

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
MICHIGAN GAS UTILITIES CORPORATION)
for authority to increase retail natural gas rates.)
_____)

Case No. U-15990

DIRECT TESTIMONY OF

DAVID J. TYLER

FOR

MICHIGAN GAS UTILITIES CORPORATION

July 1, 2009

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)
MICHIGAN GAS UTILITIES CORPORATION)
for authority to increase retail natural gas rates.)
_____)

Case No. U-15990

**QUALIFICATIONS
OF
DAVID J. TYLER
PART I**

1 **Q. Please state your name, business address and position.**

2 A. My name is David J. Tyler. My business address is 899 S. Telegraph, Monroe,
3 Michigan 48161. I am Manager, Regulatory Services for Michigan Gas Utilities
4 Corporation ("MGUC"). MGUC is a wholly-owned subsidiary of Integrys Energy
5 Group, Inc. ("Integrys"). Integrys resulted from the February 21, 2007 merger
6 between WPS Resources Corporation and Peoples Energy Corporation.

7

8 **Q. For whom are you providing testimony?**

9 A. I am providing testimony on behalf of MGUC.

10

11 **Q. Briefly describe your educational, professional, and utility background.**

12 A. I graduated from Wayne State University in 1976 with a Bachelor of Science Degree
13 in Business Administration, majoring in Accounting.

14

15 From 1976 to 1987, I was employed by ANR Pipeline Company progressing through
16 positions of increasing responsibility and authority in the following departments:

17 Special Projects, General Accounting, General Ledger Operations, Gas Accounting,

1 and finally, Supervisor - Gas Accounting and Control with responsibility for the
2 monthly invoicing of all the pipeline sales customers.

3

4 In October 1987, I accepted a position with MGUC's predecessor, Aquila Inc., d/b/a
5 Aquila Networks – MGU (“MGU/Aquila”) as a Tariff and Contract Administrator where
6 I was responsible for monitoring and controlling purchase contracts related to system
7 supplies and end-user transportation. In November 1989, I was promoted to Federal
8 Regulatory Analyst responsible for monitoring and analyzing activities at the Federal
9 Energy Regulatory Commission (“FERC”) to determine their impact upon MGUC, as
10 well as developing and recommending the positions that MGUC would take in
11 various proceedings. In July 1990, I was promoted to the position of Manger –
12 Federal Regulatory Affairs.

13

14 In August 1994, I accepted a position with SEMCO Energy Gas Company
15 (“SEMCO”) as Manager, Federal Regulatory Affairs.

16

17 In June 2001, I returned to MGU/Aquila, in my current position for MGUC, as
18 Manager, Regulatory Services for the state of Michigan. In this position, I am
19 responsible for regulatory activities within the state, including: (1) insuring
20 compliance with all Michigan Public Service Commission (“MPSC” or “Commission”)
21 orders; (2) acting as a liaison with the MPSC Staff and interveners; and (3) providing
22 support to business unit leaders throughout the organization. In addition to these
23 duties, I am responsible for preparing analyses related to MGUC's Gas Cost
24 Recovery (“GCR”) factors, the monthly 45-Day Report, as well as GCR plan and
25 reconciliation case filings.

26

1 In September of 2007, I attended the Institute of Public Utilities' Advanced
2 Regulatory Studies Program conducted at Michigan State University.

3

4 **Q. Have you previously testified before any regulatory agency?**

5 A. Yes, I have. I have testified before the MPSC in numerous MGUC/Aquila and
6 SEMCO GCR plan and reconciliation proceedings; take-or-pay proceedings involving
7 FERC Order Nos. 500 & 528; SEMCO's 1996 general rate case proceeding (Case
8 No. U-11220); and I submitted testimony in MGUC/Aquila's 2002 general rate case
9 proceeding (Case No. U-13470), as well as in MGUC's most recent general rate
10 case proceeding (Case No. U-15549). I have also testified before the FERC on
11 behalf of SEMCO in ANR Pipeline's 1994 general rate case proceeding, Docket No.
12 RP94-043.

**DAVID J. TYLER
DIRECT TESTIMONY
PART II**

1 **Q. What is the purpose of your pre-filed direct testimony in this proceeding?**

2 A. The purpose of my pre-filed direct testimony is to support the development and
3 presentation of MGUC's rate design, and the proposed tariff sheet changes.

4
5 **Q. Are you sponsoring any exhibits in this proceeding?**

6 A. Yes, I am. I am sponsoring the following exhibits:

- 7 1. Exhibit A-6 (DJT-1), Schedule F2.1,
8
9 2. Exhibit A-6 (DJT-1), Schedule F2.2,
10
11 3. Exhibit A-6 (DJT-1), Schedule F3.1,
12
13 4. Exhibit A-6 (DJT-1), Schedule F3.2,
14
15 5. Exhibit A-6 (DJT-1), Schedule F4,
16
17 6. Exhibit A-6 (DJT-1), Schedule F5, and
18
19 7. Exhibit A-6 (DJT-1), Schedule F6.
20

21 **Q. Were these exhibits prepared by you or under your direction and supervision?**

22 A. Yes, they were.

23

24 **Q. Please describe Exhibit A-6 (DJT-1), Schedule F2.1.**

25 A. Exhibit A-6 (DJT-1), Schedule F2.1 is a one page summary showing for each rate
26 schedule the:

- 27 1. Revenues on Present Rates, including the cost of gas,
28 2. Revenues on Proposed Rates, including the cost of gas,
29 3. The proposed rate increase in dollars, including the cost of gas, and
30 4. The proposed rate increase in percent, including the cost of gas.

31

1 **Q. Please describe Exhibit A-6 (DJT-1), Schedule F2.2.**

2 A. Exhibit A-6 (DJT-1), Schedule F2.2 is a one page summary showing for each rate
3 schedule the:

- 4 1. Revenues on Present Rates, excluding the cost of gas,
- 5 2. Revenues on Proposed Rates, excluding the cost of gas,
- 6 3. The proposed rate increase in dollars, excluding the cost of gas, and
- 7 4. The proposed rate increase in percent, excluding the cost of gas.

8

9 **Q. Please describe Exhibit A-6 (DJT-1), Schedule F3.1.**

10 A. Exhibit A-6 (DJT-1), Schedule F3.1 shows a detailed computation, by billing
11 determinant, and for each rate schedule the:

- 12 1. Revenues on Present Rates, including the cost of gas,
- 13 2. Revenues on Proposed Rates, including the cost of gas,
- 14 3. The proposed rate increase in dollars, including the cost of gas, and
- 15 4. The proposed rate increase in percent, including the cost of gas.

16

17 **Q. Please describe Exhibit A-6 (DJT-1), Schedule F3.2.**

18 A. Exhibit A-6 (DJT-1), Schedule F3.2 shows a detailed computation, by billing
19 determinant, and for each rate schedule the:

- 20 1. Revenues on Present Rates, excluding the cost of gas,
- 21 2. Revenues on Proposed Rates, excluding the cost of gas,
- 22 3. The proposed rate increase in dollars, excluding the cost of gas, and
- 23 4. The proposed rate increase in percent, excluding the cost of gas.

24

25 **Q. Please describe Exhibit A-6 (DJT-1), Schedule F4.**

26 A. Exhibit A-6 (DJT-1), Schedule F4 is a comparison of typical monthly bills under
27 present and proposed rates for each rate class.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. Please describe Exhibit A-6 (DJT-1), Schedule F5.

A. Exhibit A-6 (DJT-1), Schedule F5 are proposed revised tariff sheets in redline format.

Q. Please describe Exhibit A-6 (DJT-1), Schedule F6.

A. Exhibit A-6 (DJT-1), Schedule F6 is the calculation of the proposed interim rate surcharges.

The Development and Presentation of the Proposed Rate Design

Q. What factors did MGUC consider when developing its proposed rate design?

A. The following factors were considered when developing the proposed rate design:

1. The Cost of Service Study completed by Ms. Joylyn C. Hoffman Malueg, specifically Exhibit A-6 (JCHM-1), Schedule F1.4,
2. The movement of customer rates toward the actual cost of service,
3. The minimization of cross-subsidizations between rate schedules, and
4. The avoidance of large bill impacts or “rate shock”.

Q. Please explain how the cost of service study influenced the proposed rate design.

A. Consistent with cost causation ratemaking principles, MGUC is proposing to move its distribution rates toward the actual cost of providing distribution service to the various customer classes, as calculated by the Cost of Service Study completed by Ms. Joylyn C. Hoffman Malueg and shown in her Exhibit A-6 (JCHM-1), Schedule F1.4. To that end, MGUC is proposing adjustments in the monthly customer charges to better match the monthly fixed costs incurred by MGUC in providing distribution services to these rate schedules.

1 **Q. Please explain how the cost similarities and differences inherent to providing**
2 **distribution services to system sales customers and transportation customers**
3 **influenced the proposed rate design.**

4 A. MGUC'S rate design is based upon the following conclusions from the Cost of
5 Service Study:

- 6 1. The only significant fixed cost difference between providing distribution
7 services to a Transportation customer as compared to providing
8 distribution services to a system sales customer with the same load
9 characteristics is the cost associated with administering the more
10 complicated transportation accounts.
- 11 2. The only significant variable or "per Mcf " cost difference between
12 providing distribution services to a system sales customer as compared
13 to providing distribution services to a transportation customer with the
14 same load characteristics is the cost associated with administering the
15 gas supply and procurement functions.
16
17

18 These assumptions are reflected in the grouping of rate schedules in Ms. Joylyn C.
19 Hoffman Malueg's Exhibit A-6 (JCHM-1), Schedule F1.4.

20
21 **Q. Are the assumptions listed above reasonable?**

22 A. Yes they are, because they lead to a reasonable match between cost causation and
23 cost recovery.

24
25 **Monthly Customer Charge**

26 **Q. Please describe the Monthly Customer Charge.**

27 A. The Monthly Customer Charge is designed to recover a portion of the fixed costs of
28 transporting gas across the MGUC distribution system, regardless of whether the
29 gas commodity is being purchased from MGUC or a third party. Based on this
30 concept and the assumptions listed above, all similarly sized customers, whether
31 they are system sales customers or transportation customers, have equal Monthly
32 Customer Charges in the proposed rate design.

33

1 **Q. Is it reasonable for similarly sized system sales customers to have the same**
2 **Monthly Customer Charge as transportation customers?**

3 A. Yes, it is. Due to the robust nature of MGUC's distribution system, the likelihood of
4 interruption due to a distribution system constraint is small. Therefore, it is
5 reasonable for all similarly sized customers to pay the same Monthly Customer
6 Charge. Included in the Monthly Customer Charge, transportation customers will
7 pay an enhanced administrative fee. This fee recovers the costs associated with
8 administering the more complicated transportation accounts. To mitigate rate shock
9 and to provide for gradualism of rate changes, a \$10.00 per month enhanced
10 administrative fee for Aggregated Customers, even though cost of service suggests
11 a larger value could be justified based on cost.

12

13 **Distribution Rates**

14 **Q. Please describe the proposed distribution rates.**

15 A. The traditional distribution margin rate can be separated into two components:

- 16 1. A distribution service volumetric fee, and
17 2. A gas supply acquisition fee.
18

19 **Q. Please describe the distribution service volumetric fee component in the**
20 **distribution rates.**

21 A. The distribution service volumetric fee component recovers any remaining fixed
22 costs that are not recovered through the customer charge, as well as the variable
23 costs of transporting gas across MGUC's distribution system, regardless if the gas
24 commodity is purchased from MGUC, taken from MGUC's storage, or purchased
25 from a third party. Also included in the volumetric fee is a storage component which
26 recovers the costs of MGUC's on-system storage facilities. This storage component
27 is shown as a separate item in the Cost of Service Study, but was included in the
28 rate design as a part of the distribution service volumetric fee. In the rate design

1 proposed here, all similarly sized customers, whether they are system sales
2 customers or transportation customers, have equal distribution volumetric fees, as
3 shown on Exhibit A-6 (DJT-1), Schedules F2.1, F2.2, F3.1 and F3.2.

4

5 **Q. Is it reasonable for similarly sized system sales customers to pay the same**
6 **distribution service volumetric fee component as transportation customers?**

7 A. Yes, it is. Due to the robust nature of MGUC's distribution system, the likelihood of
8 interruption due to distribution system constraints is small. Therefore, it is
9 reasonable for all similarly sized customers to pay the same distribution service
10 volumetric fee component.

11

12 **Q. Please describe the Gas Supply Acquisition component of the distribution**
13 **rates.**

14 A. The Gas Supply Acquisition component is designed to recover the costs associated
15 with administering MGUC's gas merchant function. Transportation customers should
16 not be assessed a Gas Supply Acquisition component because they secure this
17 service from their own gas supplier, and not MGUC.

18

19 MGUC has calculated that the costs associated with administering the gas merchant
20 function to be equal to \$1,169,618, as shown on Ms. Joylyn C. Hoffman Malueg's
21 Exhibit A-6 (JCHM-1), Schedule F1.4.

22

23 Specifically, the gas merchant function costs primarily include the costs associated
24 with the MGUC's cost allocation of the Gas Supply Department, along with taxes and
25 Administrative and General loadings. This equates to a charge of approximately
26 \$0.06 per Mcf for system sales customers.

27

1 **Q. Is it reasonable for system sales customers to pay a Gas Supply Acquisition**
2 **component, while transportation customers do not?**

3 A. Yes, it is. Because system sales customers are directly benefiting from MGUC's gas
4 merchant function, it is reasonable for these customers to pay a Gas Supply
5 Acquisition component.

6

7 While MGUC'S currently approved gas rate design does not include a distinct Gas
8 Supply Acquisition component, MGUC proposes to include a Gas Supply Acquisition
9 component in its rates for system sales customers.

10

11 **Movement of the Monthly Customer Charge Toward Cost of Service**
12 **Q. What is MGUC's proposed Monthly Customer Charge for Residential service?**

13 A. MGUC's current Monthly Customer Charge is \$10.00. The Cost of Service Study
14 prepared by Ms. Joylyn C. Hoffman Malueg, specifically Exhibit A-6 (JCHM-1),
15 Schedule F1.4 however, supports a \$21.33 Monthly Customer Charge. In an effort to
16 moderate the amount of the increase, MGUC is proposing that the Monthly Customer
17 Charge for Residential customers only be increased to \$12.50. Although this
18 represents a 25% increase over the current rate, it is still well below the \$21.33 rate
19 justified in the Cost of Service Study.

20

21 **Q. Why is MGUC proposing an increase to the Residential Monthly Customer**
22 **Charge?**

23 A. MGUC is proposing to move the Monthly Customer Charge closer to the rate
24 recommended by its Cost of Service Study. MGUC believes that if a Monthly
25 Customer Charge is an appropriate method for recovering costs from customers,
26 then the transition of the rate toward cost of service must move forward in order to
27 eliminate the subsidization of low load factor customers by high load factor
28 customers. MGUC realizes that there will be some customers who will be negatively

1 impacted by this change, but other customers are being negatively impacted by the
2 current rate levels. MGUC must balance the needs of all of its customers, some of
3 whom will benefit from the change. MGUC believes that its proposed rates are an
4 appropriate compromise between the two groups of customers during the transition
5 of the Monthly Customer Charge rates toward the actual cost of service.
6

7 **Q. Is MGUC proposing decoupling plans in the instant rate case proceeding?**

8 A. Yes, as described in the pre-filed direct testimony of Ms. Valerie H. Grace, MGUC is
9 providing two proposals for decoupling in the instant proceeding. Proposed tariff
10 sheets relating to Ms. Grace's Straight Fixed Variable ("SFV") rate design decoupling
11 proposal can be found in Exhibit A-6 (DJT-1), Schedule F5, pages 11-13.
12

13 **Cross-Subsidization Between Rate Schedules**

14 **Q. Please explain how MGUC's attempt to reduce the amount of cross-**
15 **subsidization between the various rate schedules has influenced the rate**
16 **design MGUC has proposed.**

17 A. Schedule F1.2 of Exhibit A-6 (JCHM-1), MGUC's Cost of Service Study completed
18 by Ms. Joylyn C. Hoffman Malueg, indicates that the Residential and Multiple-Family
19 Class I, Customer CHOICE – Residential, Aggregated – Residential and Aggregated
20 – Small GS rate schedules are being heavily subsidized by the other rate schedules.
21 With the proposed rate design, MGUC has attempted to reduce the amount of
22 cross-subsidization between the rate schedules by increasing the amount of revenue
23 collected from the Residential and Multiple-Family Class I, Customer CHOICE –
24 Residential, Aggregated – Residential and Aggregated – Small GS rate schedules.
25 Although MGUC's rate design does not eliminate all cross-subsidization between
26 rate schedules, it provides appropriate movement toward that goal while considering
27 rate shock and other factors.
28

1 **Proposed Tariff Sheet Changes**

2 **Q. Please explain Exhibit A-6 (DJT-1), Schedule No. F5.**

3 A. Exhibit A-6 (DJT-1), Schedule F5, page 1 summarizes the changes being proposed
4 for MGUC's natural gas tariff. Pages 2 – 10 are redlined versions of the proposed
5 tariff sheets.

6

7 **Q. What revisions is MGUC proposing on Tariff Sheet No. C-9.00?**

8 A. A simple typographical error is corrected, as shown in redline.

9

10 **Q. What revisions is MGUC proposing on Tariff Sheet No. D-1.00?**

11 A. This tariff sheet details the interim rate surcharges applicable to each of MGUC's
12 various rate schedules. The surcharge rates represent an equal percentage
13 increase of margin revenues on present rates for each rate schedule, as calculated
14 on Exhibit A-6 (DJT-1), Schedule F6.

15

16 **Q. What revisions is MGUC proposing on Tariff Sheet No. D-6.00?**

17 A. On Exhibit A-1 (DJT-1), Schedule F5, page 4, the Customer, Distribution and Gas
18 Supply Acquisition Charges have been updated consistent with MGUC's proposed
19 rate design. The new rates are \$12.50 per month, and \$1.7095 per Mcf,
20 respectively. This proposed tariff sheet assumes Ms. Grace's SFV decoupling plan
21 is not authorized by the Commission.

22

23 On Exhibit A-1 (DJT-1), Schedule F5, page 11, the Service Charge has been
24 included consistent with Ms. Grace's SFV decoupling plan. This proposed tariff
25 sheet assumes Ms. Grace's SFV decoupling plan is authorized by the Commission.

26

27

28

1 **Q. What revisions is MGUC proposing on Tariff Sheet No. D-8.00?**

2 A. The Customer, Distribution and Gas Supply Acquisition Charges have been updated
3 consistent with MGUC's proposed rate design. The new Customer Charge rates are
4 \$12.50 per month, \$35.00 per month, \$90.00 per month, and \$145.00 per month.
5 The Distribution and Gas Supply Acquisition Charges for each meter class are
6 \$1.2620 per Mcf, \$1.2610 per Mcf, \$1.1610 per Mcf and \$1.1610 per Mcf,
7 respectively.

8

9 **Q. What revisions is MGUC proposing on Tariff Sheet No. D-11.00?**

10 A. The Customer, Distribution and Gas Supply Acquisition Charges have been updated
11 consistent with MGUC's proposed rate design. The new rates are \$35.00 per month,
12 and \$1.2610 per Mcf, respectively.

13

14 **Q. What revisions is MGUC proposing on Tariff Sheet No. D-13.00?**

15 A. The Customer, Distribution and Gas Supply Acquisition Charges have been updated
16 consistent with MGUC's proposed rate design. The new rates are \$400.00 per
17 month, and \$1.1610 per Mcf, respectively.

18

19 **Q. What revisions is MGUC proposing on Tariff Sheet No. D-15.00?**

20 A. The Distribution and Gas Supply Acquisition Charge has been updated consistent
21 with MGUC's proposed rate design. The new rates are \$1.7095 per Mcf, and
22 \$1.2610 per Mcf, respectively.

23

24 **Q. What revisions is MGUC proposing on Tariff Sheet No. E-13.00?**

25 A. On Exhibit A-1 (DJT-1), Schedule F5, page 9, MGUC is proposing to assess a
26 monthly enhanced administration fee of \$10.00 for each account served under the
27 Aggregation of Accounts Option offered to Transportation customers. This fee will

1 recover the cost associated with administering the more complicated transportation
2 accounts, which include those served under the Aggregation option.

3

4 Charges for Transportation customers have been updated consistent with MGUC's
5 proposed rate design, as shown below:

	<u>TR-1</u>	<u>TR-2</u>	<u>TR-3</u>
6 Customer Charge	\$733.00	\$2,233.00	\$3,083.00
7			
8			
9 <u>Transportation Rates:</u>			
10 Peak (Nov – Mar)	\$0.7800 per Mcf	\$0.4800 per Mcf	\$0.4600 per Mcf
11 Off-Peak (Apr – Oct)	\$0.6300 per Mcf	\$0.3300 per Mcf	\$0.3100 per Mcf
12			

13 This proposed tariff sheet assumes Ms. Grace's SFV decoupling plan is not
14 authorized by the Commission.

15

16 On Exhibit A-1 (DJT-1), Schedule F5, page 12, the Service Charge has been
17 included under the Aggregation of Accounts Option consistent with Ms. Grace's SFV
18 decoupling plan. This proposed tariff sheet assumes Ms. Grace's SFV decoupling
19 plan is authorized by the Commission.

20

21 **Q. What revisions is MGUC proposing on Tariff Sheet No. E-14.00?**

22 A. MGU is proposing to update its Gas-In-Kind retention percentage. MGUC has
23 updated its throughput, Company Use, and Gas Lost and Unaccounted For figures
24 to reflect the last five year's activity. The percentage has increased to 0.53%.

25

26 **Q. What revisions is MGUC proposing on Tariff Sheet No. F-12.00?**

27 A. On Exhibit A-1 (DJT-1), Schedule F5, page 13, the Service Charge has been
28 included for the Gas Customer Choice rate consistent with Ms. Grace's SFV
29 decoupling plan. This proposed tariff sheet assumes Ms. Grace's SFV decoupling
30 plan is authorized by the Commission.

1

2 **Interim Rates**

3 **Q. Please provide an overview of the proposed interim rate design.**

4 A. As authorized by MCL 460.6a(1), MGUC intends to self-implement interim rates for
5 service rendered on and after January 1, 2010. The interim increase is \$8,444,435.
6 The proposed rate design is set forth in Schedule F6 of Exhibit A-6 (DJT-1). A
7 proposed tariff sheet is included in Schedule F5 of Exhibit A-6 (DJT-1).

8

9 **Q. How did MGUC allocate the rate increase amongst the rate schedules?**

10 A. MGUC's interim rate increase was calculated in accordance with MCL 460.6a(1),
11 which requires an equal percentage increase across all rate schedules, based on
12 margin revenues. Furthermore, neither the MGUC COSS nor the structural rate
13 design changes proposed for final rates were considered in the development and
14 creation of the proposed interim rate levels.

15

16 **Q. Does this complete your pre-filed direct testimony?**

17 A. Yes, it does.