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Issues:	Revenue Stabilization Mechanism; Energy Efficiency Funding Martin
Witness:	R. Hyman
Sponsoring Party:	Missouri Department of Economic Development – Division of Energy
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Case Nos.:	GR 2017-0215 and GR-2017-0216

MISSOURI PUBLIC SERVICE COMMISSION

SPIRE MISSOURI INC.

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

DIRECT TESTIMONY

OF

MARTIN R. HYMAN

ON

BEHALF OF

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DIVISION OF ENERGY

Jefferson City, Missouri
September 8, 2017

(Revenue Requirement)

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF MARTIN HYMAN

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Martin R. Hyman, of lawful age, being duly sworn on his oath, deposes and states:

1. My name is Martin R. Hyman. I work in the City of Jefferson, Missouri, and I am employed by the Missouri Department of Economic Development as a Planner III, Division of Energy.
2. Attached hereto and made a part hereof for all purposes is my Direct 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.

Martin R. Hyman

Subscribed and sworn to before me this 8th day of September, 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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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Martin R. Hyman. My business address is 301 West High Street, Suite 720, PO Box 1766, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Department of Economic Development – Division of Energy ("DE") as a Planner III.

Q. Please describe your educational background and employment experience.

A. In 2011, I graduated from the School of Public and Environmental Affairs at Indiana University in Bloomington with a Master of Public Affairs and a Master of Science in Environmental Science. There, I worked as a graduate assistant, primarily investigating issues surrounding energy-related funding under the American Recovery and Reinvestment Act of 2009. I also worked as a teaching assistant in graduate school and interned at the White House Council on Environmental Quality in the summer of 2011. I began employment with DE in September of 2014. Prior to that, I worked as a contractor for the U.S. Environmental Protection Agency to coordinate intra-agency modeling discussions.

Q. Have you previously filed testimony before the Missouri Public Service Commission ("Commission") on behalf of DE or any other party?

A. Yes. Please see Schedule MRH-1 for a summary of my case participation.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your Direct Revenue Requirement Testimony in this proceeding?

A. The purpose of my testimony is to discuss the Revenue Stabilization Mechanism ("RSM") proposed by Laclede Gas Company ("Laclede") and Laclede Gas Company d/b/a Missouri Gas Energy ("MGE") (collectively, "Companies") in this case.[1] I discuss the potential reasons for implementing the RSM, as well as a condition that DE recommends if the RSM is implemented – namely, setting the amount of annual spending on energy efficiency programs for both Companies to a minimum of 0.5 percent of the three-year averages of the Companies' respective jurisdictional gas distribution operating revenues (inclusive of the cost of gas for both Companies). If the Commission is concerned about the impacts of DE's energy efficiency program spending proposal, DE would not oppose spending caps of 1.0 percent of the Companies' respective three-year average jurisdictional gas distribution operating revenues (inclusive of the cost of gas for both Companies). Laclede's weatherization funding would be included in both its funding floor and cap.

Q. Will you address other aspects of DE's positions on the RSM in future testimony?

A. Yes. I will address the rate design-related considerations of the RSM and other aspects of rate design in subsequent testimony.

[1] I refer to the Companies by their individual names or as the "Companies." The Commission recently recognized that Laclede and MGE have changed their name to "Spire Missouri Inc. d/b/a Spire" and approved the adoption by Spire Missouri Inc. of the Companies' tariffs. See Missouri Public Service Commission File No. GN-2018-0032, *In the Matter of Laclede Gas Company and Missouri Gas Energy Changing Name to Spire Missouri Inc. d/b/a Spire*, Order Recognizing Name Change, August 16, 2017.

Q. What did you review in preparing this testimony?

A. I reviewed the Direct Testimony filed by the Companies' witnesses in the present rate cases, parts of various case-related filings in the Companies' present rate cases and in Commission Case Nos. GR-2013-0171 and GR-2014-0007, and materials pertaining to energy efficiency.

III. REVENUE STABILIZATION MECHANISM

Q. What is the RSM?

A. The RSM – a form of "decoupling"[2] – is a ratemaking tool through which the Companies, under their proposal, would be provided with greater assurance of meeting their revenue requirements. As its alternative name suggests, the RSM would partially "decouple" sales volumes of natural gas from the revenues earned by the Companies, and would be applicable only to residential and small commercial customers.[3] The portions of sales and revenues related to weather and changes in customer use due to efficiency or conservation[4] would be adjusted on a periodic basis and trued-up annually,[5] with customers receiving either volumetric bill credits or surcharges to account for under- or over-collection of the Companies' revenue requirements.[6] By providing greater certainty to the Companies that

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[2] More properly, the RSM could be referred to as "limited decoupling" under a definition from the Regulatory Assistance Project, since the RSM would only adjust for specific factors that cause variations in usage. See Regulatory Assistance Project, 2016, *Revenue Regulation and Decoupling: A Guide to Theory and Application*, http://www.raponline.org/wp-content/uploads/2016/11/rap-revenue-regulation-decoupling-guide-second-printing-2016-november.pdf, pages 12-13.

[3] Missouri Public Service Commission Case Nos. GR-2017-0215 and GR-2017-0216, *In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service* and *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service*, Direct Testimony of Scott A. Weitzel, April 11, 2017, page 20, lines 16-21.

[4] Missouri Public Service Commission Case Nos. GR-2017-0215 and GR-2017-0216, *In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service* and *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service*, Direct Testimony of Glenn W. Buck, April 11, 2017, page 11, lines 12-15.

[5] *Ibid*, page 13, lines 1-8.

[6] GR-2017-0215 and GR-2017-0216, Weitzel Direct, pages 20-21, lines 22-23 and 1-10.

they will meet their revenue requirements, the RSM reduces risk for the Companies; this reduction in risk enables the Companies to undertake customer-benefitting energy efficiency programs with less concern as to lost sales.

Q. Is the decoupling of natural gas sales based on weather and end-use efficiency legal in Missouri?

A. Yes. Section 386.266.3, RSMo. states:

> Subject to the requirements of this section, any gas corporation may make an application to the commission to approve rate schedules authorizing periodic rate adjustments outside of general rate proceedings to reflect the nongas revenue effects of increases or decreases in residential and commercial customer usage due to variations in either weather, conservation, or both.

I would also note that Section 386.266, RSMo. is ambiguous about whether or not the Commission may approve the use of an RSM prior to conducting a rulemaking.

Q. Do the Companies have other mechanisms in place or available to stabilize their revenues?

A. Yes. The first of these mechanisms is the Purchased Gas Adjustment ("PGA") clause and the accompanying Actual Cost Adjustment ("ACA") mechanism. The PGA is intended to directly pass the commodity costs of natural gas purchased by the Companies through to their customers, while the ACA accounts for any over- or under-collections resulting from the PGA.[7] Since the Companies purchase the natural gas that is ultimately supplied to non-

[7] The Commission Staff describes the PGA and ACA in Missouri Public Service Commission Case No. GR-2014-0007, *In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas*, Staff Report – Revenue Requirement Cost of Service, January 29, 2014, page 58, lines 22-27. The PGA is mentioned in portions of 4 CSR 240-13 and at 4 CSR 240-40.018(1)(B), but does not appear explicitly in statute.

transportation customers,[8] changes in usage pose a risk to the Companies' ability to recover natural gas commodity costs. In principle, the PGA and ACA create neutrality in the collection of natural gas commodity costs, over which natural gas distribution utilities have limited control.

Additionally, the Companies have the ability to use the Infrastructure System Replacement Surcharge ("ISRS"), which involves a bill rider that directly recovers from customers the costs of eligible distribution system replacements. The ISRS also contains a true-up mechanism to account for over- or under-recovery of revenues.[9] The ISRS allows recovery of certain distribution system replacement costs in a more accelerated manner than is allowed by the timing of traditional rate cases.

Finally, the Companies' rate designs insulate their revenues from changes in customer usage during the winter months, when the majority of natural gas usage takes place. Laclede uses a "weather mitigation rate design" that, from November through April, recovers all distribution costs in the first volumetric rate block.[10] However, implementing this design also required making changes to the PGA rates to mitigate the impacts on low-use customers.[11] MGE had no volumetric charges outside of the PGA and ACA

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[8] Transportation customers purchase their own natural gas and are charged for the use of a natural gas utility's distribution system; such customers use large volumes of natural gas. See Missouri Public Service Commission Tariff No. YG-2013-0613 (most recently approved filing), Laclede Gas Company, *Schedule of Rates and Standard Rules and Regulations for Gas Service*, Large Volume Transportation and Sales Service, July 8, 2013 (most recent effective date), Sheet Nos. 32 through 40, and Missouri Public Service Commission Tariff No. YG-2010-0500 (most recently approved filing), Laclede Gas Company d/b/a Missouri Gas Energy, *Schedule of Rates and Charges and General Terms and Conditions for Gas Service*, Transportation Provisions - TPRR, February 28, 2010 (most recent effective date), Sheet Nos. 59 through 69; both sets of tariffs have been adopted by Spire Missouri Inc. d/b/a Spire. Some school entities can also participate in experimental transportation tariffs pursuant to Section 393.310, RSMo.
[9] See Sections 393.1009 through 1015, RSMo.
[10] Missouri Public Service Commission Case No. GR-2013-0171, *In the Matter of Laclede Gas Company's Filing of Revised Tariffs to Increase its Annual Revenues For Natural Gas Service*, Direct Testimony of Michael T. Cline, December 21, 2012, pages 7-8, lines 14-23 and 1-4.
[11] See GR-2013-0171, Cline Direct, pages 7-8, lines 22-23 and 1-2, and page 9, lines 17-20.

immediately prior to its last rate case (GR-2014-0007) – it employed a "straight fixed variable" ("SFV") rate design[12] in which all distribution system costs were recovered through a fixed charge.[13] Following that case, MGE moved some distribution system cost recovery into volumetric distribution charges,[14] but it was still estimated that MGE would recover over 80 percent of distribution system costs from residential and small commercial customers through MGE's fixed charge.[15]

Q. From the revenue requirement perspective, why is the RSM a potential alternative to the mechanisms you have discussed?

A. First, the RSM would allow Laclede's base rates and PGA rates to better reflect cost causation. By adjusting rates through an RSM, PGA-related costs can be more consistently recovered through the PGA mechanism on a per-unit basis, aligning the revenues collected through the PGA with the incurrence of natural gas commodity costs.

The RSM would also continue to provide the Companies with enough revenue sufficiency to make them more indifferent to changes in customer usage; this would allow them to continue to promote energy efficiency programs without being as concerned about lost sales.[16] The Companies have previously cited the importance of their rate designs with respect to allowing for the delivery of energy efficiency programs. In Laclede's last rate case, Laclede witness Mr. Michael T. Cline cited the weather mitigation rate design as a mechanism that, in the words of the American Recovery and Reinvestment Act of 2009

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[12] Missouri Public Service Commission Case No. GR-2014-0007, *In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas*, Transcript Vol. 10, April 22, 2014, pages 110-111, lines 17-25 and 1-4.
[13] *Ibid*, page 87, lines 5-14.
[14] *Ibid*, page 76, lines 8-20.
[15] *Ibid*, page 87-88, lines 17-25 and 1-10.
[16] See GR-2017-0215 and GR-2017-0216, Buck Direct, page 11, lines 18-23.

(which he quoted), "… ensures that utility financial incentives are aligned with helping their customers use energy more efficiently …."[17] MGE has also previously cited its rate design as providing an, "… incentive to actively promote energy efficiency."[18] The RSM would function similarly in allowing the Companies to pursue energy efficiency programs. Lastly, the RSM would allow the Companies to offer rate designs that more directly encourage energy efficiency and which could be more acceptable to customers. DE will provide additional information on rate design-related considerations in subsequent testimony.

Q. Have the Companies proposed a per-customer adjustment to revenues?

A. Yes.[19] Per-customer adjustments would provide the Companies with incentives to reduce the costs of serving each additional customer and would scale the insulation of revenues to the number of customers served. Total revenues would increase or decrease with the number of customers served, incenting the Companies to maintain or increase customer counts through quality customer service and prudent expansion.

Q. What is DE's position on the RSM?

A. DE is not opposed to the use of an RSM provided that: 1) the Companies increase their energy efficiency program funding so that customers benefit from the Companies' reduced risk through opportunities to save energy (see below), and 2) the Companies meet any rate design-related recommendations addressed in subsequent testimony from DE.

[17] GR-2013-0171, Cline Direct, page 9, lines 10-15.
[18] GR-2014-0007, Transcript Vol. 10, April 22, 2014, page 88, lines 18-24.
[19] GR-2017-0215 and GR-2017-0216, Weitzel Direct, pages 21-22, lines 21-22 and 1-15.

IV. ENERGY EFFICIENCY PROGRAM FUNDING

Q. Why are energy efficiency programs different in the context of natural gas companies?

A. Natural gas companies do not "generate" the gas that they supply, but instead pass through a purchased commodity produced elsewhere to end-use customers. By comparison, electric utilities have generating plants to produce their product (electricity) and transmission and distribution systems to pass that product through to end-use customers. Both types of utilities have relatively long-lived distribution assets, but changes in electricity use have a larger effect on future investment decisions (including transmission line investments) than changes in natural gas usage have on investments in natural gas distribution facilities.

The value of natural gas efficiency programs is not necessarily in the avoidance of future system costs to the same degree as with electric efficiency programs, nor is the value of natural gas efficiency programs found in the reduction of gas commodity volumes purchased; in the case of the latter, the PGA and ACA make natural gas companies whole for their purchases. Rather, like any other efficiency program, natural gas efficiency programs are valuable from the perspective of the participating customers, who experience bill savings and, in certain instances, additional benefits such as improved comfort, health, and safety. Customers can receive greater benefits if natural gas companies are able to co-deliver energy efficiency programs in association with other utilities; co-delivery can provide customers with more comprehensive savings opportunities, and can also reduce the costs per participant through decreased customer acquisition costs.

Q. Why should energy efficiency program-related considerations be included in the conditions for allowing the use of the RSM?

A. As noted above, the RSM would make the Companies indifferent to the volumes of gas consumed by customers, allowing energy efficiency programs to be offered without the accompanying concerns over revenue sufficiency due to decreased sales volumes. The RSM also has the advantage of allowing for rate designs that better encourage efficient use through increased emphasis on volumetric charges, providing customers with greater incentives to reduce their usage.

Q. What are the current goals for energy efficiency program spending by the Companies?

A. At present, both Laclede and MGE have a target of funding energy efficiency programs at 0.5 percent of the three-year averages of the Companies' respective jurisdictional gas distribution operating revenues (inclusive of the cost of gas).[20] Laclede's target includes $950,000 in weatherization funding.[21]

Q. Have the Companies met these goals?

A. No. Company witness Mr. Michael R. Noack states that the three-year average of spending from 2014 through 2016 for Laclede is $2.0 million (excluding weatherization),[22] and that

[20] Missouri Public Service Commission Case No. GR-2013-0171, *In the Matter of Laclede Gas Company's Filing of Revised Tariffs to Increase its Annual Revenues For Natural Gas Service*, Stipulation and Agreement, May 31, 2013, page 13; Missouri Public Service Commission Case No. GR-2014-0007, *In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas*, Stipulation and Agreement, April 11, 2014, pages 19-20.
[21] Missouri Public Service Commission Case No. GR-2013-0171, *In the Matter of Laclede Gas Company's Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas*, Stipulation and Agreement, May 31, 2013, pages 13-14.
[22] Missouri Public Service Commission Case Nos. GR-2017-0215 and GR-2017-0216, *In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service* and *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service*, Direct Testimony of Michael R. Noack, April 11, 2017, page 20, lines 21-24.

the three-year average of spending from 2014 through 2016 for MGE is $1.8 million;[23] by contrast, Mr. Noack states that the Companies would target spending at $2.7 and $2.5 million on an annual basis for the respective Companies based on current gross revenues and the 0.5 percent spending target.[24, 25, 26] In response to Data Requests DED-DE 204 and 205, the Companies indicated that the most recent program year budgets for Laclede and MGE are $2,866,930 and $2,726,200, respectively, excluding weatherization funding for Laclede. In part, the shortfalls in actual versus targeted spending may result from a misperception that the 0.5 percent target is a cap.[27]

Q. How do the Companies' spending goals compare with natural gas energy efficiency program spending across the country?

A. Based on state-level expenditure data from the Consortium for Energy Efficiency[28] and natural gas delivery volume data from the Energy Information Administration,[29] I calculated that natural gas efficiency program spending in Midwestern states occurred at a median amount of approximately $0.00435 per hundred cubic feet ("ccf") in 2015, while natural gas efficiency program spending across the U.S. occurred at a median amount of approximately $0.00289 per ccf in 2015. Further, according to the American Council for

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[23] *Ibid*, pages 12-13, lines 24 and 1-3.
[24] *Ibid*, page 20, lines 13-15, and page 12, lines 22-24.
[25] In citing these or other data from the Companies, DE is not taking a position as to the validity of the numbers filed by Laclede or MGE.
[26] The Laclede amount is net of the $1.0 million in weatherization funding for Laclede stated by Mr. Noack.
[27] See, e.g., GR-2017-0215 and GR-2017-0216, Noack Direct, page 12, lines 8-11.
[28] Consortium for Energy Efficiency, 2017, *CEE Annual Industry Report*, "Efficiency Program Industry by State and Region Appendices, 2016," https://library.cee1.org/system/files/library/13162/CEE2016AIRStateAndRegionAppendices.pdf, pages 15-16. This report's definition of Midwestern states was used throughout my analysis.
[29] U.S. Energy Information Administration, 2016, "Natural Gas Annual Respondent Query System," https://www.eia.gov/cfapps/ngqs/ngqs.cfm?f_report=RP1&f_sortby=&f_items=&f_year_start=&f_year_end=&f_show_compid=&f_fullscreen=. Data are from Form EIA-176.

an Energy-Efficient Economy, natural gas efficiency program spending in Midwestern states occurred at a median amount of $12.11 per residential customer in 2015, while natural gas efficiency program spending across the U.S. occurred at a median amount of $8.20 per residential customer in 2015.[30, 31] Using the budgets cited above from the responses to Data Requests DED-DE 204 and 205, as well as the total usage for all customers found in Company witness Mr. Timothy S. Lyons's testimony[32] and the residential customer counts found in the Companies' Minimum Filing Requirements,[33] the Companies' current targeted efficiency spending per ccf and per residential customer would be as shown in Table 1, excluding weatherization funding for Laclede. These normalized target amounts generally fall short of median statewide expenditures regionally (and nationally in the case of spending per residential customer), particularly when considered in the context of the Companies' actual recent spending.

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[30] Berg, Weston, Nowak, Seth, Kelly, Meegan, Vaidyanathan, Shruti, Shoemaker, Mary, Chittum, Anna, DiMascio, Marianne, and Kallakuri, Chetana, 2016, *The 2016 State Energy Efficiency Scorecard*, American Council for an Energy-Efficient Economy, http://aceee.org/sites/default/files/publications/researchreports/u1606.pdf, page 36. The authors of the report substituted 2014 spending values where 2015 data were unavailable. The Midwest median amount spent per residential customer was calculated from the data in this report. I also used my calculation of the U.S. median since the number cited in the report for the U.S. median does not match my result.

[31] Both the ccf- and customer-based comparisons include the District of Columbia.

[32] Missouri Public Service Commission Case Nos. GR-2017-0215 and GR-2017-0216, *In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service* and *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service*, Direct Testimony of Timothy S. Lyons, April 11, 2017, Schedule TSL-D5, page 1, line 11, and Schedule TSL-D6, page 1, line 11. The Companies' reported units were converted from therms to ccf using the U.S. Energy Administration Information's conversion factor of 1.037 therms per ccf; see U.S. Energy Information Administration, 2017, "What are Ccf, Mcf, Btu, and therms? How do I convert natural gas prices in dollars per Ccf or Mcf to dollars per Btu or therm?," https://www.eia.gov/tools/faqs/faq.php?id=45&t=8.

[33] Missouri Public Service Commission Case No. GR-2017-0215, *In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service*, LAC Exhibit No. 2 – General Information and Press Release, April 11, 2017, "Laclede Gas Company: Number of Customers Affected – Category of Service and Rate Classification," Schedule 3, page 1; Missouri Public Service Commission Case No. GR-2017-0216, *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service*, MGE Exhibit No. 2 – General Information and Press Release, April 11, 2017, "Missouri Gas Energy: Number of Customers Affected – Category of Service and Rate Classification," Schedule 3, Page 1.

Table 1. Laclede and MGE energy efficiency program spending target budgets per ccf and per residential customer at current gross revenues (excluding Laclede weatherization funding).

	Per ccf	Per Residential Customer
Laclede	$0.00330	$4.73
MGE	$0.00370	$6.06

Q. If the Companies were to spend similar amounts on energy efficiency programs as you described above, how much would they spend?

A. Using the sources described above, I adjusted the Companies' program spending targets to match the Midwest and national median statewide spending amounts per ccf and median statewide spending amounts per residential customer in 2015. The results are shown below in Tables 2 and 3, and include $950,000 in weatherization funding for Laclede.[34]

Table 2. Laclede and MGE energy efficiency program spending targets adjusted to 2015 Midwest median spending per ccf and median spending per residential customer (including Laclede weatherization funding).

	Total		Percent of Current Gross Revenues	
	Per ccf	**Per Residential Customer**	**Per ccf**	**Per Residential Customer**
Laclede	$3,782,076.23	$7,343,516.11	0.50%	0.96%
MGE	$3,202,192.83	$5,447,477.63	0.59%	1.00%

[34] The calculated adjusted percentages are based on the above-cited amounts provided in response to Data Requests DED-DE 204 and 205.

Table 3. Laclede and MGE energy efficiency program spending targets adjusted to 2015 national median spending per ccf and median spending per residential customer (including Laclede weatherization funding).

	Total		Percent of Current Gross Revenues	
	Per ccf	Per Residential Customer	Per ccf	Per Residential Customer
Laclede	$2,509,810.61	$4,972,488.20	0.33%	0.65%
MGE	$2,124,996.18	$3,688,630.60	0.39%	0.68%

As shown above, adjusting the spending targets to Midwest and national levels results in spending targets ranging from 0.33 percent of Laclede's distribution and commodity revenues (inclusive of weatherization funding) to 1.00 percent of MGE's distribution and commodity revenues. A modest spending target of 0.5 percent of distribution and commodity revenues is therefore within this range, and would be below levels that are comparable to Midwest or national median statewide spending per residential customer.

Q. What do you recommend with regards to energy efficiency program funding by the Companies?

A. Given that an RSM would provide the Companies with greater assurance that their revenues would be recovered, as well as the fact that neither Laclede nor MGE has met the 0.5 percent spending target in recent years, DE recommends that both Companies be required to spend at least 0.5 percent of their respective three-year averages of jurisdictional gas distribution operating revenues (inclusive of the cost of gas for both Companies) on energy efficiency programs. This spending floor would provide some assurance that the Companies' customers benefit from the Companies' use of the RSM by increasing customers' options to save money on their natural gas utility bills. Laclede's weatherization funding would be included as part of the 0.5 percent floor, consistent with current funding.

Q. If the Commission is concerned about the potential impacts of your proposal, do you have any additional suggestions?

A. Based on the comparison of current spending by the Companies to normalized Midwest and U.S. amounts, DE would not be opposed to potential caps of 1.0 percent of the Companies' respective three-year average jurisdictional gas distribution operating revenues (inclusive of the cost of gas for both Companies); Laclede's cap would include weatherization funding for Laclede. This cap would be at the upper end of comparable median statewide spending values in the Midwest (see above).

Q. Can you provide estimated bill impacts for a year in which the spending caps are reached?

A. Not at this time.

Q. Why not?

A. The Companies proposed to include the three-year average spending levels for their efficiency programs in the rates resulting from this case.[35] However, in examining the Companies' workpapers and consulting with the Companies, I became aware that the Companies are reviewing the appropriateness of allocating these costs to only the residential class.

[35] GR-2017-0215 and GR-2017-0216, Noack Direct, page 20, lines 19-24, and pages 12-13, lines 20-24 and 1-3.

Q. Please describe your position on the appropriate allocation of the Companies' energy efficiency program costs.

A. According to the Companies' workpapers, the costs proposed for inclusion in rates on a going-forward basis are placed into Account 908 – Customer Assistance. The costs in these accounts are classified as customer-related and allocated only to residential customers. However, the Companies offer both residential and business energy efficiency programs,[36] so the cost recovery for efficiency programs should be allocated to both residential and business customers.

Q. If the Companies address this cost allocation issue in a subsequent filing, will DE attempt to provide bill impact assessments of energy efficiency program spending?

A. Yes.

V. CONCLUSIONS

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

A. DE would not oppose the implementation of the RSM if: 1) the minimum amount of annual spending on energy efficiency programs for both companies is set at a minimum of 0.5 percent of the three-year averages of the Companies' respective jurisdictional gas distribution operating revenues (inclusive of the cost of gas), and 2) the Companies meet any rate design-related recommendations addressed in DE's subsequent testimony. If the Commission is concerned about the impacts of DE's energy efficiency program spending proposal, DE would not oppose spending caps of 1.0 percent of the Companies' respective

[36] The Companies' programs appear in: Missouri Public Service Commission Case No. GR-2017-0215, *In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service*, LAC Exhibit No.1, "Rules and Regulations," April 11, 2017, Sheet No. R-45, Rule No. 35, and Missouri Public Service Commission Case No. GR-2017-0216, *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service*, MGE Exhibit No. 1, "Rules and Regulations," April 11, 2017, Sheet No. R-45, Rule No. 35.

three-year average jurisdictional gas distribution operating revenues (inclusive of the cost of gas for both Companies). Laclede's weatherization funding would be included in both its funding floor and cap.

Q. Does this conclude your Direct Revenue Requirement Testimony in this case?

A. Yes.