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MISSOURI PUBLIC SERVICE COMMISSION

SPIRE MISSOURI INC.

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

REBUTTAL TESTIMONY

OF

JANE EPPERSON

ON

BEHALF OF

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DIVISION OF ENERGY

Jefferson City, Missouri

October 20, 2017

(Rate Design)

DE Exhibit No. 506
Date 12-15-17 Reporter A.F
File No. GR-2017-0215
GR. 2017-0216

**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 his oath, deposes and states:

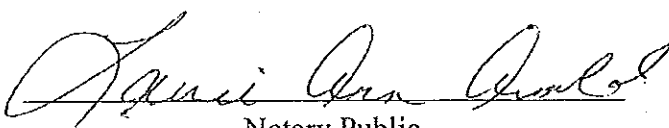
1. My name is Jane Epperson. I work in the City of Jefferson, Missouri, and I am employed by the Missouri Department of Economic Development as the Senior Energy Policy Analyst, Division of Energy.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony (Rate Design) on behalf 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 20th day of October, 2017.

LAURIE ANN ANNOLO
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: April 26, 2020
Commission Number: 18808714



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 Planner III.

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

10 A. Yes. I filed Direct Revenue Requirement Testimony on the subjects of combined heat and
11 power (“CHP”) for critical infrastructure and on Economic Development Riders (“EDRs”)
12 and Special Contracts Riders (“SCRs”).

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

14 **Q. What is the purpose of your Rebuttal Rate Design Testimony?**

15 A. The purpose of this rebuttal testimony is to provide additional details designed to enhance
16 Laclede Gas Company’s (“Laclede”) and Laclede Gas Company d/b/a Missouri Gas
17 Energy’s (“MGE”) (collectively, “Companies” or “Spire”) EDR and SCR proposals. DE
18 supports the availability of EDRs and SCRs as mechanisms to attract and retain businesses
19 in Spire’s service areas. DE recommends that Spire’s proposals incorporate mechanisms
20 to ensure the documentation of benefits to the utility system and local communities,
21 including the specification of additional expected investments by the customer, the number
22 of permanent, full time jobs that will be created, and the receipt of state or local economic

1 development incentives. For special contracts that offer substantial long-term discounts,
2 there should also be documentation to ensure that incentive provided was necessary to
3 attract or retain the customer's load. Any EDR or SCR approved by the Commission should
4 ensure that the discounted rate still recovers the marginal cost of serving a customer and
5 makes some contribution towards fixed cost recovery.

6 **Q. What did you review in preparing this testimony?**

7 A. I reviewed the Companies' direct testimony and economic development tariffs on file
8 with the Commission.

9 **III. ECONOMIC DEVELOPMENT AND SPECIAL CONTRACT RIDERS**

10 **Q. Please summarize your Direct Testimony regarding EDRs and SCRs.**

11 A. DE supports allowing Spire and other investor-owned utilities reasonable flexibility in
12 responding to economic development and retention opportunities. In addition to
13 employment and other economic benefits, such tariffs, when properly structured, can
14 promote better use of existing infrastructure, allowing fixed costs to be spread over greater
15 sales volumes and lowering the otherwise applicable rates paid by other customers.

16 **Q. Why do utilities require flexibility in offering EDRs and SCRs to be effective in**
17 **retaining and attracting business customers?**

18 A. Energy costs can constitute a significant cost of doing business, especially for
19 manufacturing processes, and can be a key factor in determining at what location, and at
20 what scale a business might operate. Absent flexibility to offer rates to certain types of
21 businesses, the utility may not be able to attract or retain customers that would add
22 significant, beneficial load to the system. This would negatively impact the utility's other

1 customers due to the lost opportunity to spread system costs across more customers and
2 higher usage, resulting in relatively higher rates.

3 **Q. Are there other benefits to EDRs and SCRs?**

4 A. Yes. EDRs and SCRs can promote in-state economic development by encouraging
5 business expansion, retention and attraction.

6 **Q. What elements should be included in EDRs and Special Contract Rates to assure
7 benefits to other customers, communities, and the state?**

8 A. EDRs and SCRs should be offered to potential customers that will add or retain significant
9 load for the utility. Additionally, the rates should be offered over a specific period of time
10 based on the amount of load that would be added or retained and the load factor of a
11 potential customer. Volumetric rates under these tariffs should be set at no less than the
12 marginal cost of serving particular customers – i.e., the commodity cost of natural gas and
13 any other variable costs. Other incremental costs of serving particular customers (e.g., line
14 extensions) should be recovered through these rates over realistic period of time for the
15 EDR/SCR customer and a reasonable period of time for the utility and its other ratepayers.
16 Service under EDRs and SCR rates should reasonably be tied to the receipt of other state
17 or local incentives. The rates should be directed at retaining customers that would
18 otherwise leave the state, attracting new customers from outside of the state, or promoting
19 customer expansion.

1 **Q. Why is it important for these rates to cover marginal costs and contribute to**
2 **investment in fixed costs?**

3 A. While EDRs and SCRs should provide a lower rate than would otherwise be applicable to
4 eligible customers, these rates should ensure recovery of at least the incremental cost of
5 serving these customers and some contribution towards fixed costs. This ensures that, while
6 other customers may pay a somewhat higher return during the period of the EDR/SCR,
7 they will benefit in the long term by sharing fixed cost recovery across more customers and
8 greater volumes of use.

9 **Q. Why should EDRs and SCRs be tied to the receipt of other state or local incentives?**

10 A. Such a requirement ensures that local communities or the state have independently
11 determined that there is value to encourage a business to expand, remain at its location or
12 attract a new business. . This type of determination is often related to assuring local
13 employment opportunities and increasing local economic activity.

14 **Q. Why should EDRs and SCRs focus on retaining customers that would otherwise**
15 **leave the state, attracting new customers from outside of the state, or promoting**
16 **customer expansion?**

17 A. First, EDRs and SCRs should encourage new economic activity (or the retention of current
18 economic activity) rather than providing more incentives than are necessary to achieve the
19 state's economic goals. Second, although it is important for the state to be able to match
20 competition from other states, it is also important to avoid destructive competition between
21 Missouri's regulated utilities. A benefit to one Missouri utility's ratepayers should not
22 come at the expense of other Missouri utility ratepayers.

1 **Q. How does this concern regarding destructive competition compare to your**
2 **recommendation to encourage the use of CHP?**

3 A. The use of CHP can result in the loss of physical load by an electric utility to the benefit of
4 a natural gas utility, provided that the CHP unit is fueled by natural gas. However, this is
5 not the type of destructive competition contemplated by the Commission's promotional
6 practices rules. CHP improves the efficiency of energy used by customers, a situation
7 which is conceptually recognized as an exception to the promotional practices rules; 4 CSR
8 240-14.010(5) states that, "Nothing contained in this chapter shall be construed to prohibit
9 the provision of consideration that may be necessary to acquire cost-effective demand-side
10 resources." In fact, the promotional practices rules also allow for pilot programs that are
11 designed to evaluate the cost-effectiveness of potential demand-side resources (4 CSR 240-
12 14.010(4)).

13 **Q. Do other investor-owned energy utilities in Missouri have EDRs and/or SCRs?**

14 A. Yes -- most investor-owned energy utilities have some type of EDR or SCR in place.
15 Missouri-American Water Company also has its own economic development incentive
16 provisions. If Spire is not able to offer EDRs or SCRs, then it will be disadvantaged in
17 competing with other utilities (both in Missouri and nationwide) to retain or expand in-
18 state businesses or attract new business customers to the state.

19 **Q. What is your response to Spire's proposed EDRs and SCRs?**

20 A. DE is generally supportive of Spire's proposals, but has recommendations related to tariff
21 conditions and additional enhancements.

1 **Q. How could the proposed EDR and SCR tariffs be improved?**

2 A. Utility rate incentives designed to improve utility system utilization and contribute to the
3 economic well-being of Missouri should include metrics that quantify those contributions
4 and create accountability to ensure that benefits are realized. Criteria for both the EDR and
5 SCR should include the specification of additional expected investments by the customer,
6 the number of permanent, full time jobs that will be created, and the receipt of state or local
7 economic development incentives. These specific metrics are currently not included in the
8 proposed EDR. The sixth and seventh (f. and g.) items of supporting documentation for
9 reporting proposed in the SCR, address these contributions in a general way and would be
10 improved with specificity.

11 **Q. Should special contracts be filed for Commission approval?**

12 A. Yes. Filing special contracts as tariffs would provide the Commission and other
13 stakeholders an opportunity to review the terms agreed to by Spire and the customer and,
14 if appropriate, the Commission can approve modifications to ensure benefits to Spire's
15 ratepayers and local communities. The Company is proposing that, at least 30 days prior
16 to the effective date of the Special Contract, the Company provide a copy of the Special
17 Contract and supporting documentation to the Commission Staff with a copy to the Office
18 of the Public Counsel.

1 **Q. How can the Commission assure ongoing compliance with the terms of EDRs and**
2 **SCRs?**

3 A. The Commission will have the opportunity to review reporting by Spire and EDR or SCR
4 customers during general rate cases. To the extent that customers are not meeting the terms
5 of the EDRs or SCRs, the Commission can determine appropriate remedies.

6 **IV. CONCLUSIONS**

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

8 A. DE supports the availability of EDRs and SCRs as mechanisms to attract and retain
9 businesses in Spire's service areas. DE recommends that Spire's proposals incorporate
10 specific metrics to ensure the documentation of benefits to the utility system and local
11 communities, including the specification of additional expected investments by the
12 customer, the number of permanent, full time jobs that will be created, and the receipt of
13 state or local economic development incentives. For special contracts that offer substantial
14 long-term discounts, there should also be documentation to ensure that incentive provided
15 was necessary to attract or retain the customer's load. Any EDR or SCR approved by the
16 Commission should ensure that the discounted rate still recovers the marginal cost of
17 serving a customer and makes some contribution towards fixed cost recovery.

18 **Q. Does this conclude your Rebuttal Rate Design Testimony?**

19 A. Yes.