

Exhibit No.: 509
Issues: Economic Development Rider
CHP Pilot Program
Witness: Jane Epperson
Sponsoring Party: Missouri Department of Economic
Development – Division of Energy
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Case Nos.: GR-2017-0215; GR-2017-0216

MISSOURI PUBLIC SERVICE COMMISSION

SPIRE MISSOURI INC.

**CASE NO. GR-2017-0215
and
CASE NO. GR-2017-0216**

SURREBUTTAL TESTIMONY

OF

JANE EPPERSON

ON

BEHALF OF

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DIVISION OF ENERGY

Jefferson City, Missouri
November 21, 2017

DE Exhibit No. 509
Date 12-7-17 Reporter BT
File No. GR-2017-0216
GR-2017-0215

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


In the Matter of Laclede Gas Company's)	<u>File No. GR-2017-0215</u>
Request to Increase Its Revenue for Gas Service)	Tariff No. YG-2017-0195
In the Matter of Laclede Gas Company d/b/a)	
Missouri Gas Energy's Request to Increase Its)	<u>File No. GR-2017-0216</u>
Revenues for Gas Service)	Tariff No. YG-2017-0196

AFFIDAVIT OF JANE EPPERSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Jane Epperson, of lawful age, being duly sworn on her oath, deposes and states:

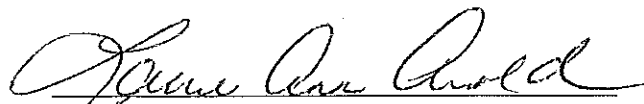
1. My name is Jane Epperson. I work in the City of Jefferson, Missouri, and I am employed by the Missouri Department of Economic Development as the Senior Energy Policy Analyst, Division of Energy.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of the Missouri Department of Economic Development – Division of Energy.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge.



Jane Epperson

Subscribed and sworn to before me this 21th day of November, 2017.

LAURIE ANN ARNOLD
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: April 26, 2020
Commission Number: 16808714



Notary Public

My commission expires: 4/26/20

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Jane Epperson. My business address is 301 West High Street, Suite 720, PO
4 Box 1766, Jefferson City, Missouri 65102.

5 **Q. By whom and in what capacity are you employed?**

6 A. I am employed by the Missouri Department of Economic Development – Division of
7 Energy (“DE”) as a senior Energy Policy Analyst.

8 **Q. Have you previously filed testimony before the Missouri Public Service Commission
9 (“Commission”) in this case?**

10 A. Yes. I filed direct testimony (revenue requirement) and rebuttal testimony (rate design),
11 regarding the proposed Economic Development Rider (“EDR”), Special Contracts Rider
12 (“SCR”) and my proposed combined heat and power (“CHP”) for critical infrastructure
13 Pilot Program (“Pilot Program”).

14 **II. PURPOSE AND SUMMARY OF TESTIMONY**

15 **Q. What is the purpose of your Surrebuttal Rate Design Testimony?**

16 A. The purpose of this Surrebuttal Testimony is to provide responses to the testimonies of the
17 Commission Staff (“Staff”) and the Office of the Public Counsel (“OPC”) regarding the
18 proposed CHP Pilot Program, as well as, the Rebuttal Testimonies of Staff and OPC
19 regarding the EDR and SCR tariffs.

1 **III. RESPONSE TO STAFF AND OPC REGARDING POTENTIAL CHP PILOT**
2 **PROGRAM**

3 **Q. Please respond to Staff witness Ms. Claire M. Eubanks's concern for the potential of**
4 **a CHP Pilot Program to impact the sales and revenues of electric utilities that are**
5 **not intervenors in this case.**

6 **A. My Direct Testimony proposes that the Commission authorize Spire to initiate a Pilot**
7 **Program to assist institutional or business customers with deploying CHP to serve critical**
8 **loads. That same testimony recommends guidelines to support and enable Spire to work**
9 **cooperatively to co-deliver a CHP Pilot Program. If and when a CHP Pilot Program that**
10 **can be co-delivered with an electric utility is developed and presented to the Commission**
11 **for approval, all interested parties will have opportunity to intervene.**

12 **Q. Please respond to Ms. Eubanks's concern that allowing Spire to recover costs**
13 **associated with contributing to a CHP Pilot Program project's installed cost may be**
14 **a potential prohibited promotional practice.**

15 **A. CHP improves the efficiency of energy used by customers, a situation which is**
16 **conceptually recognized as an exception to the promotional practices rules; 4 CSR 240-**
17 **14.010(5) states that, "Nothing contained in this chapter shall be construed to prohibit the**
18 **provision of consideration that may be necessary to acquire cost-effective demand-side**
19 **resources." In fact, the promotional practices rules also allow for Pilot Programs that are**
20 **designed to evaluate the cost-effectiveness of potential demand-side resources (4 CSR 240-**
21 **14.010(4)). Both Union Electric Company d/b/a Ameren Missouri and Kansas City Power**
22 **& Light Company already allow CHP as a custom program under the Missouri Energy**

1 Efficiency Investment Act (“MEEIA”). The objective of co-delivering a CHP Pilot
2 Program is not unrealistic, and in fact is a natural next step to identifying workable
3 solutions for implementing CHP for critical infrastructure applications within Missouri.
4 No sufficient justification was provided for the suggestion of limiting the proposed CHP
5 Pilot Program to renewable energy sources or the preclusion of a possible financing option
6 for the customer.

7 **Q. OPC witness Mr. John A. Robinett also raised a concern about potentially violating**
8 **the Commission’s promotional practices requirements. Is your response to his**
9 **concern similar your response to Ms. Eubanks’s concern?**

10 A. Yes.

11 **Q. Please respond to Ms. Eubanks’s concern that the utilization of the Societal Cost Test,**
12 **within the context of a CHP project co-delivered with an electric utility participating**
13 **in MEEIA, is a violation of the MEEIA requirements.**

14 A. As Ms. Eubanks notes, the Total Resource Cost (“TRC”) Test is cited in MEEIA as a
15 **primary** cost effectiveness test that applies to electric utilities. MEEIA does not cite the
16 TRC Test is the **only** test to be used, nor does it specifically preclude the use of other cost
17 effectiveness tests. Project qualification and the level of compensation would need to
18 comply with the specific custom program parameters under MEEIA. This does not
19 preclude determining any incentive given under the gas pilot project being based on the
20 SCT, as are other efficiency incentives within Spire tariffs.

1 **Q. Mr. Robinett claims that the CHP Pilot Program is not cost-effective. Please**
2 **respond.**

3 **A.** Mr. Robinett provides no evidence that the Pilot Program would not be cost-effective. He
4 fails to acknowledge that my Direct Testimony proposes that specific CHP projects would
5 be submitted to the Commission for its approval, allowing all parties to evaluate the cost-
6 effectiveness of the projects on a case-by-case basis.

7 **Q. Mr. Robinett cites the 23 CHP installations noted in your Direct Testimony as**
8 **evidence that a CHP Pilot Program is unnecessary. Do you agree?**

9 **A.** No. Compared to the overall potential for CHP installations in Missouri, 23 facilities is a
10 small number. The CHP Pilot Program would not only help Missouri meet this potential,
11 but address other important issues related to critical infrastructure and CHP:

- 12 • Reducing reliance on emergency response resources as a result of increased
13 resiliency;
- 14 • Studying improved resiliency associated with the use of natural gas, a fuel less
15 susceptible to supply disruptions than above-ground electric utility systems;
- 16 • Evaluating improved power quality for the facility and the local grid as a result of
17 reduced voltage and frequency fluctuations;
- 18 • Gaining experience with facilities taking service under standby service tariffs;
- 19 • Implementing best practices for the interconnection of CHP and microgrids to
20 utility grids;
- 21 • Developing a replicable process for the co-delivery of CHP implementation by
22 natural gas and electric utilities; and,

- Incorporating on-bill financing options for CHP.

Mr. Robinett's testimony gave no recognition to these potential benefits.

1
2
3 **Q. OPC attempts to tie the consideration of your proposed CHP Pilot Program to the**
4 **need for weatherization funding, stating that weatherization, "... does produce**
5 **financial and societal benefits to all ratepayers through reduced arrearages"**
6 **(emphasis in original). Is this a reasonable argument?**

7 **A.** No. As noted above, there are benefits to all customers from the implementation of CHP
8 projects for critical infrastructure and the resiliency it provides. All customers benefit from
9 continued access to emergency services, continued and improved operations of essential
10 facilities (which benefits both the facilities and the customers served by those facilities),
11 cost savings by facilities such as hospitals, and improved air quality as a result of more
12 efficient operations. The more efficient use of natural gas through CHP systems also
13 reduces Missouri's dependence on imported fuel sources on an energy-equivalent basis.

14 **Q. OPC states that it supports the use of federal funding for CHP, "... on a limited basis**
15 **in disaster-prone coastal areas" Please respond.**

16 **A.** Missouri is also susceptible to significant natural disasters, such as the tornadoes in Joplin
17 and St. Louis in recent years, ice storms, thunderstorms, high winds, and floods. Even if
18 Missouri is a landlocked state, these other potential disasters can significantly impact
19 Missourians and warrant preparation.

1 **IV. RESPONSE TO OPC REGARDING EDR/SCR CONTENT**

2 **Q. Please respond to OPC witness Dr. Geoff Marke's suggestion to include language**
3 **that ties the discounted rates to a minimum level of capital investment and/or job**
4 **creation as well customer-specific fixed costs are recovered in the rates.**

5 **A.** DE also recommended including conditions requiring demonstration of a reasonable
6 minimum value of capital investment, local/state monetary support, and job creation. DE agrees
7 that to the extent not provided for in other incentive provisions, EDR and SCR customers should
8 be responsible for the incremental costs incurred in serving them.

9 **Q. Please respond to Dr. Marke's preference to change the duration of the SCR from**
10 **15 years to ten years.**

11 **A.** While I do not think it necessary to limit the SCR to a 10 year timeframe, DE is not opposed
12 to this suggestion if an option to extend the contract is included. A longer timeframe for
13 incentives often times is desirable for economic development incentives as it requires a
14 longer commitment by the company to maintain jobs for a given project. To the extent
15 the Commission would choose between the amount of an incentive and the timeframe for
16 the incentive, DE would recommend that the Commission accept a more modest EDR rate
17 in exchange for longer commitment and benefit periods.

18 The Commission has approved a SCR applicable in excess of 10 years for a regulated water utility.
19 Reasonably, that special contract arrangement includes opportunity for periodic reviews to ensure
20 that the SCR customer continues to pay a volumetric rate that covers marginal cost¹.

¹ Missouri Public Service Commission Case No. WT-2004-0192, *In the Matter of the Application of Missouri-American Water Company for Approval of an Agreement with Premium Pork, L.L.C., for the Retail Sale and Delivery of Water*, Order Concerning Agreement and Tariffs, Application to Intervene, and Motions to Suspend Tariffs, November 23, 2003, page 9.

1 **Q. Please respond to Dr. Marke's desire for establishment of an overall total annual**
2 **incentive cap for all economic development-induced discounted rates.**

3 **A.** DE disagrees with the need for a cap on annual incentives. If EDR and SCR rates are
4 extended to customers that would otherwise leave the system, not enter the state or not
5 expand existing facilities, then existing customers are made better off by extending
6 discounts. Between rate cases, other customers pay no more for service due to an EDR or
7 SCR. At the time rates are set in the next case, provided that the EDR or SCR customer
8 pays full rates for the cost of gas and pays distribution rates at or above marginal cost, other
9 customers are made no worse off. Any contribution of fixed cost made by EDR or SCR
10 customers actually lowers the per unit cost of the distribution system.

11 **Q. Please respond to Dr. Marke's preference for any discounted rate to be made on a de-**
12 **escalating sliding schedule.**

13 **A.** DE supports the proposed, flexible schedule, which would be agreed to by the customer
14 and Spire. This flexibility actually creates a more level playing field for customers in that
15 the total percent discount over five years remains the same, while enabling the customer's
16 unique business circumstances to be considered. For example, one type of customer may
17 benefit more from a higher discount rate in year one, while another customer may not be
18 operational enough to benefit from that higher discount until year three. The fixed
19 descending discount schedule keeps the second customer from realizing the intended total
20 percent discount that the first customer would receive, which is discriminatory.

1 **Q. Please respond to Dr. Marke's belief that revenues lost from any discount should be**
2 **shared equally between the ratepayers and shareholders.**

3 **A.** I disagree. The term "lost revenues" is a misnomer when the customer would not have
4 entered, grown, or stayed in the state but for an EDR or SCR. Entry of a new business that
5 pays its marginal costs and some portion of fixed costs benefits all customers by spreading
6 fixed costs. There is no basis for denying Spire full compensation for facilities put into
7 service for public benefit.

8 **V. RESPONSE TO STAFF REGARDING EDR CONTENT**

9 **Q. Do you agree with most of Staff witness Ms. Sarah L. Kliethermes's testimony that**
10 **offers specific suggestions for providing clarity and specificity which is beneficial for**
11 **small and large business projects?**

12 **A.** Yes, I agree that many of her recommended conditions are reasonable and would improve
13 the clarity and effectiveness of the proposed EDR. I disagree with only a few of the
14 proposed revisions, in particular those that would create barriers to the economic activity
15 the EDR is striving to attract or retain. I discuss these limited disagreements below.

16 **Q. Should availability of the proposed EDR be limited to non-retail customers?**

17 **A.** No. The retail market is changing with the increase in online retailing. We should not be
18 picking winners and losers. Some retailers no longer need to be located in close proximity
19 to their customers. The utility and its customers would benefit from the ability to attract
20 such retailers.

1 **Q. Must qualifying state and/or local incentives be received prior to receipt of**
2 **discounted rates under the EDR?**

3 A. While it would be ideal, it may not be realistic in the case of qualifying state incentives.
4 The Missouri Department of Economic Development's Business Development Program,
5 in concert with the Missouri Development Finance Board, offers a number of incentives
6 applicable to the customers for which the EDR may be available².

7 The incentives are not "cash on the table;" rather, they consist of various tax exemptions
8 and credits and bond programs which could take up to 15 years to realize. By contrast,
9 EDRs last for only five years. If these state incentives would not count as being received
10 on day one, this requirement would create a barrier to most potential EDR customers.

11 It would also be onerous to audit compliance with the requirement of aligning EDR
12 incentives with state and local incentives. In addition, the types of state incentives that
13 would be applicable may not match Staff's recommended requirements of upfront
14 incentive receipt. Examples include the Building Use Incentives or Large-Scale
15 Development Program (which applies to large projects) and the Missouri Works Program
16 (which is most beneficial to smaller businesses).

² <https://ded.mo.gov/business-services#tabs-panel-row2-col12>.

1 **Q. Should the qualifying state and or local incentives be of monetary value equal to or**
2 **greater than the value of the discount provided under the EDR?**

3 **A.** While see no reason for establishing this restriction. Instead, the state and local incentives
4 received should be one of the many consideration in determining the EDR is in the public
5 interest.

6 **VI. CONCLUSIONS**

7 **Q. Please summarize your conclusions and the positions of DE.**

8 **A.** DE supports the CHP Pilot Program as a way to support resilient critical infrastructure. No
9 party has raised an objection that undermines the need for such a program. Additionally,
10 DE still supports the availability of EDRs and SCRs as mechanisms to attract and retain
11 businesses in Spire's service areas. While some conditions on the receipt of EDRs are
12 reasonable, strict requirements about the timing of state and/or local tax incentive receipt
13 are not reasonable.

14 **Q. Does this conclude your Surrebuttal Testimony?**

15 **A.** Yes.