 see any point. This happens and it happens all the
17 time for utilities. If existing customers are switch-
18 ing, that is not growth for MGE and that was my key
19 point. For the test year in this case, not one custom-
20 er who was new to MGE came on Rate LVS.

21 Q. Mr. Laderoute, based on Mr. Beck's Rebuttal Testimony from
22 Page 1 through Page 6 Line 10, does he actually address any

1 of the issues, methods or approaches in your cost of service
2 studies?

3 A. No. All of the material that he addressed were issues of
4 background and only of secondary importance. I raised these
5 issues only for the purpose of providing additional back-
6 ground information, should the Commission wish to consider
7 factors other than the COSS in its decision. I could have
8 left all of that material out of my testimony and it would
9 not change the results of my COSS. Mr. Beck did not address
10 either my methods or results of my cost of service studies.

11 OPC Witness Hu

12 Q. At Page 2 Lines 17 - 23, Witness Hu discusses incremental
13 costs and stand-alone costs. Do you have any comments?

14 A. Yes. First, with respect to incremental costs, rates are
15 not set based on incremental costs in this jurisdiction.
16 They are set based on fully embedded historical cost plus
17 known and measurable changes in the true up period. Second,
18 the economic theory is a function of marginal costs, not
19 incremental costs. All her other testimony respecting this
20 is inapplicable. Moreover, no one in this case performed an
21 incremental or marginal cost study.

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1 Third, with respect to Witness Hu's discussion of
2 stand-alone costs as she describes at Page 2 Lines 19 -
3 21, let's focus on how MGE might address the issue from
4 the perspective of LVS transportation customers. As
5 she defines it, stand-alone cost is "the cost necessary
6 to provide the service assuming none of the facilities
7 already exist to provide other services". Hu Rebuttal
8 Testimony at Page 2, Lines 20 - 21. Would MGE invest
9 in AMR meters for LVS customers? No. These customers
10 are required to provide Electronic Gas Measurement
11 ("EGM") equipment that each LVS customer must pay for
12 when becoming an LVS customer - up to \$5,000. Would
13 MGE hold Gas Inventory in Storage to supply gas to LVS
14 customers in the Winter months? No. The LVS transpor-
15 tation customers supply their own gas. Would MGE spend
16 money on Gas Supply personnel for LVS transportation
17 customers? No. Those customers provide their own gas
18 supplies. How would MGE size the pipe necessary to
19 meet the LVS customer's coincident peak loads? The
20 question answers itself. In order to deliver the LVS
21 transportation customers loads, MGE would size its
22 Mains based on the coincident demands of the LVS trans-
23 portation customers.

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1 I am not going to go through all the issues that I
2 addressed in my Rebuttal Testimony. Suffice it to say,
3 within my COSS I considered what costs are attributable
4 to LVS. With respect to the one LGS customer who
5 switched to LVS Sales service during the test year, I
6 performed an entire COSS to account for the additional
7 costs that would be allocated to LVS to account for
8 this oddity.

9 Q. With respect to Witness Hu's Rebuttal Testimony at Page 3,
10 Lines 12 - 23, do you have any comments?

11 A. Yes. First, allocated costs are allocated costs. They are
12 not estimates. While one may disagree with the results,
13 they are not estimates. Second, there are many costs within
14 a COSS that have nothing to do with allocating joint or
15 common costs. Mains is the primary cost item that is joint,
16 but many costs are not common. For example, a utility
17 usually can, with good precision, determine the actual
18 embedded costs of Meters, Services and Regulators for larger
19 customers. These costs then are not common or joint, but
20 are known actual costs that need not be allocated by an
21 analyst.

1 With respect to my "carelessly" using the word subsidy
2 and being "naive" or "erroneous", according to Witness
3 Hu, in using fully allocated costs as the bench mark
4 test, perhaps Witness Hu is unaware of the use of fully
5 allocated costs in certain jurisdictions. For example,
6 for many years, the classic test of anti-trust and
7 price squeeze cases coming from FERC cases was in fact
8 a function of fully allocated cost studies. Jurisdic-
9 tions such as Michigan and Massachusetts set required
10 rate class revenue levels approximately precisely at
11 allocated costs from a COSS.

12 Q. Regarding Witness Hu's Rebuttal Testimony at Page 5, Lines 4
13 - 23, why did you use Peak Month Mcf rather than a peak day
14 value?

15 A. Because the latter was not readily available to me. I asked
16 MGE to supply such data and was informed that it was not
17 available. Knowing that Peak Month Mcf would result in a
18 value near that of Coincident Peak day values (based on
19 experience), I did not feel the effort warranted the time to
20 make the calculations. Comparison of the relative values in
21 the Staff allocators for Mains with my values shows that my
22 statement is correct. While Witness Hu thinks RSUM is
23 better than a Peak allocator, I don't - and as she points

1 out, I am the person who developed RSUM. It does not appro-
2 priately reflect cost causation.

3 Q. At Page 6, of her Rebuttal Testimony, Lines 3 - 23, Witness
4 Hu goes on at length regarding Customer related Mains.
5 Please comment?

6 A. Since I did not in fact assign a portion of Mains as Custom-
7 er related, her indications of what I might do or would
8 presumably do are meaningless.

9 Q. Does Witness Hu's Rebuttal Testimony at page 7 Line 2
10 through Page 9 Line 2 accurately portray your proposal at
11 this time for class revenue requirements?

12 A. No. I did not go through the mechanics to see if she accu-
13 rately portrayed my updated COSS values. As I indicated in
14 my Rebuttal Testimony at Page 49, Line 11 through Page 51
15 Line 9, I revised my original proposal for class revenue
16 requirements.

17 Q. With respect to Witness Hu's Rebuttal Testimony at Page 9,
18 Lines 3 - 15, do you have any comments?

19 A. While OPC Witness Hu may view my COSS as "questionable", and
20 allege that it is based on "unrealistic allocators" and is
21 "imprecise", even if the Commission chose to allocate Mains

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1 on RSUM, my COSS is more accurate than the OPC study for all
2 the reasons I have laid out in my various prepared testimo-
3 nies in this case. While one may be concerned about
4 affordability - and to the OPC that clearly means simply
5 affordability for Residential customers only - the price of
6 gas has impacted all customers - not just Residential.
7 Though I disagree that COSS are necessarily always impre-
8 cise, even if they were so viewed, that does not mean that
9 an accurate COSS result should be rejected and that class
10 revenue requirements should be set on such amorphous and
11 innocuous "other factors" as affordability, rate impact, et
12 cetera.

13
14 Q. Does this conclude your Rebuttal testimony?

15 A. Yes it does.

Line	Item	\$	Source
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MGUA Required Revenue Neutral Revenues Adjusted for Staff & OPC Allocation Methods

1	Required Revenue Neutral Revenue per MGUA COSS	7,595,444	Schedule CDL-Reb-1 Page 14 Line 27
2			
3	Plus: Added Rev Req based on Staff Allocation Methods	1,966,338	Schedule CDL-Reb-5 Page 2
4			
5	Total MGUA COSS Req Rev Neutral Rev with Staff Allocations	9,561,782	
6			
7			
8	Required Revenue Neutral Revenue per MGUA COSS	7,595,444	Schedule CDL-Reb-1 Page 14 Line 27
9			
10	Plus: Added Rev Req based on OPC Allocation Methods	3,870,851	Schedule CDL-Reb-5 Page 3
11			
12	Total MGUA COSS Req Rev Neutral Rev with OPC Allocations	11,466,295	
13			
14			
15			

Determination of COSS Fractions

	Total	Other Classes	LVS	
19 MGUA COSS Mod I Revised	131,882,802	124,287,358	7,595,444	Schedule CDL-Reb-1 Page 14 Line 27
20 Fractions	1.000000000	0.942407622	0.057592378	Fraction of total
21				
22 MGUA COSS with Staff Allocations	131,882,802	122,321,020	9,561,782	Line 5
23 Fractions	1.000000000	0.927497888	0.072502112	Fraction of total
24				
25 MGUA COSS with OPC Allocations	131,882,802	120,416,507	11,466,295	Line 12
26 Fractions	1.000000000	0.913056937	0.086943063	Fraction of total
27				
28				
29 Staff Filed COSS Fractions	1.000000000	0.91399086	0.08600914	Beck Testimony Schedule 1
30				
31 OPC Filed COSS Fractions	1.000000000	0.894752021	0.105247979	Busch Testimony Schedule JAB-RD2
32				
33				

Percentage of Differences Explained

36	MGUA vs Staff	84	Line 23 / Line 29
37			
38	MGUA vs OPC including Mains	83	Line 26 / Line 31

Line	Item	Total to be Allocated	Staff Allocation Basis	Staff Allocation Factor	Allocated Costs on Staff Allocator	MGUA Allocated Costs	Fraction	Excess Cost Allocation Using Staff Allocator	Fixed Charge Factor (3)	Revenue Requirement Impact Staff
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	AMR Communication Equipment - A/C 397.1	32,969,219	Total P, T & D PIS	0.083991283	2,769,127	0	0.00000000	2,769,127	0.0713	197,547
2	AMR Intangible related PIS	415,236	C-O-S Revenues (1)	0.086009136	35,714	0	0.00000000	35,714	0.0713	2,548
3	Working Capital Gas Inventory	52,457,645	C-O-S Revenues	0.086009136	4,511,837	0	0.00000000	4,511,837	0.0713	321,870
4	Working Capital - Working Cash - O&M Purchased Gas	5,584,312	Volumes	0.365683019	2,042,088	0	0.00000000	2,042,088	0.0713	145,681
5	Services A/C 380	248,048,065	Service Allocator	0.007566860	1,876,945	1,311,611	0.00528773	565,334	0.1233	69,714
6	Meters A/C 381	28,150,505	WTD CUST. - METERS	0.053323930	1,501,096	1,061,762	0.03771733	439,334	0.1233	54,176
7	House Regulators & Install A/C 383-4	9,540,154	WTD CUST. - REGULATORS	0.020918586	199,567	186,920	0.01959298	12,647	0.1233	1,560
8	EGM Equipment A/C 385	320,088	LARGE VOLUME SALES (2)	0.924238932	295,838	320,088	1.00000000	(24,250)	0.1233	(2,990)
9	Total Rate Base Related Costs							10,351,830		790,105
10										
11										
12	A/C 920-1 Assigned to Transports	35,208	C-O-S Revenues	0.086009136	3,028	35,208	1.00000000	(32,180)		(32,180)
13	A/C 923 Assigned to Sales	1,485,054	C-O-S Revenues	0.086009136	127,728	0	0.00000000	127,728		127,728
14	Uncollectibles-A/C 904	3,455,836	C-O-S Revenues	0.086009136	297,233	84,644	0.02449306	212,589		212,589
15	Sales Expenses	773,040	C-O-S Revenues	0.086009136	66,489	0	0.00000000	66,489		66,489
16	Total O&M Exp Related Costs									374,626
17										
18										
19	AMR Amortization - AMR Beta	27,682	Total P, T & D PIS	0.083991283	2,325	0	0.00000000	2,325		2,325
20	AMR Depreciation - Gen Pt A/C 397.1	1,648,461	Total P, T & D PIS	0.083991283	138,456	0	0.00000000	138,456		138,456
21	Total Depr & Amort Related Costs									140,781
22										
23										
24	Other Op Rev-Late Pay Charge A/C 487	983,440	NUMBER OF RES/SGS BILLS	0.000000000	0	160,189	0.16288640	160,189		160,189
25	Other Op Rev-Misc Service Chg A/C 488	3,073,529	NUMBER OF RES/SGS BILLS	0.000000000	0	500,636	0.16288638	500,636		500,636
26	Total Offsetting Revenue Related									660,825
27										
28	Subtotal - AMR Related									340,876
29	Subtotal - Other									1,625,462
30	Grand Total									1,966,338

(1) Actually total COS or Required Margin Revenue

(2) Actually LVS & LGS

(3) Fixed Charged Rates

Return	30,509,229	0.058804568
FIT	6,503,183	0.012534465
Depreciation	26,966,363	0.051975923
Rate Base	518,824,134	
Return, FIT & Depr		0.123314956
Return & FIT Only		0.071339033

Sources: Column

- b Various pages from Schedule CDL-15 and as revised at Schedule CDL-Reb-1
- c Staff COSS model in this case
- d Staff COSS model in this case
- e Column b times Column d
- f Various pages from Schedule CDL-15 and as revised at Schedule CDL-Reb-1
- g Column f divided by Column b
- h Column e less Column f
- i Footnote 3 - Data from CDL-Reb-1 Page 14
- j Lines 1-8 Column h times Column i Other Lines equal Column h

Missouri Gas Energy - Case No. GR-2001-292
Impact Upon MGUA COSS Costs Allocated to LVS of Using Various OPC Allocation Methods

Line	Item	Total to be Allocated	OPC Allocation Basis	OPC Allocation Factor	Allocated Costs on OPC Allocator	MGUA Allocated Costs	MGUA Fraction	Excess Cost Allocation Using OPC Allocator	Fixed Charge Factor (3)	Revenue Requirement Impact OPC
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	AMR Communication Equipment - A/C 397.1	32,969,219	Cost of Service	0.105486530	3,477,809	0	0.00000000	3,477,809	0.0713	248,103
2	AMR Intangible related PIS	415,236	Cost of Service	0.105486530	43,802	0	0.00000000	43,802	0.0713	3,125
3	Working Capital Gas Inventory	52,457,645	Total Rate Base	0.113101619	5,933,045	0	0.00000000	5,933,045	0.0713	423,258
4	Working Capital - Working Cash - O&M Purchased Gas	5,584,312	Cost of Service	0.105486530	589,070	0	0.00000000	589,070	0.0713	42,024
5	Services A/C 380	248,048,065	Services Weighted Customers	0.021000000	5,209,009	1,311,611	0.00528773	3,897,398	0.1233	480,808
6	Meters A/C 381	28,150,505	Meters Weighted Customers	0.045000000	1,266,773	1,061,762	0.03771733	205,011	0.1233	25,281
7	House Regulators & Install A/C 383-4	9,540,154	Regulators Weighted Customers	0.032000000	305,285	186,920	0.01959298	118,365	0.1233	14,506
8	EGM Equipment A/C 385	320,088	C & I Customers	0.006928119	2,218	320,088	1.00000000	(317,870)	0.1233	(49,198)
9	Total Rate Base Related Costs									1,977,966
10										
11										
12	A/C 920-1 Assigned to Transports	35,208	Cost of Service	0.105486530	3,714	35,208	1.00000000	(31,494)		(31,494)
13	A/C 923 Assigned to Sales	1,485,054	Cost of Service	0.105486530	156,653	10	0.00000000	156,653		156,653
14	Uncollectibles-A/C 904	3,455,836	Cost of Service	0.105486530	364,544	84,644	0.02449306	279,900		279,900
15	Sales Expenses	773,040	Cost of Service	0.105486530	81,545	0	0.00000000	81,545		81,545
16	Total O&M Exp Related Costs									486,605
17										
18										
19	AMR Amortization - AMR Beta	27,682	Gross NON-GENERAL PLANT	0.107519598	2,976	0	0.00000000	2,976		2,976
20	AMR Depreciation - Gen Pt A/C 397.1	1,648,461	Total COS	0.105486530	173,890	0	0.00000000	173,890		173,890
21	Total Depr & Amort Related Costs									176,867
22										
23										
24	Other Op Rev-Late Pay Charge A/C 487	983,440	Cost of Service	0.105486530	103,740	160,189	0.16288640	56,449		56,449
25	Other Op Rev-Misc Service Chg A/C 488	3,073,529	Cost of Service	0.105486530	324,216	500,636	0.16288638	176,420		176,420
26	Total Offsetting Revenue Related									232,869
27										
28	Subtotal - AMR Related								428,095	
29	Subtotal - Other								1,666,042	
30	Subtotal - this page									2,094,137
31										
32	Mains Costs from Schedule CDL-Reb-4 Page 1									1,776,714
33										
34	Grand Total									3,870,851

(1) Actually total COS or Required Margin Revenue
(2) Actually LVS & LGS

Sources: Column

(3) Fixed Charged Rates

Return	30,509,229	0.058804568
FIT	6,503,183	0.012534465
Depreciation	26,966,363	0.051975923
Rate Base	518,824,134	
Return, FIT & Depr		0.123314956
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