

Exhibit No.:
Issue: Cost of Service, Rate
Design
Witness: Daniel I. Beck
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2001-292
Date Testimony Prepared: April 26, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

DANIEL I. BECK

MISSOURI GAS ENERGY

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

Jefferson City, Missouri
April 2001

FILED
APR 26 2001
Missouri Public
Service Commission

TABLE OF CONTENTS

for

DIRECT TESTIMONY

of

DANIEL I. BECK

MISSOURI GAS ENERGY

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

COST OF SERVICE	1
RATE DESIGN	3

DIRECT TESTIMONY

OF

DANIEL I. BECK

MISSOURI GAS ENERGY

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

Q. Please state your name and business address.

A. My name is Daniel I. Beck and my business address is P. O. Box 360, Jefferson
City, Missouri 65102.

Q. Are you the same Daniel I. Beck who has previously filed testimony in this case?

A. Yes, I am.

Q. What is the nature of your testimony as it relates to the rate increase being
proposed by Missouri Gas Energy (MGE or Company) in Case No. GR-2001-292?

A. I will present testimony in regard to Cost-of-Service (C-O-S) and rate design.

Cost-of-Service

Q. Did you develop a C-O-S study in Case No. GR-2001-292?

A. Yes. I updated a C-O-S study filed by Staff in Case No. GR-98-140, which was
MGE's previous rate case.

Q. What is the purpose of a C-O-S study?

A. A C-O-S study indicates the revenue responsibilities of the various C-O-S classes
and the related customer charges.

Direct Testimony of
Daniel I. Beck

1 Q. What C-O-S classes are used in Staff's C-O-S study?

2 A. Staff's C-O-S study includes five (5) classes. These classes are: the Residential,
3 Small General Service, Large General Service, Large Volume, and Unmetered Gas Light
4 Classes.

5 Q. Please describe how Staff's C-O-S study in Case No. GR-98-140 was updated.

6 A. First, all costs were adjusted to reflect the values in Staff Accounting Schedules,
7 which were filed in this case on April 19, 2001. To make these adjustments to costs, several
8 hundred values were entered into Staff's C-O-S study. To my knowledge, the only costs that
9 did not change when compared the to previous study were several accounts with balances of
10 zero. Next, all customer numbers, sales, and peak demands were modified to reflect the
11 values provided by Staff. By updating customer numbers, sales, and peak demands, every
12 allocator was modified either directly or indirectly.

13 Q. Are all of the cost components based upon the current Accounting Schedules?

14 A. Yes. However, several values in Staff's Accounting Schedules are either
15 projected increases or estimated update adjustments for various groups of accounts.
16 Although I would not expect these adjustments to affect the overall results of the C-O-S
17 study, the actual values, when determined, could have a minor effect on the C-O-S results.
18 As these estimates are quantified, I would propose to update the C-O-S study to reflect these
19 changes. In addition, I developed class revenue estimates (current margin revenues) that
20 approximate the revenue contribution of the classes. These class revenue estimates are not as
21 precise in total as the Staff's Operating Revenues (Accounting Schedule 9).

22 Q. If Staff's Operating Revenues are more precise, why didn't you use those values?

1 A. My revenue estimates are based upon Staff's Operating Revenues but Staff's
2 Operating Revenues consist of nine (9) accounts that do not directly correspond to the five
3 (5) C-O-S classes that I previously mentioned. For example, Account 481.1, Commercial
4 and Industrial Revenues, includes revenues from three different C-O-S classes. Therefore, I
5 had to make an estimate to determine the appropriate amount of revenue for each class.

6 Q. Were there changes in customer numbers, sales, and peak demands?

7 A. Yes, but considering that there was a period of approximately two years between
8 these two cases, the changes are relatively small. However, all of these values, which are
9 used to develop allocators, were updated to reflect the test year ending December 31, 2000.

10 Q. Could you define an allocator?

11 A. An allocator is the set of numbers used to assign the Company's various cost
12 components to each C-O-S class. The analyst attempts to choose allocators that are related to
13 each of the various accounts. The results of Staff's C-O-S study are shown on Schedule 1.

14 **Rate Design**

15 Q. What do you propose regarding revenue shifts between classes?

16 A. After reviewing the results of Staff's C-O-S study, I conclude that most of the
17 classes are at or near their class revenue responsibility. However, one class, the Large
18 General Service Class, appears to be the only class that has a difference between revenues
19 and required margin revenues that is greater than 10%. (Staff's study also shows that the
20 unmetered gas light class is contributing significantly more than their class revenue
21 responsibility but this class is extremely small and very sensitive to the assignment of
22 allocators.) However, as I discussed earlier, the Large General Service Class was one of the

1 | classes with estimated current revenues. Until the estimated current revenues are verified, I
2 | would not recommend any change in revenues between classes. Therefore, I recommend that
3 | no revenues be shifted between classes. I should note, however, that Staff has incorporated
4 | several changes to miscellaneous tariffed rates such as connection fees that do result in small
5 | shifts between classes. Such changes are normally included in Staff's Accounting Schedule
6 | in this way.

7 | Q. What recommendations do you have regarding the customer charges?

8 | A. Staff's C-O-S study indicates that most classes currently have customer charges
9 | that are above the calculated customer charge, that is the current customer charge is higher
10 | than the study would indicate is needed. However, the current customer charge for the Small
11 | General Service (SGS) Class is below the study's indicated level, \$11.05 vs. \$11.70. If an
12 | increase in revenues for the SGS class is granted in this case, I recommend that the SGS
13 | Classes' customer charge be increased to \$11.70 before any other SGS rates are changed.

14 | Q. Is it correct that the Company proposed significantly different customer charges
15 | and rate structures?

16 | Q. Yes. However, MGE's proposals are based on a significantly different revenue
17 | requirement and a significant shift in rate design policy. Such a change in rate design policy
18 | has positive and negative consequences to individual customers, classes of customers,
19 | individual shareholders and to the Company. Staff will attempt to explain the consequences
20 | to the Company's rate design proposal in Staff's rebuttal testimony.

21 | Q. Did Staff use the same billing units as the Company?

22 | A. No. Both Staff and the Company developed normalized billing units that

Direct Testimony of
Daniel I. Beck

1 correspond to the Commission ordered test year. These billing units also reflect specific
2 adjustments made by the respective parties. There are significant differences between the
3 billing units of Staff and the Company at this time.

4 Q. If you assume that Residential revenues were increased by \$100,000 and that the
5 reduction was reflected in the Residential commodity rates, would Staff and the Company's
6 billing units result in the same commodity charges?

7 A. No. The differences in the various revenue adjustments will result in two
8 different rates even though the revenue increase is supposed to be the same (\$100,000 in this
9 example). I propose that all parties work toward developing a single set of billing units for
10 the test year so that any Commission ordered change in revenue can be implemented.

11 Q. Does this conclude your testimony?

12 A. Yes.

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-2001-292

AFFIDAVIT OF DANIEL I. BECK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Daniel I. Beck, is, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Direct 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.

Daniel I. Beck

DANIEL I. BECK

Subscribed and sworn to before me this 26th day of April 2001.

Joyce C. Neuner

Notary Public

Joyce C. Neuner
Notary Public, State of Missouri
County of Osage
My Commission Exp. 06/18/2001

My Commission Expires: _____

CLASS COST-OF-SERVICE SUMMARY

**MISSOURI GAS ENERGY
CASE NO. GR-2001-292
TEST YEAR ENDED DECEMBER 31, 2000**

	TOTAL	RESIDENTIAL	SMALL GENERAL SERVICE	LARGE GENERAL SERVICE	LARGE VOLUME	UNMETERED GAS LIGHTS
RATE BASE	\$486,933,326	\$339,617,564	\$94,490,236	\$8,472,745	\$44,350,703	\$2,078
REQUESTED RETURN	8.8200%	8.8200%	8.8200%	8.8200%	8.8200%	8.8200%
RETURN ON RATE BASE	\$42,947,519	\$29,954,269	\$8,334,039	\$747,296	\$3,911,732	\$183
O & M EXPENSES	\$59,926,439	\$43,513,928	\$10,779,310	\$851,968	\$4,780,906	\$328
DEPRECIATION EXPENSE	\$19,608,427	\$14,116,991	\$3,693,985	\$299,308	\$1,498,076	\$66
TAXES OTHER THAN INCOME	\$8,872,646	\$6,328,655	\$1,669,703	\$142,616	\$731,634	\$38
INCOME TAXES	\$9,022,489	\$6,292,845	\$1,750,829	\$156,993	\$821,783	\$39
TOTAL EXPENSES	\$97,430,001	\$70,252,419	\$17,893,827	\$1,450,885	\$7,832,400	\$471
TOTAL C-O-S	\$140,377,520	\$100,206,688	\$26,227,866	\$2,198,181	\$11,744,132	\$654
OTHER REVENUES	\$4,915,410	\$4,344,225	\$460,591	\$17,436	\$93,153	\$5
REQUIRED MARGIN REVENUE	\$135,462,110	\$95,862,463	\$25,767,274	\$2,180,745	\$11,650,979	\$649
CURRENT MARGIN REVENUES	\$137,311,419	\$94,228,285	\$28,515,452	\$2,992,701	\$11,574,081	\$900
ZERO REVENUE INCREASE PLUG	(\$1,849,309)	(\$1,308,700)	(\$351,771)	(\$29,771)	(\$159,057)	(\$9)
C-O-S MARGIN REVENUES @ 0%	\$137,311,419	\$97,171,163	\$26,119,045	\$2,210,517	\$11,810,037	\$658
REVENUE ABOVE (BELOW) COS	(\$0)	(\$2,942,878)	\$2,396,407	\$782,184	(\$235,956)	\$242
% INCREASE WITHOUT GAS COSTS	0.00%	3.12%	-8.40%	-26.14%	2.04%	-26.94%
CLASS' SHARE OF TOTAL MARGIN REVENUES	100.00%	70.77%	19.02%	1.61%	8.60%	0.00%