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Missouri Public  
Service Commission

Exhibit No.:

Issues: Steam Subsidy

Witness: Janice Pyatte

Sponsoring Party: MO PSC Staff

Type of Exhibit: Rebuttal Testimony

Case Nos.: ER-2004-0034

& HR-2004-0024

(Consolidated)

Date Testimony Prepared: January 26, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**JANICE PYATTE**

**AQUILA, INC.**

**D/B/A AQUILA NETWORKS--MPS**

**AND AQUILA NETWORKS--L&P**

**CASE NOS. ER-2004-0034 & HR-2004-024**

Jefferson City, Missouri

January 2004

Exhibit No. 125

Case No(s) ER-2004-0034

Date 2/23/04 Rptr LF





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1 (SIEUA), and the St. Joseph, Missouri Industrial Energy Users, expressed on pages 13-15 of his  
2 direct testimony.

3 Q. Please briefly describe Aquila's proposal for the L&P electric utility business to  
4 subsidize the L&P steam utility business.

5 A. Aquila's proposal is that rates for L&P electric customers be designed to recover  
6 \$1.8 million more than the aggregate cost to serve the electric customers, and L&P steam rates  
7 be designed to recover \$1.8 million less than the aggregate cost of serving the steam customers.  
8 Aquila's proposal would have no effect on the MPS electric customers or on the customers of its  
9 natural gas utility business.

10 Q. What is Aquila's first rationale for its proposal?

11 A. According to Ms. Murphy's direct testimony there are "special circumstances"  
12 that make this subsidy appropriate. Aquila's first argument is expressed in the direct testimony  
13 of Stephanie A. Murphy [direct testimony, HR-2004-0024, page 17, lines 1-5]:

14 Without the subsidy, steam rates would increase more than forty  
15 percent (40%). Such a significant increase could result in a strong  
16 likelihood that steam customers would exit the system and move  
17 operations. That would result in a negative impact on the electric  
18 customers who would then have to pick up 100% of the costs that are  
19 currently absorbed by steam customers.  
20

21 Q. What is Staff's rebuttal to Aquila's first rationale for its proposal?

22 A. First, the costs to which Ms. Murphy refers are not 100% of the cost of providing  
23 steam service. The only costs that would have to be absorbed by electric customers are some of  
24 the overhead costs and the fixed costs associated with the portion of the Lake Road Plant that  
25 are allocated to steam service.

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1           Second, the first rationale for Aquila's proposal is a standard "rate impact" argument.  
2           Considering the possible impact of large rate increases on customers, or classes of customers, is  
3           a valid policy concern when considering rate design proposals and revenue shifts between a  
4           utility's customer classes; however, it is not an appropriate consideration when determining a  
5           utility's overall revenue requirement. *In setting rates the Commission must allow each utility*  
6           (i.e., each type of utility service) a reasonable return. The Commission may consider, however,  
7           that a reasonable return may be one that is not so high as to cause a utility to loose all of its  
8           customers.

9           Third, the Staff believes that increasing electric rates to provide service at below-cost-of-  
10          service rates to steam customers would be unduly discriminatory, unless it can be shown that  
11          electric customers would be better off (i.e., would have lower rates) than they would be if there  
12          were no steam service. The Company has not made such a showing in this case.

13          Q.       What is Aquila's second rationale for its proposal for the L&P electric business  
14          to subsidize the L&P steam business?

15          A.       Ms. Murphy has stated in response to the Staff's data request DR No. MPSC-235  
16          that "[t]he intent of the proposed subsidy was to correspond to Missouri Public Service  
17          Commission precedent whereby the percentage increases between jointly filed electric and  
18          steam cases in the St. Joseph Light and Power service territory were directionally levelized. In  
19          her direct testimony she also states that "this [subsidy adjustment] method has been used and  
20          implemented by the Staff in Case No.'s EM-2002-292, ER-99-247 and HR-99-245." [Stephanie  
21          A. Murphy, direct testimony, HR-2004-0024, page 17, lines 9-10].

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1 Q. What is Staff's rebuttal to Ms. Murphy's assertion that Aquilas's proposal to  
2 subsidize the L&P steam customers is following "Missouri Public Service Commission  
3 precedent" from prior cases?

4 A. I believe that Ms. Murphy is misinformed about St. Joseph Light & Power  
5 Company's (SJLP's) relevant regulatory history with the Missouri Public Service Commission.  
6 I am not aware of any Commission decision to "directionally levelize" rate increases to SJLP's  
7 electric and steam customers in jointly filed cases. Ms. Murphy did not provide the case  
8 numbers for any cases in which the Commission ordered that electric and steam rates should be  
9 "directionally levelized."

10 With regard to a method used and implemented by the Staff, I believe Ms. Murphy is  
11 referring to the Staff's treatment of the lost revenues due to a special contract between St.  
12 Joseph Light & Power Company and one of its customers in consolidated Case Nos. ER-99-247  
13 and EC-98-573 and Case No. HR-99-245. In those cases the Staff determined that it was  
14 beneficial for SJLP to enter into the special contract in order to keep the customer as both a  
15 steam customer and an electric customer because the customer had a viable alternative to taking  
16 service from SJLP. The Staff determined that a portion of the lost revenues should be made up  
17 by the electric customers because their rates would be lower after making a contribution to the  
18 lost revenues than if the customer left the electric utility's system or drastically reduced its  
19 electric load. Likewise, the Staff determined that a portion of the lost revenues should be made  
20 up by the other steam customers because their rates would be lower after making a contribution  
21 to the lost revenues than if the customer left the system. In addition, for the period of years  
22 between entering into the special contract and the filing of the rate cases the shareholders of

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1 SJLP had absorbed the lost revenues. This is a much different situation than the current  
2 situation in which a subsidy is being proposed by Ms. Murphy.

3 Q. Please describe the relevant SJLP regulatory events between 1993 and 1996.

4 A. In 1993 the Commission established Case No. EO-94-36 ("SJLP Allocations  
5 Case") for the purpose of considering issues related to the allocation of costs between SJLP's  
6 electric, gas, and steam jurisdictions. On June 15, 1995, revised rates from that case were  
7 implemented. The rates incorporated a \$550,000 reduction in steam revenues; a \$500,000  
8 increase in electric revenues; and a \$50,000 increase in gas revenues. A manual detailing how  
9 such allocations were to be performed in the future was also approved. The results from that  
10 case were certainly not "directionally leveled."

11 Soon afterwards SJLP proposed, and the Commission approved, tariff sheets that  
12 allowed SJLP the ability ". . .to meet competition in the market for industrial steam service. . ."  
13 [Case No. HT-96-72, September 13, 1995 Order Approving Tariff Sheets, page 2]. On  
14 September 25, 1995 a special, seven-year contract between SJLP and one of its customers went  
15 into effect.

16 Q. What conditions did the Commission place on any special steam contract that  
17 SJLP might enter into?

18 A. The Commission's Order Approving Tariff Sheets in Case No. HT-96-72 states  
19 that "the Commission's approval of these tariff sheets shall not be considered as a finding of the  
20 Commission as to the reasonableness of transactions entered into by St. Joseph Light & Power  
21 Company under these tariff sheets; and the Commission reserves the right to consider the  
22 ratemaking treatment to be afforded these transactions in any later proceeding." [Ordered 3.]

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1 Q. Did the Commission subsequently consider the ratemaking treatment of that  
2 contract?

3 A. Not directly. All subsequent rate increase/decrease cases were settled on an  
4 overall dollar amount by stipulation and agreement among the parties. The Commission  
5 approved the overall settlements, but did not specifically address the special contract.

6 Q. Are there "lost revenues" resulting from the special contract in the test year for  
7 this case?

8 A. Yes; however, the special contract expired on September 24, 2002 and a  
9 subsequent special contract has not been proposed by the Company and that customer. The  
10 Staff annualized that customer's revenues to reflect its annual revenues paid to the Company on  
11 the tariff rates.

12 Q. Does this conclude your rebuttal testimony?

13 A. Yes, it does.