

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Rate Allocation and Design

Drazen/Direct

Missouri Energy Group

GR-2001-629

## **Laclede Gas Company**

**FILED<sup>2</sup>**

OCT 16 2001

Missouri Public  
Service Commission

**Case No. GR-2001-629**

**Testimony of Mark Drazen**

**On Behalf of the Missouri Energy Group**

**DRAZEN**  
CONSULTING GROUP

Project No. 011251  
October, 2001

# Laclede Gas Company

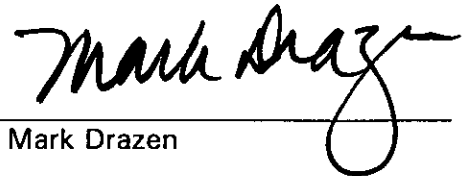
Case No. GR-2001-629

## Affidavit of Mark Drazen

STATE OF MISSOURI     )  
                                  )  
COUNTY OF ST. LOUIS    )

Mark Drazen, being of lawful age and duly affirmed, states the following:

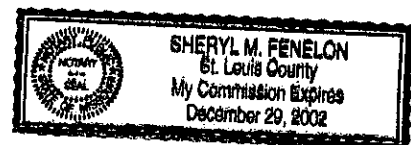
1. My name is Mark Drazen. I am a consultant in the field of public utility economics and regulation and a member of Drazen Consulting Group, Inc.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of Pages 1 through 3 and Appendix A filed on behalf of the Missouri Energy Group.
3. I have reviewed the attached direct testimony and schedules and hereby affirm that my testimony is true and correct to the best of my knowledge and belief.

  
Mark Drazen

Duly affirmed before me this 15th day of October, 2001.

  
Notary Public

My commission expires on December 29, 2002.



# **Laclede Gas Company**

**Case No. GR-2001-629**

## **Direct Testimony of Mark Drazen**

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

**A** Mark Drazen, 7730 Forsyth Boulevard, St. Louis, Missouri.

**Q WHAT IS YOUR OCCUPATION?**

**A** I am a consultant in the field of public utility economics and regulation and a member of Drazen Consulting Group, Inc.

**Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A** I have worked in this field since 1972 in project planning, negotiations and rate cases throughout the United States and Canada. Our firm has been in this field since 1937. I have degrees in mathematics and engineering from the Massachusetts Institute of Technology. Details are given in Appendix A.

**Q ON WHOSE BEHALF ARE YOU SUBMITTING THIS EVIDENCE?**

**A** I am appearing on behalf of the Missouri Energy Group, which comprises hospitals and manufacturers. These customers are transporters and purchasers on the Laclede Gas Company system, taking service primarily on the Large Volume Transportation and Sales Service (LVTSS) rate.

**Q WHAT IS THE SUBJECT OF THIS TESTIMONY?**

A It concerns cost allocation and rate design.

**Q WHAT HAS LACLEDE PROPOSED IN THIS CASE?**

A Laclede has proposed to increase the base (non-gas) rates for all classes by the same percentage. The increase requested in this case is \$39.8 million, which represents an increase of 18.7% over the existing base revenues of \$212.9 million.

**Q WHAT REASON DID LACLEDE GIVE FOR ASSUMING THAT ALL RATES SHOULD BE INCREASED BY THE SAME PERCENTAGE?**

A The Company said, in response to MEG Request No. 11, that this will "maintain the relative revenue responsibility of each rate class." This, however, says nothing about whether it is appropriate to do so.

**Q WHY IS IT INAPPROPRIATE TO INCREASE ALL CLASSES BY THE SAME PERCENTAGE?**

A Laclede's industrial rates, including the transportation rates, have been above cost for many years. Some movement toward cost was made in the previous two cases, in which rate design was the subject of negotiated settlements. Laclede filed no cost of service testimony in this case.

A second consideration is the factors contributing to the increase. Part of the increase results from Laclede's proposal to change the basis for weather normalization from a 30-year average to a 10-year average. Laclede's proposal assumes that a "normal" winter is much warmer than was previously assumed to

be the case. This adjustment reduces revenues from the temperature-sensitive classes by about \$7 million. Industrial (and transportation) customers are not considered to be weather sensitive. Laclede's system design—and, therefore, its costs—are determined by the need to provide enough capacity to serve load during very cold weather—i.e., on the basis of potential maximum demand. Laclede's "design day" demand is not affected by average weather, although the total therm sendout is.

Laclede's revenues from the General Service (GS) classes will vary with weather, because more than half of its fixed costs attributable to GS customers are recovered through commodity charges. The GS class accounts for 94% of Laclede's reserves. On the other hand, over three-quarters of its revenues from Rate LVTSS are recovered through fixed customer and demand charges:

<u>Component</u>	<u>Rate GS</u>		<u>Rate LVTSS</u>	
	<u>Amount (\$M)</u>	<u>Percent</u>	<u>Amount (\$M)</u>	<u>Percent</u>
Customer	\$ 92.95	46%	\$1.53	17%
Demand	—	—	5.59	61
Commodity	<u>107.35</u>	<u>54</u>	<u>2.00</u>	<u>22</u>
<b>Total</b>	<b>\$200.30</b>	<b>100%</b>	<b>\$9.12</b>	<b>100%</b>

**Q WHAT IS YOUR RECOMMENDATION?**

A Laclede's proposal to increase Rate LVTSS by the average percentage increased should be rejected. Based on a review of the cost of service information available from the previous case, Rate LVTSS should not be increased.

### **Experience of Mark Drazen**

Mr. Drazen has worked since 1972 on economic analysis of energy and utility service, pricing in regulated and deregulated utility markets, contract negotiations, and strategic planning throughout the United States and Canada. His experience covers electric, natural gas, oil pipeline, telecommunications, transportation, waste and water utilities in 39 states in the U.S. (Alabama, Alaska, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Missouri, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming) and in seven Canadian Provinces (Alberta, British Columbia, Newfoundland and Labrador, Nova Scotia, Ontario, Québec and Saskatchewan).

He has appeared as an expert witness before courts, federal, state, and provincial regulatory agencies (including the Federal Energy Regulatory Commission, the National Energy Board, the Federal Communications Commission and the Canadian Radio and Telecommunications Commission) in most of the above jurisdictions.

Drazen Consulting Group offers economic, strategic planning and regulatory consulting services to clients that include industrial utility users, municipalities, schools, hospitals, utilities and government agencies. The founding firm (Michael Drazen and Associates) was established in 1937.

The firm's work covers all aspects of utility regulation (and deregulation), including revenue requirements, cost of capital, costing/pricing, valuation, performance-based regulation and industry restructuring.

Mr. Drazen is a graduate of the Massachusetts Institute of Technology, with the degrees of Bachelor of Science in Mathematics, Master of Science in Electrical Engineering, and Electrical Engineer.