Exhibit No.: _____
Issue: Class Cost of Service Study
Witness: F. Jay Cummings
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2009-0355
Date Testimony Prepared: October 14, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

SURREBUTTAL TESTIMONY OF

F. JAY CUMMINGS

Jefferson City, Missouri

October 14, 2009

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OCTOBER 14, 2009

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is F. Jay Cummings. My business address is 3625 North Hall Street, Suite 750, Dallas, Texas 75219.

Q. ARE YOU THE SAME F. JAY CUMMINGS WHO FILED DIRECT TESTIMONY ON APRIL 2, 2009 AND REBUTTAL TESTIMONY ON SEPTEMBER 28, 2009?

A. Yes.

1. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I respond to the rebuttal testimony of Missouri Public Service Commission Staff ("Staff") witness Daniel Beck, Office of Public Counsel ("OPC") witness Barbara Meisenheimer, and Midwest Gas Users' Association and Superior Bowen Asphalt, L.L.C. (collectively, "Large Customer") witness Donald Johnstone. Based on my review of the issues raised by the parties, I conclude that no changes are required in my class cost of service study (as corrected in my rebuttal testimony). My study reflects cost causation considerations while the treatment of various cost of service elements by the other parties does not.

Q. PLEASE SUMMARIZE THE RESULTS OF THE CLASS COST OF SERVICE STUDIES OF THE PARTIES.

A. The following table shows how each party's study distributes its cost of service, in percentage terms, to the Residential ("RES"), Small General Service ("SGS"), Large General Service ("LGS"), and Large Volume Service ("LVS") classes:[1]

	Total	RES	SGS	LGS	LVS
Company	100.00%	75.58%	17.41%	0.99%	6.03%
Staff	100.00%	72.19%	17.94%	1.18%	8.69%
OPC	100.00%	70.86%	21.09%	1.13%	6.92%
Large Customer	100.00%	73.80%	18.43%	1.03%	6.74%

The class percentages for the Company and Staff are the same as those shown in a comparable table included in my rebuttal testimony.[2] The OPC entries reflect the OPC study accompanying OPC witness Barbara Meisenheimer's rebuttal testimony. The Large Customer entries reflect the study accompanying Large Customer witness Donald Johnstone's rebuttal testimony. I address issues associated with the OPC and Large Customer cost of service studies in Sections 3 and 4 of my testimony. I first address Staff witness Daniel Beck's rebuttal testimony in the next section of my testimony.

[1] The revenue requirements used in the cost of service studies that are the basis for this table are as follows: $215,967,110 for the Company study, $193,607,129 for the Staff and Large Customer studies, and $187,802,698 for the OPC study. The relative shares of each party's revenue requirement is more informative than Staff witness Daniel Beck's tabular summary of the parties' cost of study results (Rebuttal Testimony of Daniel I. Beck, page 2, table following line 14). Mr. Beck's table ratchets each party's cost of service study results proportionately downward to arrive at no revenue increase, but no party is recommending a no-revenue-increase revenue requirement in this case. Through this ratcheting, one cannot determine what cost of service components are adjusted and to what extent to achieve this revenue requirement. My relative shares table is based on each party's actual revenue requirement and its underlying cost of service components.

[2] Rebuttal Testimony of F. Jay Cummings, page 2, table following line 8.

2. STAFF WITNESS DANIEL BECK

Q. WHAT ASPECTS OF YOUR COST OF SERVICE STUDY DOES STAFF WITNESS DANIEL BECK ADDRESS?

A. Mr. Beck addresses the allocation of distribution mains and the allocation of services.

Q. WHAT CRITICISM OF YOUR MAINS ALLOCATION METHOD DOES STAFF WITNESS DANIEL BECK PROVIDE?

A. Mr. Beck criticizes my zero-intercept method by simply stating that he has never been able to buy a zero-inch pipe at a local hardware store and, even in theory, a zero-inch pipe would have no practical use as a pipe.[3]

Q. DO YOU AGREE WITH THIS CRITICISM OF YOUR MAINS ALLOCATION METHOD?

A. Absolutely not. Mr. Beck's brief comment avoids addressing the purpose and logic of the mains allocation method that I use. As a mains allocation methodology widely accepted by regulatory authorities, the purpose of the zero-intercept method is to split the mains investment into customer-related costs, *i.e.*, the portion of the investment required to provide customers with access to the system, and demand-related costs, *i.e.*, the investment required to size mains to meet customer demands. My statistically-determined cost of a zero-inch pipe, an estimate that Mr. Beck does

[3] Rebuttal Testimony of Daniel I. Beck, page 4, line 23 – page 5, line 2.

not address, provides an appropriate basis for pricing the customer-related portion of the investment. This cost estimate is appropriate because it isolates the cost of access to the system, with no demand costs included in its development.

If Mr. Beck remains concerned that the method be based on pipe available at a local hardware store, the analysis can be modified slightly to price the customer-related portion of the investment based on either a 1/8-inch or 1/4-inch pipe because it is reasonable to assume that no measurable customer demand is satisfied with pipe of either of these sizes. The resulting customer-related portion of the mains investment becomes 39.54% with 1/8-inch pipe or 40.69% with 1/4-inch pipe, compared to the 38.41% portion used in my study.

Q. DOES STAFF WITNESS DANIEL BECK AGREE WITH THE MANNER IN WHICH YOUR CUSTOMER-RELATED MAINS COSTS ARE ALLOCATED?

A. No. In commenting on my use of customer counts, Mr. Beck states that "treating all customers the same, from residential to large volume, for a significant amount of costs isn't logical."[4]

Q. IS STAFF WITNESS DANIEL BECK'S COMMENT MEANINGFUL?

A. No. Mr. Beck misses the logic underlying the zero-intercept method that I apply. By using this method, the customer-related portion of the mains costs relates solely to the access to the system and has nothing to do with sizing of mains to meet

[4] Rebuttal Testimony of Daniel I. Beck, page 4, lines 14-15.

demand requirements that vary across customer classes, from RES to LVS. Each customer, regardless of peak usage requirements, requires access to the system. A large volume customer does not require more footage of mains than a similarly-situated residential customer. Of course, one would expect that the large volume customer would require larger mains to meet its demand requirements compared to the similarly-situated residential customer. The cost consequences of sizing of mains to meet various class demands are captured entirely in the demand-related component of the zero-intercept method, and these costs have nothing to do with the cost of providing access to the system, *i.e.*, the customer-related portion of the mains investment.

Relative customer counts provide a reasonable basis for allocating these customer-related costs. As shown in Exhibit 11, as the Company serves more customers, more footage of mains is required. By entirely removing the cost of sizing of the mains footage to meet customer demands from the mains investment and allocating the remaining mains cost based on customer counts, my mains allocation method is fully consistent with cost causation principles.[5]

[5] Minimum system studies are an alternative to the zero-intercept method for allocating mains. At a conceptual level, minimum system studies are sometimes criticized because the customer component is based on a selected small size pipe, such as a 1-inch or 2-inch main, that may have the capability of satisfying a portion of customer demand. Demonstrating that the demand served by the selected minimum size pipe is not significant or making an adjustment to the resulting costs are ways to address this issue. The zero-intercept method does not involve this conceptual problem because, by definition, a zero-inch pipe has not capability to meet a portion of customer demand. The cost of a zero-inch pipe represents solely the cost of access to the distribution system.

Q. DO YOU AGREE WITH STAFF WITNESS DANIEL BECK THAT THE STAFF STAND ALONE COMPONENT OF ITS MAINS ALLOCATION REPRESENTS THE CUSTOMER-RELATED PORTION OF THE MAINS INVESTMENT?

A. No. The stand alone component does not isolate the cost of providing access to the system, *i.e.*, the customer-related cost.[6] The stand alone component includes the cost of serving a portion of customer demand.[7]

Q. DO YOU HAVE ANY OTHER COMMENTS ON THE STAFF MAINS ALLOCATION METHOD?

A. Yes. As thoroughly explained in my rebuttal testimony, this method is conceptually flawed and suffers from calculation problems.[8] The method not only ignores the fact that the distribution system is an integrated network but also involves calculations that use an inappropriate basis for mains pricing and a distorted central tendency measure for mains length for each class. The Staff stand alone/integrated system calculation requires significantly more footage of mains than currently are in service in the Company's distribution system. It requires 47,355,129 feet of distribution mains, or 2,170,671 more feet of mains than are in service in the Company's system.

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[6] Typically customer-related costs are those that vary directly with the number of customers served. See, for example, National Association of Regulatory Utility Commissioners, *Gas Distribution Rate Design Manual*, p. 22.

[7] The stand alone component is based on pipe diameters that range from ½-inch to 2-inches across customer classes.

[8] Rebuttal Testimony of F. Jay Cummings, page 9, line 13 – page 12, line 13.

Q. IN YOUR REBUTTAL TESTIMONY, YOU PROVIDE A STAND ALONE CALCULATION THAT CORRECTS THE STAFF CALCULATION PROBLEMS. DO YOU HAVE ANY FURTHER COMMENTS REGARDING THIS ISSUE?

A. Yes. As indicated in my rebuttal testimony, I continue to believe that the stand alone/integrated system method is conceptually flawed. However, I did provide a stand alone calculation that is based on (1) an appropriate central tendency measure of mains length and (2) mains pricing based on mains costs rather than services costs.[9] This alternative calculation uses median mains length and size for each class from the random sample data that Staff uses for other portions of its mains allocation calculation.

To isolate the effects of the Staff use of an inappropriate central tendency measure of mains length and its failure to use mains costs in its stand alone calculation, I have prepared an additional, "stand alone/integrated system" calculation. This calculation uses mains sizes that correspond to the service line sizes Staff uses in its stand alone calculation, median mains length for each class, and estimated Handy Whitman-adjusted mains costs for each mains size.[10] The resulting recalculated "stand alone/integrated system" mains allocation factor, along with the Staff factor and my zero-intercept method factor, are shown in the following table:

[9] Rebuttal Testimony of F. Jay Cummings, page 11, line 8 – page 12, line 3.

[10] The Staff stand alone percentage calculation is based on my Handy-Whitman adjusted total mains costs. I use this same Handy Whitman-adjusted cost data to price each mains size in this recalculated stand alone/integrated system calculation.

Class	Stand Alone/ Integrated System: Staff	Stand Alone/ Integrated System: Recalculated	Zero-Intercept Method
RES	62.47%	67.94%	68.96%
SGS	20.98	18.59	18.52
LGS	1.64	1.38	1.25
LVS	14.90	12.09	11.27

Clearly, Staff calculation problems result in a significant shift in costs away from the RES class toward the other classes, especially the SGS and LVS classes, compared to an appropriately-calculated "stand alone/integrated system" factor. The recalculation of the stand alone/integrated system factors results in allocation factors that are reasonably similar to the zero-intercept method factors, although the zero-intercept method factors reflect cost causation while the recalculated stand alone/integrated system factors do not.

Q. DO YOU HAVE ANY COMMENTS REGARDING STAFF WITNESS DANIEL BECK'S CHARACTERIZATION OF THE COMMISSION'S DECISION IN CASE NO. GR-2004-209?

A. Yes. Mr. Beck objects to my statement that the Commission endorsed the zero-intercept method in its decision.[11] While the Commission did not use this word in its order, it clearly found the zero-intercept method to be the "best" choice among the mains allocation methods presented in Case No. GR-2004-209.[12] In that case, the Company based in its mains allocation on the zero-intercept method, the OPC

[11] Rebuttal Testimony of Daniel I. Beck, page 6, lines 19-20.

[12] Missouri Public Service Commission, *Report and Order*, Case No. GR-2004-209, issued September 24, 2004, page 52.

based its allocation on the RSUM method, and the Staff based its allocation on the stand alone/integrated system method.[13] I agree with Mr. Beck that the Commission's decision speaks for itself.

Mr. Beck seeks to deemphasize the significance of the Commission's assessment of mains allocation methods in its order in Case No. GR-2004-209 by pointing to a subsequent portion of the order that indicates that cost of service study results are a starting point in class revenue determinations. The fact remains that if a cost of service study is to provide a useful starting point for class revenue determinations, the study must be based on sound cost causation principles. The Commission clearly determined that application of the zero-intercept method for mains allocation is consistent with this objective.

Q. DO YOU AGREE WITH STAFF WITNESS DANIEL BECK'S CONCLUSIONS REGARDING THE IMPORTANCE OF THE COMMISSION'S DECISION IN CASE NO. GR-98-140 AS IT PERTAINS TO MAINS ALLOCATION METHODS?

A. No. In Case No. GR-98-140, no party presented a cost of service study based on a zero-inch intercept method for distribution mains allocation. The Commission was not provided an opportunity to assess the merits of the zero-intercept method until Case No. GR-2004-209. When provided with this opportunity in Case No. GR-

[13] In Case No. GR-2004-209, Staff indicated that it updated its cost of service study from Case No. GR-2001-292 using the same methods (Direct Testimony of Daniel I. Beck, page 2, lines 8-10 and page 3, lines 1-7). In response to Company Data Request No. 0278, part (1) in this case, Staff confirmed that its mains allocation method in this case is the same as that used in Case No. GR-2001-292.

2004-209, the Commission determined that the zero-intercept method was the "best" among those mains allocation methods presented in the case.

Q. DO YOU AGREE WITH STAFF WITNESS DANIEL BECK'S DESCRIPTION OF THE OPC STUDY MAINS ALLOCATION METHOD?

A. No. Mr. Beck indicates that the OPC method uses "services weighted customers" to allocate the customer portion of distribution mains and expresses his approval for the OPC use of a weighted-customer method.[14] As explained in my rebuttal testimony, the OPC study appropriately uses unweighted customer counts, not weighted customers as suggested by Mr. Beck, to allocate the customer portion of the mains investment.[15]

Q. DO YOU HAVE ANY OBSERVATIONS ON STAFF WITNESS DANIEL BECK'S DISCUSSION OF SERVICE ALLOCATION FACTORS?

A. Yes. Mr. Beck agrees with and uses my service line costs for each class, but he objects to my use of 100-foot service lines for all classes as the basis for my weighted service factor. As I explained in my rebuttal testimony, Mr. Beck's calculations are based on a distorted measure of central tendency of service line lengths.[16] When corrected, the Staff services allocation factors are substantially different than those used by Staff in its cost of service study.[17]

[14] Rebuttal Testimony of Daniel I. Beck, page 7, line 17 – page 8, line 2.

[15] Rebuttal Testimony of F. Jay Cummings, page 13, lines 8-9 and footnote 18.

[16] Rebuttal Testimony of F. Jay Cummings, page 14, line 21– page 16, line 23.

[17] Rebuttal Testimony of F. Jay Cummings, Exhibit FJC-10.

Q. OTHER THAN MAINS AND SERVICE ALLOCATIONS, ARE THERE OTHER METHODOLOGICAL DIFFERENCES BETWEEN YOUR COST OF SERVICE STUDY AND THE STAFF STUDY THAT STAFF WITNESS DANIEL BECK DOES NOT ADDRESS IN HIS REBUTTAL TESTIMONY?

A. Yes. Mr. Daniel Beck does not address methodological differences between the Staff study and my study pertaining to any of the following cost of service components: Meters (Account 381), Meter Installations (Account 382), Miscellaneous Intangible Plant (Account 303), Measuring and Regulating Station Equipment (Accounts 378 and 379), Customer Deposits, Interest on Customer Deposits, Meter Reading Expense (Account 902), Customer Accounts and Collections Expense (Account 903), Uncollectibles Expense (Account 904), Demonstrating and Selling Expense (Account 912), and Safety Line Replacement Program Amortization.

In my rebuttal testimony, I explain why the method that I use for each of these cost of service components is more appropriate than the method used in the Staff study.[18] Alternative allocation methods applied to these cost of service components, as well as the problematic mains and services allocation methods used in the Staff study, lead to substantial differences between the Staff and my cost of service studies.

[18] Rebuttal Testimony of F. Jay Cummings, page 17, line 3 – page 19, line 13; page 21, line 10 – page 36, line 2; and Exhibit FJC-10.

3. OPC WITNESS BARBARA MEISENHEIMER

Q. WHAT COST OF SERVICE ISSUES DOES OPC WITNESS BARBARA MEISENHEIMER ADDRESS IN HER REBUTTAL TESTIMONY?

A. OPC witness Barbara Meisenheimer indicates that she has updated her study with revised accounting data and has corrected numerical errors. Ms. Meisenheimer explains that she also makes changes pertaining to the allocation of automated meter reading ("AMR") equipment and to the meter, meter installation, regulator, and services allocation factors as reflected in the updated study accompanying her rebuttal testimony.[19] Finally, Ms. Meisenheimer comments on distribution mains allocation issues.

Q. WHAT CHANGE DOES OPC WITNESS BARBARA MEISENHEIMER MAKE REGARDING AMR?

A. Ms. Meisenheimer indicates that she revises her general plant allocation factor "to recognize that Large Volume customers are not served by AMR."[20] Conceptually, I agree with Ms. Meisenheimer as explained in my rebuttal testimony.[21] However, Ms. Meisenheimer continues to use a single allocation factor for all general plant, including AMR, although she adjusted the factor in the study accompanying her rebuttal testimony. While Ms. Meisenheimer's adjusted general plant factor

[19] Rebuttal Testimony of Barbara A. Meisenheimer, page 2, line 14 – page 3, line 7.

[20] Rebuttal Testimony of Barbara A. Meisenheimer, page 3, line 14.

[21] Rebuttal Testimony of F. Jay Cummings, page 20, lines 6-20.

reduces the LVS allocation, the use of a single factor in the OPC study produces inaccurate results.[22]

A much simpler, direct and verifiable approach involves the separate allocation of AMR throughout the cost of service study based on non-LVS customer counts with the remainder of general plant allocated based on a different allocation factor. The Staff and my study both use this approach in allocating AMR and other general plant.

Q. WHAT CHANGES DOES OPC WITNESS BARBARA MEISENHEIMER PROPOSE FOR THE METERS, METER INSTALLATION, REGULATORS, AND SERVICES FACTORS?

A. Ms. Meisenheimer applies an average of Staff and my allocation factors for each of these items.[23] In the OPC study accompanying her direct testimony, Ms. Meisenheimer relies on my weighted costs and her customer counts to develop the allocation factor for each of these cost elements.

[22] The OPC study allocation of general plant depreciation expense does not accurately capture the treatment of AMR as a non-LVS customer-related expense. In effect, Ms. Meisenheimer's single general plant factor attributers 45.77% of general net plant to AMR and distributes this plant share based on non-LVS counts. This percentage is the ratio of AMR net plant to total net general plant. Ms. Meisenheimer applies this factor to general plant depreciation expense, even though AMR depreciation expense represents 47.54% of total general plant depreciation expense. While the difference in allocated general plant depreciation expense between the OPC study approach and separate treatment of AMR, *i.e.*, AMR depreciation expense allocated based on non-LVS customers and the remaining general plant depreciation expense allocated based on non-general net plant, is not sizable, other cost of service elements are also affected because the OPC study applies an overall cost of service allocation factor that includes depreciation expense to various cost of service components.

[23] Rebuttal Testimony of Barbara A. Meisenheimer, page 4, line 17 – page 5, line 1.

Q. WHY DOES OPC WITNESS BARBARA MEISENHEIMER REVISE THESE FACTORS?

A. Ms. Meisenheimer makes these changes "[t]o reflect both the Staff and Company input from this case and to develop allocations more in line with the allocations used in the previous rate case," Case No. GR-2006-0422.[24]

Q. DO YOU AGREE WITH OPC WITNESS BARBARA MEISENHEIMER'S REVISED METERS, METER INSTALLATIONS, REGULATORS, AND SERVICES ALLOCATION FACTORS?

A. No. As explained in my rebuttal testimony, the development of the Staff services, meters, and meter installation factors is flawed.[25] The resulting average of Staff and my factors is similarly flawed. Staff and my regulators factors are based on my regulator costs by class, with the resulting small differences between our regulator factors due to somewhat different customer counts to which these costs are applied.

Even if the Staff factors were not problematic, it is inappropriate to rely on allocation factors from Case No. GR-2006-0422 as a reference point without assessing the underlying methodologies and data in that case and comparing them to those applied in this case. Given OPC witness Barbara Meisenheimer's concern that the Staff and Company allocation factors in this case differ significantly "in some cases" from those in the previous rate case, I am surprised that Ms.

[24] Rebuttal Testimony of Barbara A. Meisenheimer, page 4, lines 17-18.

[25] Rebuttal Testimony of F. Jay Cummings, page 15, line 7 – page 16, line 23; page 17, line 13 – page 18, line 6.

Meisenheimer apparently accepted the previous case factors at face value as a point of reference without such an assessment or, at a minimum, comparing the factors to those used in cases prior to the previous case.

Q. PLEASE DESCRIBE OPC WITNESS BARBARA MEISENHEIMER'S COMMENTS ON MAINS ALLLOCATION METHODS.

A. Ms. Meisenheimer indicates that "MGE, Staff, and Public Counsel allocated 38.41% of mains based on a measure of the number of customers."[26] Ms. Meisenheimer continues by explaining that the remaining 61.59% of mains costs is allocated based on peak day demand in my study and on a capacity utilization factor in the Staff study. Ms. Meisenheimer explains that she prefers the Staff method, a method that she has supported in the past, to my method because "Staff's Capacity Utilization method reflects that mains support both peak use and use throughout the year."[27]

Q. ARE OPC WITNESS BARBARA MEISENHEIMER'S COMMENTS ON THE STAFF MAINS ALLOCATION METHODS USED IN THIS CASE CORRECT?

A. No. First, the Staff method does not allocate 38.41% of mains costs based on the number of customers. The Staff stand alone component of its stand alone/ integrated system method, the portion Staff witness Daniel Beck describes as the

[26] Rebuttal Testimony of Barbara A. Meisenheimer, page 11, lines 4-5.

[27] Rebuttal Testimony of Barbara A. Meisenheimer, page 11, lines 15-16.

"customer-related" part of mains, represents 28.18% of the mains cost, and this portion of the mains cost is not allocated based on customers.[28]

Second, the Staff mains allocation method uses its estimate of peak demand to allocate "demand-related" mains costs, not a capacity utilization factor.[29] The "capacity utilization" factors shown in Ms. Meisenheimer's Table 2 for the Staff study are the Staff peak demand factors, not capacity utilization factors based on peak demand and usage throughout the year.[30] These peak demand factors are used by Staff to allocate 71.82% of the mains cost, not 61.59%.

Third, as explained in my rebuttal testimony, year round usage is not logically linked cost to causation, a conclusion supported by the Commission in its decision in Case No. GR-2004-209.[31] The OPC study is the only study presented in this case that, contrary to cost causation considerations, allocates a portion of the mains cost based on usage throughout the year rather than peak demand.

[28] Rebuttal Testimony of Daniel I. Beck, page 4, lines 1-8.

[29] Rebuttal Testimony of F. Jay Cummings, page 8, lines 3-6 and page 12, footnote 16 and Rebuttal Testimony of Daniel I. Beck, page 4, lines 9-11.

[30] Rebuttal Testimony of Barbara A. Meisenheimer, page 11, table appearing after line 6.

[31] Rebuttal Testimony of F. Jay Cummings, page 7, line 18 – page 8, line 3 and Missouri Public Service Commission, *Report and Order,* Case No. GR-2004-0209, issued September 24, 2004, page 51.

Q. OTHER THAN AMR, SERVICES, METERS, METER INSTALLATIONS, HOUSE REGULATORS, AND MAINS ALLOCATIONS, ARE THERE OTHER METHODOLOGICAL DIFFERENCES BETWEEN YOUR COST OF SERVICE STUDY AND THE OPC STUDY THAT OPC WITNESS BARBARA MEISENHEIMER DOES NOT ADDRESS IN HER REBUTTAL TESTIMONY?

A. Yes. Ms. Meisenheimer does not address methodological differences between the OPC study and my study pertaining to any of the following cost of service components: Miscellaneous Intangible Plant (Account 303), Measuring and Regulating Station Equipment (Accounts 378 and 379), Customer Deposits, Interest on Customer Deposits, Meter Reading Expense (Account 902), Customer Accounts and Collections Expense (Account 903), Uncollectibles Expense (Account 904), Demonstrating and Selling Expense (Account 912), and Safety Line Replacement Program Amortization.

In my rebuttal testimony, I explain why the method that I use for each of these cost of service components is more appropriate than the method used in the OPC study.[32] Alternative allocation methods applied to these listed cost of service components -- along with the problematic OPC allocation methods applied to AMR, mains, meters, meter installations, services, and house regulators -- lead to substantial differences between the OPC and my cost of service studies.

[32] Rebuttal Testimony of F. Jay Cummings, page 21, line 10 – page 36, line 2 and Exhibit FJC-10.

4. LARGE CUSTOMER WITNESS DONALD JOHNSTONE

Q. WHAT COST OF SERVICE STUDY COMPONENTS DOES LARGE CUSTOMER WITNESS DONALD JOHNSTONE ADDRESS IN HIS REBUTTAL TESTIMONY?

A. Large Customer witness Donald Johnstone presents a cost of service study based on the Staff study with changes in the allocation of some cost of service components. In his rebuttal testimony, Mr. Johnstone explains changes that he makes in the Staff study regarding the allocation of distribution mains, intangible plant, materials and supplies, prepaid pensions, and gas inventories.

Q. DOES LARGE CUSTOMER WITNESS DONALD JOHNSTONE AGREE WITH YOUR DISTRIBUTION MAINS ALLOCATION METHOD?

A. Yes, at a conceptual level.[33] Mr. Johnstone agrees with my use of the zero-intercept method and the resulting split of the mains cost between customer-related and demand.-related components. Mr. Johnstone's calculated mains allocation factor differs somewhat from my factor because he uses the Staff bill counts and the Staff peak demand factor in his calculations.[34] As explained in my rebuttal testimony, my peak demand factor reflects cost causation principles while the Staff factor that Mr. Johnstone uses does not.[35]

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[33] Rebuttal Testimony of Donald Johnstone, page 7, line 10.

[34] Rebuttal Testimony of Donald Johnstone, page 6, lines 14-15 and page 7, lines 1-2.

[35] Rebuttal Testimony of F. Jay Cummings, page 8, lines 8-17.

Q. DOES LARGE CUSTOMER WITNESS DONALD JOHNSTONE AGREE WITH YOUR INTANGIBLE PLANT ALLOCATION METHOD?

A. Yes. Mr. Johnstone agrees with my allocation that is based, to a large extent, on direct cost assignment.[36]

Q. DOES LARGE CUSTOMER WITNESS DONALD JOHNSTONE AGREE WITH YOUR ALLOCATION OF MATERIALS AND SUPPLIES AND PREPAID PENSIONS?

A. Mr. Johnstone recommends that materials and supplies be allocated based on net plant and that prepaid pensions be allocated based on payroll expense.[37] In stating his recommendations, Mr. Johnstone indicates that these allocations are used in my study. In fact, my factors for these items are somewhat different. My materials and supplies allocation is based on total plant, not net plant. I include prepaid pensions with other prepayments and allocate them based on operating expenses.

Q. DOES LARGE CUSTOMER WITNESS DONALD JOHNSTONE AGREE WITH YOUR ALLOCATION OF GAS INVENTORIES?

A. No. Mr. Johnstone disagrees with all parties' gas inventories allocation methods, especially the Staff method.[38] As explained in my direct testimony, my gas

[36] Rebuttal Testimony of Donald Johnstone, page 8, lines 18-21.

[37] Rebuttal Testimony of Donald Johnstone, page 10, lines 11-14 and page 11, lines 21-22.

[38] Rebuttal Testimony of Donald Johnstone, page 10, line 21 – page 11, line 5.

inventory allocation factor is based on each class' incremental winter month usage above its average non-winter month usage.[39]

Mr. Johnstone objects to inclusion of both sales and transportation volumes in my calculation for the LVS class. He does indicate that transportation customers will possibly make "some use of system gas supplies from time to time, and therefore the LVS customers should bear a reasonable portion of these costs."[40] To recognize "a reasonable portion of these costs," Mr. Johnstone explains that he has included 2.5% of annual LVS transportation volumes in the development of his gas inventory allocation factor.[41]

Q. DO YOU AGREE WITH LARGE CUSTOMER WITNESS DONALD JOHNSTONE'S RESULTING GAS INVENTORY FACTOR?

A. No. I have several concerns with Mr. Johnstone's recommended gas inventory allocation factor. First, he provides no support or analyses for including 2.5% of "LVS transportation volumes" in his calculation rather than some other percentage. Second, the LVS class includes both sales and transportation service. In his calculations, Mr. Johnstone includes 2.5% of all LVS volumes rather than 2.5% of LVS transportation volumes and all LVS sales volumes as required by his testimony explanation.

[39] Direct Testimony of F. Jay Cummings, page 28, line 21 – page 9, line 2.

[40] Rebuttal Testimony of Donald Johnstone, page 11, lines 12-13.

[41] Rebuttal Testimony of Donald Johnstone, page 11, lines 13-15.

Third, Mr. Johnstone does not adjust SGS and LGS volumes to include only 2.5% of SGS and LGS transportation volumes, consistent with the logic of his LVS adjustment. Fourth, Mr. Johnstone uses annual throughput as the basis for his calculation rather than incremental winter volumes that drive the need for storage capability. Mr. Johnstone does not explain why he believes that cost causation is better served with an annual throughput-based factor rather than an incremental winter month usage-based factor.

Finally, gas storage provides operational benefits to all customers by enabling the Company to maintain system pressures and deliverability capability during winter weather swings. Mr. Johnstone's discussion references only transportation customer use of system gas supplies. As a result, his methodology must not take into account this operational benefit. While there may merit in recognizing the transportation service customers receive somewhat less benefit from gas storage than system sales customers, Mr. Johnstone's recommended allocation factor is not defensible.

My gas inventory class factors are similar to factors that would be obtained using Mr. Johnstone's volumetric approach if 25% of SGS, LGS, and LVS transportation volumes are included in the calculation as shown in the following table:[42]

	RES	SGS	LGS	LVS
Large Customer Factor	67.94%	28.13%	2.66%	1.27%
Corrected (2.5% Transportation Volumes)	68.77%	26.91%	2.51%	1.82%
Corrected (25% Transportation Volumes)	61.50%	24.38%	2.28%	11.83%
Company Study Factor	62.08%	23.47%	2.03%	12.42%

The second line in the table reflects correction of Mr. Johnstone's factor in the first line to include 2.5% of transportation volumes for the SGS, LGS, and LVS classes. The third line is the factor resulting from using Mr. Johnstone's volumetric-based approach if 25% of transportation volumes are included in the calculation. The fourth line is the gas inventory allocation factor used in my study.

Q. DOES LARGE CUSTOMER DONALD JOHNSTONE MAKE ANY OTHER CHANGES TO THE STAFF STUDY?

A. Yes. Mr. Johnstone makes several other changes to the Staff methods in his cost of service study included as DEJ REB Schedule 3 that he does not explain in his testimony. First, as listed in DEJ REB Schedule 2, he accepts my Uncollectibles Expense (Account 904) allocation factor that is based on direct assignment of the expense to classes.

[42] This table is based on the Company's as adjusted volumes for which needed, detailed sales and transportation volumes are available for the SGS, LGS, and LVS classes. As a result, the factor shown as the "Large User Factor" is slightly different from Large Customer witness Donald Johnstone's factor. The factor used in Mr. Johnstone's study is shown in the following table:

	RES	SGS	LGS	LVS
Large User Factor	67.89%	28.23%	2.67%	1.21%

Second, Mr. Johnstone's study uses my weights for Meters (Account 381), Services (Account 380), and Meter Installations (Account 382), although his weighted allocator factors differ somewhat from mine because he applies my weights to Staff customer counts. Third, consistent with my allocation method, Mr. Johnstone allocates Meter Reading Expense (Account 902) based on customer counts.

Finally, as listed in DEJ REB Schedule 2, Mr. Johnstone allocates Measuring and Regulating Station Equipment (Accounts 378 and 379) based 50% on demand and 50% on volumes. He offers no explanation or support for his factor. As a result, I continue to believe that my allocation of these accounts is appropriate as explained in my rebuttal testimony.[43]

Q. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING THE COST OF SERVICE STUDY PRESENTED BY LARGE CUSTOMER DONALD JOHNSTONE?

A. Based on his testimony and his listing of adjustments to the Staff study in DEJ REB Schedule 2, Mr. Johnstone accepts the Staff allocation method for Customer Deposits ($4,559,511 rate base reduction), Interest on Customer Deposits ($146,575), Customer Accounts and Collections Expense (Account 903 - $13,128,223), Demonstrating and Selling Expense (Account 912 - $1,026,962), and amortization of the Safety Line Replacement Program ($1,081,178).[44]

[43] Rebuttal Testimony of F. Jay Cummings, page 25, lines 1-13.

[44] Dollar amounts for these rate base elements and the subsequent expense components reflect test year amounts included in Exhibit FJC-8.

I address each of these items in my rebuttal testimony and explain why my allocation method reflects cost causation while the Staff method that Mr. Johnstone accepts does not.[45] For each of these cost of service components other than directly-assigned Demonstrating and Selling Expense (Account 912), the application of the Staff method accepted by Large Customer witness Donald Johnstone results in higher cost assignments to the LVS class compared to my allocation method.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

[45] Rebuttal Testimony of F. Jay Cummings, page 26, line 3 – page 28, line 8 and page 33, line 6 – page 36, line 2.

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.	))))	Case No. GR-2009-0355

AFFIDAVIT OF F. JAY CUMMINGS

STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

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 14th day of October 2009.

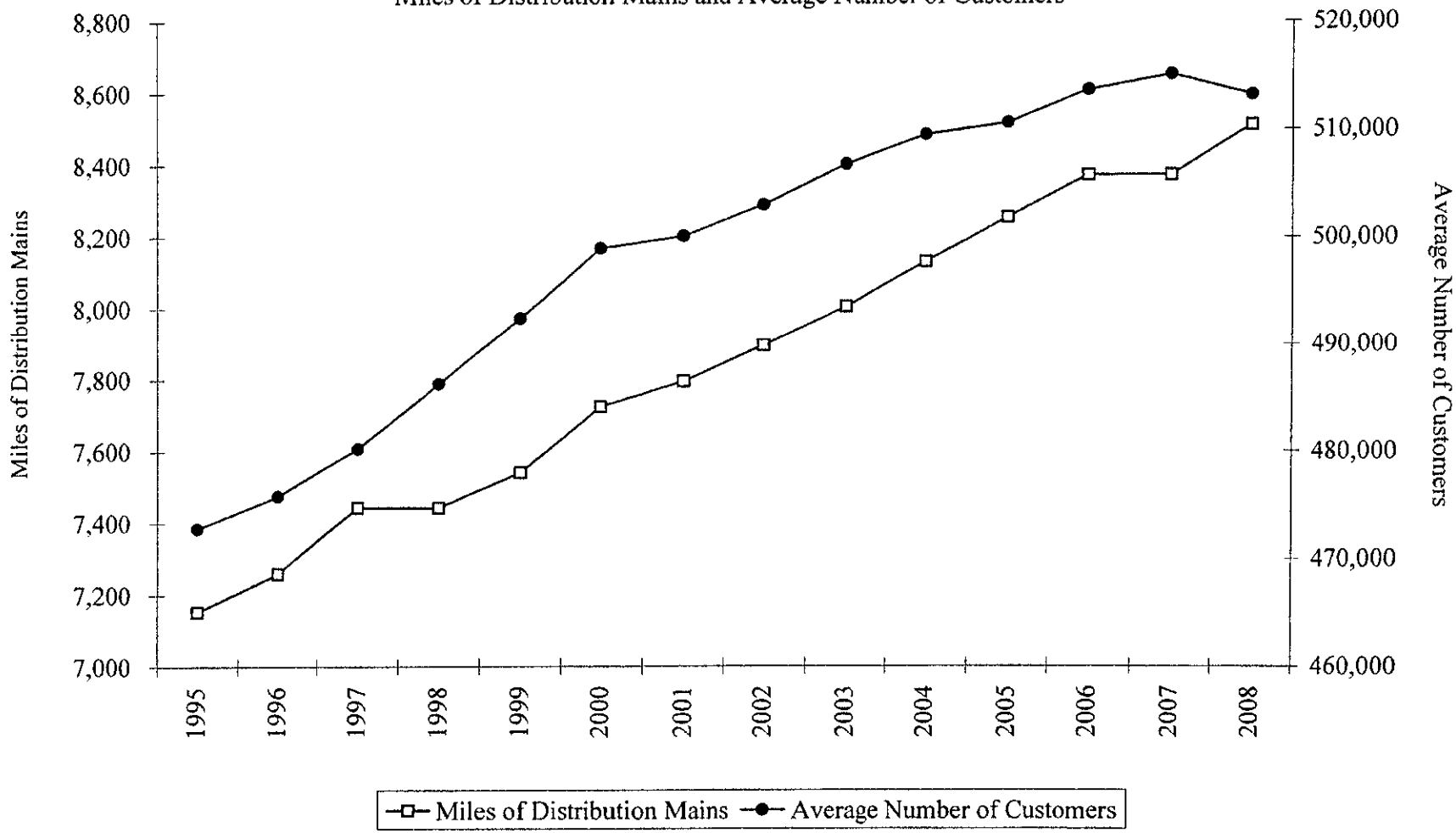
Notary Public

My Commission Expires: 7/29/2011

SUSAN R. LANDIS
Notary Public, State of Texas
My Commission Expires
JULY 29, 2011

Exhibit FJC-11

Missouri Gas Energy
Miles of Distribution Mains and Average Number of Customers



Sources: Miles of Mains - U.S. Department of Transportation Annual Reports; Average Number of Customers - Company Response to Office of Public Counsel Data Request No. 16.