

Exhibit No.: _____
Issue: Rate Design
Witness: Kent D. Taylor
Exhibit Type: Rebuttal
Sponsoring Party: Summit Natural Gas of Missouri, Inc.
Case No.: GR-2014-0086
Date: July 11, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

REBUTTAL TESTIMONY

OF

KENT D. TAYLOR

ON BEHALF OF

SUMMIT NATURAL GAS OF MISSOURI, INC.

**Jefferson City, Missouri
July 2014**

Summit Exhibit No. 17
Date 8-19-14 Reporter KF
File No. GR-2014-0086

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KENT D. TAYLOR**

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2014-0086

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REBUTTAL TESTIMONY

KENT D. TAYLOR

SUMMIT NATURAL GAS OF MISSOURI, INC

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

2 A. Kent D. Taylor, 777 29th Street, Suite 200, Boulder, Colorado, 80303.

3 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AND SCHEDULES IN**
4 **THIS CASE?**

5 A. Yes, I filed direct testimony and sponsored Summit Natural Gas of Missouri, Inc.'s
6 ("SNGMO") Class Cost-of-Service Study ("CCOSS") and the Proposed Rate
7 Design.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. I will: (1) discuss the difficulty of reviewing the Missouri Public Service Commission
11 Staff's ("Staff") direct case, (2) stress the need for a CCOSS as the basis for
12 customer class cost assignment, and (3) respond to Staff's and Missouri School
13 Boards' Association's ("MSBA") direct testimonies as they relate to SNGMO's
14 School Aggregation Program.

15 **Q. ARE YOU SPONSORING EXHIBITS?**

16 A. Yes, I am co-sponsoring Rebuttal Schedule KDT-1, Report on Staff and MSBA
17 Direct Testimony.

1 MPSC STAFF CLASS COST OF SERVICE STUDY

2 **Q. PLEASE DESCRIBE THE DIFFICULTIES ENCOUNTERED IN EVALUATING**
3 **STAFF'S DIRECT TESTIMONY AND EXHIBITS.**

4 A. Staff has adequately described the rate making principles it used in order to
5 develop its CCOSS. However, the conversion from rate making principles to
6 analysis resulted in numerous errors; so much so that Staff's CCOSS is not
7 currently useful as a foundation for SNGMO's evaluation.

8 **Q. PLEASE DESCRIBE THE NATURE OF THE ERRORS TO WHICH YOU**
9 **REFER.**

10 A. SNGMO witness Tyson Porter details the mistakes SNGMO has discovered.
11 For the most part, they are calculation and data interpretation errors and not
12 differences of opinion concerning rate making principles.

13 **Q. HAS SNGMO COMMUNICATED THESE ERRORS TO STAFF?**

14 A. Yes.

15 **Q. HAS STAFF BEEN RECEPTIVE TO DEALING WITH ERRORS IN ITS**
16 **CCOSS?**

17 A. Yes. However, at this writing, the information on the record does not yet allow
18 SNGMO to analyze what changes Staff will make.

19 **Q. ARE THERE OTHER COMPLICATING ISSUES?**

20 A. Yes. Staff's CCOSS was performed using an updated test period. SNGMO's
21 test period was the twelve month period ended September 30, 2013. Staff's test

1 period was the twelve month period ended December 31, 2013. Consequently,
2 a straight comparison of Staff's study and SNGMO's study is not feasible.

3 **Q. DO YOU TAKE ISSUE WITH STAFF'S UPDATED TEST PERIOD?**

4 A. No, as a general statement, an updated test period reduces regulatory lag and
5 is, by definition, preferable.

6 **Q. DIDN'T STAFF FILE CORRECTIONS TO ITS CCOSS EXHIBITS AND, IF SO,
7 DID THE FILED REVISIONS CORRECT THE MISTAKES TO WHICH YOU
8 REFER?**

9 A. Staff filed its Rate Design testimony on June 13, 2014, and, after being alerted
10 to errors in the CCOSS Summary Schedules, filed corrections on June 16,
11 2014. However, the underlying analytical errors in billing determinants and
12 revenue requirements have not yet been corrected.

13 **Q. HAVE YOU OR OTHER SNGMO REPRESENTATIVES PERFORMED AN
14 EXHAUSTIVE EVALUATION OF STAFF'S CCOSS IN ORDER TO
15 DISCOVER AND CORRECT THE ERRORS?**

16 A. We have performed an exhaustive review of Staff's billing determinants, as
17 indicated in Mr. Porter's testimony. The flaws in billing determinants then flow
18 to Staff's allocation factors and rate design. Resource and time constraints
19 limited our effort to evaluate this additional step. However, the work we have
20 accomplished as to billing determinants indicates that Staff's CCOSS is not
21 reliable in its current form.

1 Q. DO YOU PROPOSE A REMEDY FOR THE FLAWS YOU HAVE
2 DESCRIBED?

3 A. Yes. SNGMO prefers to use Staff's analysis, corrected for errors, as the
4 foundation for ultimate rate setting. In addition, we hope to convince the
5 Commission that SNGMO's application of rate making principles is preferable
6 to Staff's.

7

8 **CLASS COST OF SERVICE STUDY VS PERCENTAGE REVENUE SHARING**

9 Q. HOW HAS STAFF PROPOSED TO ALLOCATE COSTS TO CUSTOMER
10 CLASSES IN ITS DIRECT CASE?

11 A. Staff has proposed a customer class cost assignment which assigns to each
12 customer class a portion of the calculated revenue deficiency equal to the
13 percentage each customer class's pro forma revenue bears to the total pro
14 forma revenue and adds that additional revenue requirement to the existing pro
15 forma revenue.

16 Q. PLEASE EXPLAIN THE PROPRIETY OF SUCH A COST ALLOCATION
17 METHOD.

18 A. If current rates had been set based upon a recent fully allocated CCOSS, the
19 use of such an expedient might make sense. However, none of the discrete
20 divisions in this rate case has ever been subjected to a rigorous class cost of
21 service study. To the extent that cross-customer-class inequities exist in

1 current rates, applying increases in an equal percentage without correcting
2 those inequities will simply compound the problem.

3 **Q. HAVE PREVIOUS COMMISSION ORDERS SUGGESTED A PREFERENCE**
4 **FOR ONE OR THE OTHER?**

5 A. Yes. The Commission has explicitly required SNGMO to file a CCROSS in its
6 rate cases. One must presume that the Commission prefers the analytical rigor
7 that accompanies such a requirement.

8 **Q. PLEASE SUMMARIZE SNGMO'S POSITION WITH RESPECT TO THE USE**
9 **OF A CCROSS TO SET RATES.**

10 A. The use of a CCROSS as the basis upon which cost responsibility is calculated
11 provides a method by which to establish an equitable distribution of cost
12 responsibility among customer classes. It is especially important in this case
13 because a CCROSS has never been used as a mechanism for setting base
14 rates. Staff's proposed use of equal percentages will merely compound any
15 existing inequities.

16

17 **MSBA WITNESS ERVIN REBUTTAL**

18 **Q. DOES YOUR REBUTTAL INCLUDE COMMENTS ON SNGMO'S SCHOOL**
19 **AGGREGATION PROGRAM?**

20 A. Yes. Staff and the MSBA sponsored testimony and I will respond to the specific
21 issues raised by those parties utilizing a report identified as Rebuttal Schedule
22 KDT-1. SNGMO witness Mr. Renato Nitura has also filed rebuttal testimony

1 providing additional support for SNGMO's response.

2 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

3 **A. Yes.**

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

In the Matter of Summit Natural Gas of)
Missouri Inc.'s Filing of Revised Tariffs)
To Increase its Annual Revenues For)
Natural Gas Service) Case No. GR-2014-0086

AFFIDAVIT OF KENT D. TAYLOR

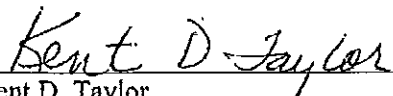
STATE OF COLORADO)
)**ss**
COUNTY OF JEFFERSON)

Kent D. Taylor, being first duly sworn on his oath, states:

1. My name is Kent D. Taylor. I work in Boulder, Colorado and I am employed by KTM, Inc. as Chairman.

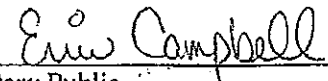
2. Attached hereto and made a part of hereof for all purposes is my Rebuttal Testimony on behalf of Summit Natural Gas of Missouri, Inc. consisting of 6 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.



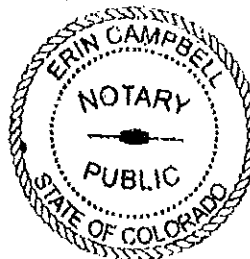
Kent D. Taylor

Subscribed and sworn to before me this 9th day of July, 2014.



Notary Public

My commission expires: 6/7/2016



Summit Natural Gas of Missouri, Inc.
MPSC Case No. GR-2014-0086
Response to MSBA Direct Testimony and MPSC Staff Revenue Requirement
Testimony

Mr. Louie R. Ervin sponsored testimony for the Missouri School Boards' Association (MSBA) concerning the School Aggregation Program. Mr. Thomas M. Imhof sponsored testimony for the Staff of the Missouri Public Service Commission concerning the same subject. This report will address the issues cited by each and recite SNGMO's positions.

Although SNGMO is responding to Mr. Ervin's testimony with respect to cash-out pricing determinants, it is important to understand that cash-out pricing applies to all SNGMO's shippers.

SNGMO's Response to Mr. Ervin's Testimony

Clarifying Language

On page 6 of Mr. Ervin's testimony, he cites three issues related to clarifying language:

Issue 1 – SNGMO believes Mr. Ervin's recommendation to clarify the language surrounding the definition of "Shipper", "Participant", "School District" and "Customer" is acceptable in principle.

Issue 2 - Mr. Ervin recommends the School Program be subjected only to Tier I cash-out pricing status. Summit accepts Mr. Ervin's proposal.

SNGMO proposes to modify its tariff P.S.C. MO No.3, Original Sheet No. 47, paragraph 4, to add subparagraph c. as shown below:

c. All end of the month imbalances, positive or negative, will be treated as Imbalance Tier 1 for purposes of calculating monthly cash-outs as described on Tariff Sheets 35 through 37.

The absence of telemetry for School Program shippers makes this distinction among shippers necessary.

Issue 3 – Mr. Ervin proposes the elimination of interruptible status for School Program Shippers as cited on Original Sheet No. 25, Availability Section.

SNGMO agrees with Mr. Erwin's proposal, but only to the extent School Program natural gas supply is received by SNGMO at the Town Border Station (TBS) from the upstream pipeline (which shall be determined by the upstream pipeline's final allocated volumes).

Accordingly, SNGMO proposes the addition of paragraph 10. on Proposed Tariff Sheet 49, to read as follows:

10. Delivery Priority

Each Shipper taking service under the Missouri School Program will possess the same delivery priority as retail sales customers to the extent the Pool Operator delivers and is allocated natural gas to the TBS from the upstream pipeline.

Cash-Out Price Determinants

On page 9 of Mr. Ervin's testimony, he recommends the elimination of one of SNGMO's proposed cash-out price determinants. Unlike Mr. Ervin's other recommendations; this recommendation affects all of SNGMO's transportation customers.

SNGMO opposes Mr. Ervin's recommendation. Explanation of this position is found in SNGMO witness Nitura's testimony.

Billing

On page 11 of Mr. Ervin's testimony, he recommends that each school district be charged a \$50 per month customer charge.

SNGMO opposes Mr. Ervin's customer charge proposal and embraces Staff's comprehensive proposal (page 55 of Staff Cost of Service Revenue Requirement Report), as cited below.

"Staff supports a monthly customer charge for each metered location and billed at the companion sales rate for each school participating in this program (see Appendix 3, Schedule PL-1 (Highly Confidential)). Missouri Revised Statutes Section 393.310.5 states that the tariffs will not have any negative financial impact

on its other customers as a result of this program. All customer charges under the Missouri School Program should be equal to the Company's companion sales rate for each school and for each meter location, thereby eliminating the potential for negative financial impact on other customers."

Using the same justification cited above from RSMO Section 393.310, SNGMO proposes to charge the School Program Shippers a commodity charge based on the otherwise applicable retail sales tariff for each metered facility.

To do this, SNGMO's proposed tariff, P.S.C. Mo No. 3, at Original Sheet No 48, paragraph 6 – should add the following language as new subparagraph d:

d. The Customer Charge and the Transportation Charge shall be those applicable based upon the class of service under which each metered facility would take service as a retail sales customer, provided that changes in usage volumes while enrolled in the school transportation program shall result in a change in class of service (and rates) as provided in the applicable rate schedules of this tariff for each metered facility.

Elimination of \$250 per month charge replaced by \$.004 per Ccf

On page 12 of Mr. Ervin's testimony, he recommends the elimination of SNGMO's proposed tariff language charging the Pool Operator \$250.00 per month for each Pool, replaced by \$0.004 per Ccf applied to delivered volume.

SNGMO does not oppose Mr. Ervin's recommendation.

To effectuate this change, the language proposed in paragraph 6a, Sheet No. 48 will need to be replaced.

SNGMO's Response to Staff Witness Imhoff's Testimony

Billing

See comments above.

Miscellaneous Recommendations

Schedule KDT-1

Beginning on page 15 of Staff's Report on Class Cost-of-Service, Staff offers the following eight recommendations, all of which are acceptable to SNGMO, except as noted:

- (1) Capacity release clarification - Staff suggests language as shown on the CCOSS Rate Design Report, p.16.
- (2) Tariff language requiring the Pool Operator to execute a written agreement.
- (3) Standard form Pool Operator agreement inclusion. An example is attached to Staff's CCOSS Rate Design Report.
- (4) If SNGMO contemplates nonschool pools, adopt a standard form agreement for those customers. SNGMO is not contemplating nonschool pools.
- (5) Recommendation to standardize balancing language - SNGMO has already accomplished this in the proposed tariff.
- (6) Pool Operator fees - Page 19 of Staff's CCOSS Rate Design Report offers language on additional fees and charges from the Pool Operator. It requires all fees be credited to Account 191.
- (7) Page numbering error is identified.
- (8) Telemetry requirement should reflect the statute language concerning >100,000 therms annually.