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Witness: Russell A. Feingold
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Case No.: GR-2006-0422
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MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

REBUTTAL TESTIMONY OF

RUSSELL A. FEINGOLD

Jefferson City, Missouri

November 21, 2006

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Russell A. Feingold and my business address is Four PPG Place, Pittsburgh, Pennsylvania 15222.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Managing Director of Navigant Consulting, Inc. ("NCI") and co-leader of the Litigation, Regulatory & Markets Group within the firm's Energy Practice.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") IN THIS PROCEEDING?

A. Yes. I previously submitted direct testimony in this proceeding on behalf of Missouri Gas Energy ("MGE" or the "Company") concerning its: (1) proposed weather normal for purposes of adjusting its base rates for the effect of weather; (2) revenue adjustments to weather normalize its gas volumes and to annualize its current level of customers; (3) class revenue allocation; and (4) various rate design proposals.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to respond to the position of the Missouri Public Service Commission Staff (the "Staff") on the appropriate weather normal for MGE, its related adjustment to the Company's test year revenues, and its proposed rate design for the Company's Small General Service ("SGS") rate class, and to the position of the Office of Public Counsel ("OPC") on the appropriate rate design for the Company's customers. I will specifically respond to the direct testimonies of Staff witnesses Curt Wells, James A. Gray, Paul R. Harrison, and Anne E. Ross, and OPC witness Barbara A. Meisenheimer. I will also briefly comment on the Staff's rate design proposals for the Company's Residential Service, Large General Service ("LGS"), and Large Volume Service ("LVS") classes sponsored by Staff witness Ross.

Q. CAN YOU BRIEFLY SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS RELATED TO THESE PARTIES' PRESENTATIONS?

A. Yes. Based on my review of the points and underlying support presented by witnesses Wells, Gray, Harrison, Ross, and Meisenheimer concerning the Company's proposed weather normal, related revenue adjustment, and its rate design proposals, I have reached the following findings and recommendations:

- Staff's continued use of a 30-year Heating Degree Day ("HDD") average to normalize the Company's annual gas volumes for rate case purposes ignores the

inability of this measure to derive a realistic and achievable level of normal sales upon which MGE's base rates are premised. This deficiency will perpetuate the Company's continued inability to recover the Commission's approved level of margin revenues. As a result, I recommend that this Commission reject Staff's proposed measure of normal weather and adopt the Company's proposal to use a 10-year HDD average to normalize its annual gas volumes for rate case purposes.

- This Commission should reject Staff's proposed weather normalization adjustment to revenue of $5,226,629, (*i.e.,* an increase over the actual revenue level experienced in the test year), derived by Staff witness Paul R. Harrison, since it greatly overstates the Company's base revenues under normal weather conditions because Staff's proposed measure of normal weather is deficient. In my expert opinion, Staff has overstated the Company's base revenues by approximately $2.9 million – which means the Company must achieve an unrealistically high level of base revenues in future years to have a reasonable opportunity to earn its allowed rate of return (to be determined in this rate proceeding). As a result, I recommend that the Commission reject Staff's adjustment to revenues and adopt the Company's proposed weather normalization adjustment to revenue of $2,342,430.
- The Commission should reject Staff's proposal to increase each rate component for the SGS class by the percentage increase in class revenues because it ignores the margin losses contributed by this class caused primarily by declining use per

customer and variations in weather from normal levels. I recommend the Commission adopt the Company's rate design proposal for the SGS class because it remedies the continuing margin losses experienced in this class.

- This Commission should reject OPC's proposal that there be no change to the current level of the monthly customer charge for the Company's residential customers. This proposal is seriously deficient for a number of important reasons:
  - ✓ It is not reflective of the true costs of serving the Company's residential customers;
  - ✓ It will perpetuate the intra-class cross subsidies that exist within the residential class – which means that some customers will continue to overpay for gas delivery service while others will continue to underpay;
  - ✓ It will cause more customers to overpay by a greater amount for gas service during colder than normal periods because the Company's volumetrically derived commodity charges will be disproportionately increased under OPC's rate design proposal;
  - ✓ It ignores the ratemaking initiative embodied in the Missouri Legislature granting the Commission (by the enactment of SB 179) the authority to approve for gas utilities ratemaking mechanisms that address the problem of margin revenue losses; and

- ✓ It will not provide an appropriate ratemaking foundation for the Company to offer energy efficiency and conservation programs for the benefit of its customers because of the disincentive the Company has to promote such programs caused by revenues and sales that are directly linked through the OPC's increased emphasis placed on a volume-based rate structure in its rate design proposal.

As a result, I recommend that the Commission adopt the Company's Straight Fixed-Variable ("SFV") rate structure proposal for the residential class, which is conceptually identical to Staff's rate design proposal for this class, as presented and discussed in the direct testimony of Staff witness Ross.

Q. BEFORE CONTINUING, PLEASE DESCRIBE THE ISSUES YOU ARE RESPONSIBLE FOR THAT HAVE BEEN SETTLED BY THE PARTIES IN THIS PROCEEDING.

A. There are two issues I covered in my direct testimony that have been settled by the parties: (1) the allocation of the Company's revenue increase to its rate classes; and (2) the Company's customer annualization adjustment to revenues. With regard to the settlement on class revenues, it is my understanding that the parties have agreed that any revenue increased authorized by the Commission will be spread among the rate classes on the basis of an equal percentage of margin revenues. For example, a four (4) percent

increase in the Company total margin revenue will be applied to the margin revenues for each individual class on the same percentage basis.

No further transfer of revenue responsibility between the rate classes will be proposed, under that agreement. Finally, while the Company does not accept the cost of service studies presented by the Staff or the OPC (as discussed by Company witness Mr. Amen), the Company agrees, for purposes of settlement, with the equal percentage revenue spread as a fair disposition of this issue for purposes of this case.

1. WEATHER NORMAL AND RELATED REVENUE ADJUSTMENT

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSAL TO NORMALIZE ITS ANNUAL CUSTOMER LOADS FOR WEATHER.

A. The Company is proposing to use a 10-year Heating Degree-Days ("HDD") average to normalize its annual gas volumes for rate case purposes. Historically, a 30-year HDD average computed by the National Oceanographic and Atmospheric Administration's ("NOAA") has been used to normalize its gas volumes for weather. Under the 10-year average, the Company's measure of normal weather will be established at 4,967 HDD for its Kansas City and St. Joseph service areas, and at 4,450 HDD for its Joplin service area. Currently, 5,249 HDD for the Kansas City and St. Joseph areas, and 4,602 HDD for the Joplin area are the measures of normal weather embedded in MGE's present distribution rates. These values are NOAA's most recently computed 30-year averages for the years

1971-2000 (NOAA calculates its 30-year average once every ten years).

Q. WHY HAS THE COMPANY CHOSEN TO MODIFY THE MANNER IN WHICH ITS GAS VOLUMES ARE WEATHER NORMALIZED?

A. The use of a 10-year HDD average will result in improved forecasting for normalizing MGE's gas volumes. This means that the annual gas volumes established in the Company's current rate case would better reflect the expected normal weather conditions during the period in which its base rates will be in effect.

Q. HOW DOES THE CHOICE OF WEATHER NORMAL AFFECT THE COMPANY'S NORMAL SALES LEVEL FOR ITS RESIDENTIAL CLASS IN THIS PROCEEDING?

A. Under the Company's proposal to utilize a 10-year HDD average, the annual normalized use per customer for its residential class is 834 Ccf. Under Staff's proposal to utilize a 30-year HDD average, the use per customer level increases by just over 4 percent to 868 Ccf.

Q. CAN A HIGHER USE PER CUSTOMER LEVEL HAVE A NEGATIVE IMPACT ON THE COMPANY'S ABILITY TO RECOVER ITS APPROVED MARGIN REVENUES?

A. Yes. As exhibited in Schedule RAF-9, the Company experienced margin losses in its residential service rate class in each of the last seven years due to fluctuations in gas volumes caused primarily by declining use per customer and variations in weather from normal levels. In my opinion, the Commission's adoption of a 30-year weather normal for that period contributed to the Company's revenue shortfall because the "baseline" use per customer used to design rates was too high – as Schedule RAF-7 readily demonstrates. As a result, the Company's ability to fully recover its approved margin revenues could not be achieved simply because it never was able to achieve the assumed higher level of gas sales that the Commission assumed to be "normal" – even when weather was colder than normal such as in 2001.

Q. PLEASE SUMMARIZE STAFF WITNESS WELLS' POSITION ON THE APPROPRIATE WEATHER NORMAL FOR THE COMPANY.

A. Staff witness Wells uses the 30-year time period used by NOAA and the World Meteorological Organization ("WMO") – which consists of the three most recent consecutive decades from January 1, 1971 through December 31, 2000. Mr. Wells states in his direct testimony that his choice of this 30-year period is based on: (1) previous Staff analysis; (2) Commission decisions; and (3) the standards for normal weather variables established by NOAA and the WMO.

Q. WHAT TYPE OF SUPPORT DOES STAFF WITNESS WELLS PROVIDE FOR HIS CHOICE OF A 30-YEAR WEATHER NORMAL?

A. Most of the support for Staff witness Wells' position on an appropriate weather normal for MGE was elicited from him in his responses to Company data requests on the subject. I have included his responses in Schedule RAF-16. His responses specifically address the three bases for his choice of the 30-year weather normal, and certain definitional considerations and conceptual beliefs that underlie his preference for this choice of method.

Based on my review of his responses, I was able to ascertain why he believes a weather normal based on 30 years of HDD data is preferable to other measures of normal weather. For clarity purposes, I have summarized Mr. Wells' support for a 30-year weather normal as follows: (1) 30-year weather normals are standards of NOAA and WMO and are officially generated numbers; (2) the Commission has utilized 30-year normals as its practice or policy; and (3) the Staff has conducted "analysis" in support of a 30-year normal.

From a definitional and conceptual perspective, Mr. Wells believes that the "test year" concept as practiced in Missouri amounts to a "back cast" of a utility's normal operating conditions to compute its revenue requirement and rates rather than a "forecast" of conditions expected to occur during the time when new rates are in effect. As such, he

believes that the choice of the weather normal should not be based upon its ability to represent, or predict, future weather.

Q. DO YOU AGREE WITH MR. WELLS' POINTS IN SUPPORT OF THE CONTINUED USE OF THE 30-YEAR AVERAGE FOR PURPOSES OF WEATHER NORMALIZATION?

A. No. For each of the points made by Mr. Wells, I will explain why his thinking is flawed, misplaced, or irrelevant and should be given little weight by the Commission in selecting the most appropriate basis upon which the Company should derive its weather normalized gas volumes.

Q. PLEASE EXPLAIN THE RELEVANCE OF MR. WELLS' POINT THAT 30-YEAR NORMALS ARE STANDARDS AND OFFICIALLY GENERATED NUMBERS.

A. His point has no relevance whatsoever in selecting the most appropriate basis for the Company's weather normal. While it is true that NOAA generates a 30-year HDD average, and uses it as a standard (together with the WMO) for "normal weather," it is also true that the NOAA attaches no significance to this average other than it is an historic average. In fact, on its website, NOAA provides some very informative commentary on the topic of "*what is a climate normal?*"

> *"The term climatic "normal" had faced a dilemma since its introduction a century and a half ago. As noted by Guttman (1989), "Climatologists generally*

understand that a normal is simply an average of a climatic element over thirty years...a normal value is usually not the most frequent value not the value above which half the cases fall." The casual user, however, tends to (erroneously) perceive the normal as what they should expect. Dr. Helmut E. Landsburg, who became Director of Climatology of the U.S. Weather Bureau in 1954 and, later, Director of Environmental Data Service, summarized the dilemma quite well over four decades ago (Landsburg, 1955). "The layman is often misled by the word. In his every-day language the word normal means something ordinary or frequent...When (the meteorologist) talks about "normal," it has nothing to do with a common event...For the meteorologist the "normal" is simply a point of departure or index which is convenient for keeping track of weather statistics...We never expect to experience "normal" weather." [1]

This referenced section of the NOAA website goes on to discuss the appropriateness of using its "normals" for predictive purposes - "Normals are best used as a base against which climate during the following decade can be measured." I interpret this to mean that the NOAA weather normals should not be used to represent current or future weather conditions as would be required in a utility's test year. Based on these explanations, it is clear that the standard for normal weather used by NOAA and the WMO has no meaningful significance within the context of a test year used for utility ratemaking purposes. Moreover, the fact that 30-year normals calculated by NOAA might make them "official" measures confers no special value on them.

Q. DO YOU AGREE WITH MR. WELLS THAT THE COMMISSION HAS UTILIZED 30-YEAR NORMALS AS ITS PRACTICE OR POLICY?

[1] http://www.ncdc.noaa.gov/oa/climate/normals/usnormals.html

A. Yes, I do. However, this point does not dispose of the threshold question of which measure of normal weather is the most appropriate basis for weather normalizing MGE's gas volumes. In my opinion, the use of the 30-year average by the Commission is effectively a policy without foundation.

Q. HAVE YOU REVIEWED THE STAFF 'ANALYSIS" REFERRED TO BY MR. WELLS IN SUPPORT OF HIS 30-YEAR WEATHER NORMAL?

A. Yes. The Staff "analysis" consists of the following two pieces of rate case testimony:

1. Testimony on behalf of Staff by then Missouri Climatologist Dr. Wayne Decker in Case No. GR-92-165 (Laclede Gas Company)
2. Testimony on behalf of Staff by then Missouri State Climatologist Dr. Steve Qi Hu in Case No. GR-99-315 (Laclede Gas Company)

Q. PLEASE DESCRIBE THE TYPE AND EXTENT OF THE ISSUES RAISED IN THIS STAFF TESTIMONY.

A. In the "Decker" testimony, he addresses his preference for a 30-year weather normal over the weather normal proposed by Laclede Gas Company which used the entire weather history records (from the 1890s according to the testimony) for St. Louis. Interestingly, in my opinion, the reasons given by Dr. Decker in support of his preference for a 30-year weather normal also are supportive of the use of a 10-year weather normal as proposed by the Company. In the "Qi Hu" testimony, all but one question and answer addresses

weather issues other than the basis for establishing a utility's weather normal. In Dr. Qi Hu's words, the purpose of his testimony, "...will explain the necessity for adjusting the station temperatures and a procedure I used in correcting the Saint Louis Lambert International Airport station temperature time series for the period 1961-1998."

Q. DOES THIS PRIOR TESTIMONY PROVIDE ANY MEANINGFUL "ANALYSIS" TO SUPPORT THE USE OF A 30-YEAR WEATHER NORMAL OVER THE COMPANY'S PROPOSAL TO USE A 10-YEAR WEATHER NORMAL?

A. No, it does not. More importantly, in this proceeding, the Staff has made no attempt to analyze the reasonableness of its proposed 30-year weather normal within the specific context of MGE's service areas. This is in contrast to the detailed weather analysis presented by the Company in support of its proposed 10-year weather normal, as presented in my direct testimony and supporting schedules.

Q. PLEASE EXPLAIN HOW THE CHOICE OF A WEATHER NORMAL FOR THE COMPANY RELATES TO THE CONCEPT OF A TEST YEAR AND MR. WELLS' UNDERSTANDING OF THIS CONCEPT.

A. In his response to a Company data request, Mr. Wells stated his belief that "Missouri is a test year state." On that basis alone, he apparently disagrees with the notion that the choice of a weather normal for MGE should best reflect the weather expected to occur

when its rates in this case go into effect. Very simply, Mr. Wells seems to reject the forward-looking nature of establishing a utility's rates, and the importance of deriving the utility's revenue requirement and associated rates for its recovery, using a test year that is reflective of costs and sales levels that will be experienced. This concept is a fundamental tenet of utility ratemaking and has been acknowledged by other experts in the field.[2] In fact, this Commission has taken a similar view of the test year concept when it stated in a prior proceeding that, "the purpose of using a test year is to create or construct a reasonably expected level of earnings, expenses and investment during the future period during which the rates to be determined herein will be in effect."[3]

Q. ASIDE FROM ITS ABILITY TO REASONABLY REPRESENT NORMAL WEATHER DURING THE TIME A UTILITY'S RATES ARE IN EFFECT, WHAT OTHER ATTRIBUTE SHOULD AN APPROPRIATELY ESTABLISHED WEATHER NORMAL POSSESS?

A. It is my judgment that the utility's weather normal should create a situation where the utility will have an equal opportunity to gain or lose from the method. Under the

[2] For example, see The Regulation of Public Utilities by Charles F. Phillips, Jr. At page 182, "*A Commission is setting rates for the future, but it has only past experience (expenses, revenues, demand conditions) to use as a guide. Philosophically, the strict test year assumes the past relationship among revenues, costs, and net investment will continue into the future.*"

[3] See the Report and Order of the Missouri Public Service Commission in Case Nos.TR-77-214 and TR-79-213, *Re Southwestern Bell Telephone Company*, 23 Mo.P.S.C. (N.S.) 374, 377 (1980).

Commission's current method for selecting a utility's weather normal - which is based upon the 30-year HDD average - the situation has been created for the Company where it is much more likely to lose than to gain. This imbalance is evident upon review of the Company's margin losses experienced in its residential class as contained in Schedule RAF-9 presented with my direct testimony.

Q. ARE THERE OTHER GAS UTILITIES IN NORTH AMERICA THAT USE A 10-YEAR AVERAGE FOR THEIR WEATHER NORMALIZATION PROCESS?

A. Yes. Gas utilities in North America that employ a 10-year average for purposes of weather normalizing their gas volumes include: Questar Gas Company, Southwest Gas Corporation, Nicor Gas Company, Southern Union Gas Company (various local Texas jurisdictions), New England Gas Company (recently acquired by National Grid), Citizens Utilities Company (Arizona jurisdiction), Vermont Gas Systems, and Terasen Gas (formerly BC Gas Utility Limited now part of Kinder Morgan).

Q. PLEASE SUMMARIZE THE REASONS WHY THE COMMISSION SHOULD ADOPT THE COMPANY'S PROPOSAL FOR A 10-YEAR WEATHER NORMAL FOR MGE.

A. The Commission should adopt the Company's 10-year HDD average for the following important reasons:

1. As discussed in my direct testimony, the Company's 10-year HDD average more accurately reflects the changing trends of the weather, which is exactly what is sought when using this average, for ratemaking purposes, as a measure of normal weather in the Company's service areas;
2. The 10-year weather normal provides a more balanced opportunity for the Company to win or lose compared to the asymmetry demonstrated historically under Staff's 30-year weather normal;
3. The 10-year weather normal more closely tracks the ongoing variation in HDD compared to the 30-year weather normal (see pages 3 and 4 of Schedule RAF-3);
4. The 10-year weather normal is a partial solution to the continuing margin losses experienced by the Company caused by warmer than normal weather (as defined under a 30-year weather normal), and the resulting lower use per customer and lower base revenues than those approved by the Commission;
5. The Company's proposed 10-year weather normal uses the most recent weather data available to establish the basis for the Company's normal sales volumes, while the Staff's 30-year weather normal relies upon weather data that already is five (5) years old, and can be as much as ten (10) years old depending on the timing of a particular utility's rate case filing;
6. In more recent times, the 10-year weather normal has been adopted by other state utility commissions and implemented by the gas utilities under their jurisdiction; and

7. The Commission can take comfort in the fact that, as I previously demonstrated in my direct testimony, the odds of returning back to the colder climatic conditions represented by the current NOAA 30-year average are very low.

2. RATE DESIGN

A. Small General Service

Q. PLEASE EXPLAIN WHY YOU RECOMMEND THAT THE COMMISSION REJECT STAFF'S RATE DESIGN PROPOSAL FOR THE COMPANY'S SGS CLASS.

A. Staff's rate design proposal sponsored by Staff witness Ross does not address the continuing margin losses in this class caused by declining use per customer and variations in weather from normal levels. Under Staff's proposal, the current monthly customer charge and commodity charges would be increased by the same percentage that the class revenues are proposed to be increased. This approach is in lieu of proposing a SFV rate design as Staff had done for the Company's residential rate class. According to Staff witness Ross, she is concerned about determining a "fair Delivery Charge for all customers currently taking service on that tariff" because of the diversity in size and usage patterns among SGS customers.

While I agree with Staff's comments concerning diversity in the SGS class, and the use of a SFV rate design, I do not believe that justifies ignoring the fixed cost nature of gas

delivery service provided by MGE and the need to implement a ratemaking solution that addresses the Company's continuing margin losses. Specifically, the Company has proposed to increase the monthly Customer Charge to $31.00, which is supported by its cost of service study results, and to decrease the present Commodity Charges to levels necessary to recover the balance of the proposed revenue increase assigned to this class not recovered through the Customer Charge. While both the Company and Staff have embraced the recovery of MGE's fixed costs through the fixed components of rates, as evidenced by their conceptual agreement on the use of a SFV rate design for the residential class, Staff does not appear to be as receptive to comparable treatment of the recovery of fixed costs through fixed charges in the SGS class. Yet, with almost $35 million in fixed costs valued at the Company's proposed rate of return, the SGS class represents an important part of the Company's ability to recover its fixed cost of service. As such, it is critical that the traditional rate structure for the SGS class, or a suitable alternative, properly reflects the recovery of these fixed costs in the fixed portion of the rate structure. Staff's proposed rate design does not accomplish this important objective while the Company's rate design proposal does.

If the Commission is unwilling to implement MGE's rate design proposal for the SGS class, MGE would suggest – as an alternative to the Staff's proposed SGS rate design which will perpetuate, and even exacerbate, MGE's chronic problem of under-recovering fixed costs by way of volumetric rate elements – placing the entirety of the SGS rate

increase on the fixed rate element (i.e., the customer charge) and leaving the existing volumetric rate elements for the SGS class as is.

B. Residential Service

Q. PLEASE ELABORATE ON THE DEFICIENCIES IN OPC WITNESS MEISENHEIMER'S PROPOSAL TO RETAIN THE "STATUS QUO" WITH REGARD TO THE COMPANY'S CURRENT RESIDENTIAL CUSTOMER CHARGE STARTING WITH YOUR POINT THAT THE OPC'S PROPOSAL IS NOT REFLECTIVE OF THE TRUE COSTS OF SERVING THE COMPANY'S RESIDENTIAL CUSTOMERS.

A. Since Ms. Meisenheimer relies on a flawed cost of service study as the basis for her customer charge recommendation, OPC's rate design proposal does not reflect the true cost of serving the residential customer class. The specific reasons why OPC's cost of service study is flawed are presented in the rebuttal testimony of Company witness Ronald J. Amen. In contrast to the OPC's rate design proposal, the Company's proposed SFV rate structure for its residential class achieves a fundamental objective of ratemaking--the proper alignment of costs with revenues and rates - which the OPC's proposal fails to achieve. In fact, it is my opinion that the OPC's proposal is regressive in nature in that it moves the Company's rates further away from the true cost of providing gas delivery service.

As described in my Direct Testimony, under the SFV rate structure, residential customers will simply pay a flat monthly fee for the delivery services provided by MGE, and will continue to pay on a volumetric basis through the Purchased Gas Adjustment ("PGA") for the actual amount of gas commodity used each month. The SFV rate structure properly reflects the true fixed cost nature of the gas distribution business, allowing MGE a reasonable opportunity to recover its fixed costs of providing gas delivery service, while its customers will pay for that service in an appropriate and equitable manner. Finally, the pricing of the Company's gas delivery services in this manner properly portrays to its customers: (1) the fixed nature of the underlying costs; (2) the delivery-only characteristics of the service; and (3) the fact that natural gas is the real commodity being purchased via the Company's gas delivery system.

Q. PLEASE EXPLAIN WHY THE OPC'S RATE DESIGN PROPOSAL WILL PERPETUATE THE INTRA-CLASS CROSS SUBSIDIES THAT EXIST WITHIN THE COMPANY'S RESIDENTIAL CLASS.

A. The higher Basic Service Charge proposed by the Company is fairer to customers in the residential class than the OPC's proposal and will cure the chronic cross-subsidy that exists between small and large residential customers caused by the mismatch between their costs of service and base rate revenues. Under the OPC proposal, customers who have very little annual usage per month can pay less than half of their allocated delivery service costs, while very high use customers pay well over 100%. This is because the

monthly customer charge of $11.65 is substantially less than the allocated cost of service to residential customers of fixed delivery service costs, so low use customers tend to underpay for these costs. OPC's largely volumetric residential rate design will perpetuate, and likely exacerbate, the intra-class cross subsidies that exist within the residential class – some customers will continue to overpay for gas delivery service while others will continue to underpay.

Under the Company's SFV proposal, each residential customer, regardless of gas consumption, pays the full share of allocated fixed delivery service costs, leaving none of these costs to be collected through a volumetric charge. Accordingly, a gas customer will not "overpay" or "underpay" his or her share of the delivery service costs based on the customer's consumption relative to the average consumption for the class.

Since the Company's fixed delivery service cost is actually $27.50 per month for a residential customer, a monthly customer charge of any amount less than $27.50 per month means customers will pay either more or less than their 'fair' amount, depending upon the individual customer's annual usage relative to the class average. The more the charge deviates from the cost-based $27.50 amount, the more unfair the rate design becomes to its customers. Compared with the Company's proposal, the OPC proposal will result in greater over and underpayment by individual residential customers based on their relative usage - and in greater bill instability on a monthly and seasonal basis.

Q. BUT SHOULDN'T THE COMPANY'S RESIDENTIAL CUSTOMERS "PAY MORE AS THEY USE MORE" NATURAL GAS, AND DOESN'T THE COMPANY'S SFV RATE DESIGN PROPOSAL PRECLUDE THAT FROM HAPPENING?

A. No. The explanation to fully understand this misperceived sense of customer equity is tied to what they are using more of – either gas delivery service or the gas commodity itself. If a customer increases its use of gas delivery service from the Company, it is entirely equitable to charge residential customers the same fixed rate for gas delivery service because, as I discussed previously, the costs incurred to provide this delivery service do not vary with volume taken by the customer.

For the gas commodity itself, the Company's residential customers will continue to pay more for this service as they use more under a SFV rate design - just as they do currently under MGE's Purchased Gas Cost Adjustment ("PGA") mechanism – because the Company incurs additional gas commodity costs as its customers demand more gas. The SFV rate design proposal will not change the application of the PGA to customers' monthly gas bills. There is a close alignment of costs with rates, thus, making it equitable to charge customers more as they use more gas commodity supplied by the Company.

Q. PLEASE EXPLAIN WHY THE OPC'S RATE DESIGN PROPOSAL WILL CAUSE MORE RESIDENTIAL CUSTOMERS TO OVERPAY BY A GREATER AMOUNT FOR GAS SERVICE DURING COLDER THAN NIRMAL PERIODS.

A. The OPC's largely volumetric rate design proposal will cause more residential customers to overpay by a greater amount for gas service during colder than normal periods because the Commodity Charge for that rate class will be disproportionately increased.

While the Company's proposed SFV rate design will increase the average customer's bills in the summer and shoulder months, when customer bills are at their lowest levels, it will decrease or moderate the increase in customer's bills in the winter months, when bills are at their highest levels. The customer bill analysis described in my Direct Testimony shows that under the Company's proposed SFV rate design, approximately 72% of MGE's customers will experience a bill decrease in the month of January, typically the coldest month of the year, with the remaining customers experiencing a bill increase (See Schedule RAF-11). Moreover, under colder than normal weather, these same customers will experience greater decreases in their bills, and there will be a greater number of customers who would also experience decreases in their bills under the proposed SFV rate design.

Q. PLEASE EXPLAIN WHY THE OPC'S RATE DESIGN PROPOSAL WILL NOT PROVIDE AN APPROPRIATE RATEMAKING FOUNDATION FOR THE

COMPANY TO OFFER ENERGY EFFICIENCY AND CONSERVATION PROGRAMS FOR ITS CUSTOMERS.

A. The OPC's rate design proposal will not provide an appropriate ratemaking foundation for the Company to offer energy efficiency and conservation programs for the benefit of its customers because of the disincentive the Company has to promote such programs caused by revenues and sales that are directly linked through the OPC's increased emphasis placed on a volume-based rate structure in its rate design proposal. OPC's rate design proposal requires that most of the residential revenue requirement for fixed costs be recovered through volumetric rates, so that MGE can fully recover these costs only if its customers consume a certain level of gas. Basing MGE's rates upon a set level of gas volumes creates a significant financial disincentive for it to aggressively promote energy efficiency for its customers. When MGE's customers use less gas, the Company's financial performance suffers because recovery of fixed costs is reduced in proportion to the reduction in gas sales.

As I indicated in my Direct Testimony, the declines in gas use per customer have been substantial for MGE over the last ten years (see Schedule RAF-7). The annual average use per customer has declined significantly in MGE's residential and general service classes. Over the last seven years, MGE incurred margin losses in each of those years due to fluctuations in gas volumes caused primarily by declining use per customer and variations in weather from normal levels (See Schedule RAF-9). The total margin losses

during that period amounted to almost $42 million, or approximately $6 million per year. Under its proposed SFV rate design, the Company will be able to promote energy efficiency and conservation programs for its customers without the continual real threat of margin losses due to declining gas sales per customer. It is therefore entirely reasonable for the Company to condition its willingness to undertake the natural gas conservation initiatives described in MGE witness Hendershot's rebuttal testimony on the Commission's adoption of the SFV rate design proposed by MGE and endorsed by the Staff.

Q. IS THERE A FUNDEMENTAL PRESUMPTION UNDERLYING THE POSITION OF OPC WITNESS MEISENHEIMER WITH REGARD TO HER PROPOSAL TO LEAVE THE RESIDENTIAL CUSTOMER CHARGE AT ITS CURRENT LEVEL?

A. Yes. A fundamental presumption of OPC's residential rate design proposal is that a volumetrically weighted rate design provides the most appropriate prices signals to customers related to gas consumption. In reality, however, such a rate design conveys inaccurate and improper price signals to customers, because it recovers fixed costs through the volumetric components of the utility's rate structure. As described earlier in my rebuttal testimony, this undesirable situation can: (1) increase revenue variability for the Company, (2) contribute to the instability of customer bills, and (3) needlessly inflate bills in the winter months, when customers face the greatest pressure on their household

budgets from utility bills. The Company's SFV rate design proposal minimizes these undesirable effects and aligns the price signals to customers with the underlying costs of providing delivery service.

Q. CAN THE PARTICULAR RATE DESIGN ULTIMATELY APPROVED FOR THE COMPANY MAKE THE CHOICE OF A WEATHER NORMAL A MORE IMPORTANT CONSIDERATION TO MGE?

A. Yes. If the Commission decides not to adopt the SFV rate design concept proposed by the Company and the Staff, and/or to the extent the monthly customer charges of MGE's other rate classes are not increased to the cost-based levels proposed by MGE, it makes the choice of a weather normal a much more important consideration to the Company in being afforded a reasonable opportunity to recover its fixed costs of providing gas delivery service to its customers. This is because the level of the Company's volumetrically-derived Commodity Charges has a strong impact on: (1) the Company's ability to recover through rates its approved revenue requirement; and (2) the variability of those revenues caused by changes in the weather and its customers' gas usage.

Under the OPC's rate design proposal, the level of the Company's current Commodity Charge in its residential class will increase, with the anticipated increase in its revenue requirement, subjecting a greater portion of MGE's revenue requirement to the vagaries of weather. Such a rate design will undoubtedly further deteriorate the Company's

financial situation in warmer than normal weather – which is exactly the outcome the Company is seeking to remedy in this proceeding. As more of the Company's revenue requirement is designed to be recovered through its Commodity Charges, it places more importance on getting the sales volume level right – which is directly impacted by the choice of weather normal.

Q. PLEASE SUMMARIZE THE REASONS WHY THIS COMMISSION SHOULD REJECT THE OPC'S RATE DESIGN PROPOSAL.

A. The Commission should reject the OPC's rate design proposal for the following reasons:

- ✓ It is not cost-based;
- ✓ It will perpetuate, and likely exacerbate, existing cross-subsidies among residential customers;
- ✓ It will cause more residential customers to overpay by a greater amount in the winter;
- ✓ It ignores the critical problem of the Company's margin revenue losses; and
- ✓ It is not supportive of energy efficiency and conservation initiatives.

Q. DO YOU HAVE COMMENTS ON THE STAFF'S RATE DESIGN PROPOSAL FOR THE COMPANY'S RESIDENTIAL CLASS?

A. Yes. As I discussed earlier, I believe the Company and Staff are in conceptual agreement on the rate design that is most appropriate for MGE's residential customers – a SFV rate structure. As a point of clarification, the Company does not accept the Staff's cost of service study, which is largely based on Staff's capacity utilization method of allocating the demand portion of distribution mains advocated by Staff witness Beck (as discussed by Company witness Amen in his rebuttal testimony). However, both the Staff and Company supported rate design proposals provide for the recovery of the entire amount of the residential non-gas revenue requirement in a single fixed monthly charge (i.e., the Staff's "Delivery Charge" and the Company's "Basic Service Charge").

Differences between the originally filed total revenue increase and class revenue allocation proposals by Staff and the Company, with the class revenue allocations based on their respective cost of service studies, led to the differing levels of fixed charge rates for the residential class (i.e., Staff's Delivery Charge of $23.48 per month versus the Company's Basic Service Charge of $27.50 per month). With the agreement between the parties regarding the allocation of class revenue responsibility, the foregoing differences should be resolved when final rates are submitted to the Commission for approval.

C. Large General Service and Large Volume Service

Q. DO YOU HAVE ANY COMMENTS REGARDING THE STAFF'S PROPOSED RATE DESIGN FOR THE LGS AND LVS CLASSES?

A. Although MGE does not oppose the rate design the Staff has proposed through its direct testimony for the LGS and LVS classes, other proposals for these rate classes may be made by other parties in rebuttal testimony. If so, the Company reserves the ability to comment on those proposals in surrebuttal testimony.

Q. MR. FEINGOLD, DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

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-2006-0422

AFFIDAVIT OF RUSSELL A. FEINGOLD

STATE OF Pennsylvania)
) ss.
COUNTY OF Allegheny)

Russell A. Feingold, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Rebuttal 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.

RUSSELL A. FEINGOLD

Subscribed and sworn to before me this 21st day of November 2006.

Notary Public

My Commission Expires: 10/29/09

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Sandra L. Tomazich, Notary Public
City Of Pittsburgh, Allegheny County
My Commission Expires Oct. 29, 2009
Member, Pennsylvania Association of Notaries