

Exhibit No.: _____

Issues: Additional Evidence
Rate Design

Witness: Michael R. Noack

Sponsoring Party: Missouri Gas Energy

Case No.: GR-2009-0355

Date Testimony Prepared: November 9, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

FURTHER EVIDENCE CONCERNING RATE DESIGN

PREPARED BY MICHAEL R. NOACK

AS REQUIRED BY PRESIDING OFFICER

Jefferson City, Missouri

NOVEMBER 9, 2009

FURTHER EVIDENCE CONCERNING RATE DESIGN

BY MICHAEL R. NOACK

CASE NO. GR-2009-0355

NOVEMBER 9, 2009

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Michael R. Noack and my business address is 3420 Broadway, Kansas City,
3 Missouri 64111.

4

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

6 A. I am employed by Missouri Gas Energy (“MGE” or the “Company”) as Director of Pricing and
7 Regulatory Affairs.

8

9 **Q. HAVE YOU TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE**
10 **COMMISSION (THE “COMMISSION”) IN THIS PROCEEDING?**

11 A. Yes. I filed direct testimony in this proceeding on April 2, 2009, updated test year direct
12 testimony on June 19, 2009, rebuttal testimony on September 25, 2009, and surrebuttal
13 testimony on October 24, 2009. This testimony on behalf of the Company addressed MGE’s
14 requested revenue increase and supporting total revenue requirement. That testimony was
15 offered and received into the record on Monday, November 2, 2009, when I testified in
16 Jefferson City, Missouri.

17

1 **Q. WHAT IS THE PURPOSE OF THIS FILING?**

2 A. The purpose of this filing is to produce additional evidence on the issue of rate design as
3 directed by Commissioner Davis on November 2, 2009. Commissioner Davis tasked me to
4 prepare and present documents which contain information on an alternative rate design for
5 the Company patterned after the current rate design of Laclede Gas Company ("Laclede") for
6 its residential and commercial & industrial rate classes.

7
8 **Q. PLEASE DESCRIBE THE SPECIFIC REQUEST THAT COMMISSONER DAVIS
9 MADE DURING YOUR CROSS-EXAMINATION ON NOVEMBER 2, 2009.**

10 A. Commissioner Davis asked me to submit a draft rate schedule for the Company's Residential
11 Gas Service ("RS") rate class that maintains the current Fixed Monthly Charge of \$24.62 per
12 month and that collects the amount of any rate increase through a volumetric block rate. In
13 addition, Commissioner Davis requested an alternative rate design using similar design
14 parameters for the Company's proposed new Small General Service ("SGS") rate class.

15
16 **Q. CAN YOU BRIEFLY DESCRIBE THE RATE DESIGN OF LACLEDE TO WHICH
17 COMMISSIONER DAVIS REFERRED DURING YOUR CROSS-EXAMINATION?**

18 A. Yes. The rate design referred to by Commissioner Davis, sometimes referred to as a weather
19 mitigation rate design, is employed by Laclede in its Residential General Service (RG") and
20 Commercial & Industrial General Service (Class I through Class III) rate schedules. The rate
21 structure consists of a monthly Customer Charge and two volumetric rate blocks whose rate
22 levels vary by season. The first rate block in the RG rate schedule is set at 30 therms per

1 month. In addition, Laclede's Purchased Gas Adjustment ("PGA") works in tandem with
2 this rate design through PGA factors that vary by season and by rate block. Laclede defines
3 the Summer period as the months of May-October and the Winter period as the months of
4 November-April.

5
6 **Q WHAT STEPS DID YOU FOLLOW TO DEVELOP A LACLEDE-TYPE RATE**
7 **DESIGN FOR THE COMPANY'S RS AND NEW SGS RATE CLASSES?**

8 A. The steps that I followed to develop a Laclede-type rate design for the Company's RS and
9 new SGS rate classes consisted of:

- 10 1. Developing the Company's proposed revenues by rate class using a rate increase of
11 \$20 million strictly for purposes of illustration;
- 12 2. Determining the gas usage in the designated rate blocks for the Company's RS and
13 new SGS rate classes;
- 14 3. Determining the revenue derived from each rate class's Monthly Fixed Charge; and
15 4. Determining the volumetric rate levels in each applicable rate block based on the
16 balance of class revenues not recovered through the Monthly Fixed Charges.

17 **Attachment A**, hereto presents the derivation of the Laclede-type rate design for the
18 Company's RS and new SGS rate classes based on completing the steps I have described.

19
20 **Q. WOULD YOU PLEASE FURTHER DESCRIBE THE CONTENTS OF**
21 **ATTACHMENT A?**

22 A. Yes. **Attachment A** presents the proposed non-gas revenues by rate class based on the

1 Adjusted and Normalized Present Non-Gas Revenues for the Company of \$186,802,700 (as
2 per the jointly-filed Partial Stipulation and Agreement) and for illustration purposes, an
3 assumed total revenue increase of \$20 million. The proposed non-gas revenues for the RS
4 and new SGS rate classes to be collected through the Laclede-type rate design is
5 \$143,598,321 and \$27,592,708, respectively. The bottom of **Attachment A** presents the rate
6 revenue and unit charges for the Company's RS and new SGS rate class under a Laclede-type
7 rate design.

8 **Q. HAVE YOU PREPARED DRAFT RATE SCHEDULES TO REFLECT THE**
9 **LACLEDE-TYPE RATE DESIGN FOR THE COMPANY'S RS AND NEW SGS**
10 **RATE CLASSES?**

11 A. Yes. **Attachment B** presents draft rate schedules for the Company's RS and new SGS rate
12 classes using the Laclede-type rate design based on the revenue and rate levels derived in
13 **Attachment A.**

14
15 **Q. WHAT ASSUMPTIONS DID YOU MAKE TO APPLY THE LACLEDE-TYPE RATE**
16 **DESIGN TO THE COMPANY'S RS AND NEW SGS RATE CLASSES?**

17 A. It was necessary to make certain assumptions and determinations to apply the Laclede-type
18 rate design to the Company's RS and new SGS rare classes since the manner in which
19 MGE's rates have evolved over time differed from how the rates of Laclede have evolved.
20 With this consideration in mind, I attempted to reasonably and practically capture both the
21 volumetric nature and rate block configuration of the Laclede-type rate design in the
22 Company's RS and new SGS rate classes.

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First, it was determined that Laclede’s Commercial & Industrial General Service- Class I (“CI”) rate class was the most equivalent rate class to the Company’s new SGS rate class. Laclede’s CI rate class includes customers whose annual gas consumption is less than 5,000 therms. The Company’s new SGS rate class includes customers whose annual gas consumption is less than 10,000 Ccf. The next largest commercial and industrial rate class for Laclede reflects customers who use less than 50,000 therms per year.

Second, it was decided not to modify the Company’s PGA factors to parallel the variation in the PGA factors used by Laclede. This approach simplifies the alternative rate design and avoids skewing price signals to customers.

Third, It was determined that a Monthly Fixed Charge of \$34.00 should be established for the Company’s new SGS rate class to maintain the cost-guided relationship between the RS and SGS Monthly Fixed Charges that have been proposed by the Company in this proceeding. The Monthly Fixed Charge of \$34.00 maintains that relationship relative to the Monthly Fixed Charge of \$24.62 for the RS rate class.

Fourth, the amount of non-gas revenues collected in each season under the SGS rate class with a Laclede- type rate design was determined based on the percentage of non-gas revenues recovered by season in this rate class under the Company’s present rates.

1 Finally, it was decided to establish the tail block rate at zero in the summer for the RS rate
2 class in light of the level of non-gas fixed costs already recovered in the summer through a
3 Monthly Fixed Charge of \$24.62.

4
5 **Q. PLEASE EXPLAIN HOW THE LACLEDE-TYPE RATE DESIGN FOR THE**
6 **COMPANY'S RS RATE CLASS WILL IMPACT CUSTOMERS' GAS BILLS.**

7 A. Pages 1 and 2 of **Attachment C** present monthly bill comparisons for various ranges of
8 monthly gas consumption for RS customers and an annual bill comparison for the average
9 RS customer.

10
11 **Q. PLEASE EXPLAIN HOW THE LACLEDE-TYPE RATE DESIGN FOR THE**
12 **COMPANY'S NEW SGS RATE CLASS WILL IMPACT CUSTOMERS' GAS BILLS.**

13 A. Pages 3 and 4 of **Attachment C** present monthly bill comparisons for various ranges of
14 monthly gas consumption for the Company's SGS customers and an annual bill comparison
15 for the average SGS customer.

16
17 **Q. HAS THE COMPANY HAD AN OPPORTUNITY TO CONSIDER THE POTENTIAL**
18 **APPLICATION OF THE LACLEDE-TYPE RATE DESIGN TO THE CUSTOMERS**
19 **SERVED UNDER ITS RS AND NEW SGS RATE CLASSES, AS REFLECTED IN**
20 **ATTACHMENTS A AND B?**

21 A. Yes. The Company believes that the Laclede-type rate design reflected in **Attachments A**
22 **and B** can serve as a viable alternative to the Company's Straight Fixed-Variable ("SFV")

1 rate design. The Company is willing to adopt this rate design in the spirit of achieving a
2 consensus on this issue. In addition, if the rate design reflected in Attachments A and B is
3 adopted in this proceeding, the Company would be willing to move forward with funding and
4 administering its energy efficiency and conservation programs for the RS and new SGS
5 classes of customers as the Company has proposed in this proceeding.

6

7 **Q. DOES THIS CONCLUDE YOUR PRESENTATION OF ADDITIONAL EVIDENCE**
8 **AS REQUIRED BY COMMISSIONER DAVIS?**

9 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's)
Tariff Sheets Designed to Increase Rates) Case No. GR-2009-0355
for Gas Service in the Company's Missouri)
Service Area.)

AFFIDAVIT OF MICHAEL R. NOACK

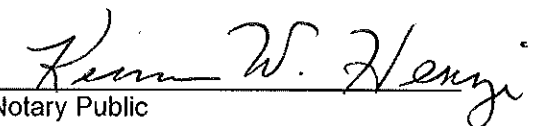
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Further Evidence Concerning Rate Design in question and answer form, to be presented in the above case; that the answers in the foregoing Further Evidence Concerning Rate Design 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.



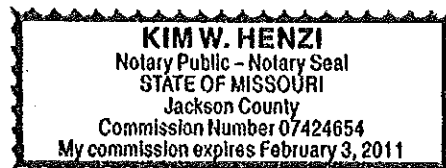
MICHAEL R. NOACK

Subscribed and sworn to before me this 9th day of November 2009.



Notary Public

My Commission Expires: 2-3-11



Missouri Gas Energy - Case No. GR-2009-0355
Total Summary

	Total Bills	Total Usage	Total Revenues	Revenue/Rate Shifts	Total Rev After Shifts	Total Rate Increase	Total Rev After Incr
Residential Service	5,242,168 (1)	358,909,401	130,617,245	400,000	131,017,245	12,581,076	143,598,321
Small General Service	729,450 (2)	145,335,010	35,863,929	(10,688,700)	25,175,229	2,417,479	27,592,708
Large General Service	3,440 (3)	13,503,795	2,092,961	10,688,700	12,781,661	1,227,373	14,009,034
Transportation Service	5,532 (4)	265,667,602 (4)	13,438,884	(400,000)	13,038,884	1,282,073	14,290,957
Miscellaneous	-	-	4,789,682	2,521,998	7,311,680	-	7,311,680
Total Sales (Ccf)	5,980,590	783,415,807	186,802,701		189,324,699	17,478,002	206,802,701
			<u>20,000,000</u>	<u>(2,521,998)</u>	<u>17,478,002</u>		<u>9,603%</u>

(1) From Loos Rebuttal Schedule 1, Column H, Line 1
 (2) From Loos Rebuttal Schedule 1, Column F, Line 2
 (3) From Loos Rebuttal Schedule 1, Column F, Line 3
 (4) Anne Ross email 10/21/09 at 3:53 pm

Residential Rate

	Bills	Fixed Charge	Revenue	
Summer	2,579,886	24.62	\$ 63,516,790	
Winter	2,662,282	24.62	\$ 65,845,386	
	<u>5,242,168</u>		<u>\$ 129,062,176</u>	
			<u>\$ 143,598,321</u>	
			<u>\$ 14,536,145</u>	
				\$ 0.1895

1st block winter delivery charge per Ccf - 30 Ccf

Small General Service Rate

	Bills	Fixed charge	Revenue	Total cust chg rev	1st block Ccf rate - 50 Ccf
Winter	356,741	34.00	\$ 12,129,194	proforma rev with increase	
Summer	352,868	34.00	\$ 11,317,512	volumetric revenue	
			<u>\$ 23,446,706</u>		
			<u>\$ 27,592,708</u>		
			<u>\$ 4,146,002</u>		
			<u>\$ 3,316,802</u>		
			<u>\$ 829,200</u>		
					1st block Ccf rate - 50 Ccf
					1st block Ccf rate - 50 Ccf

FORM NO. 13
P.S.C. MO. No. 1
Canceling P.S.C. MO. No. 1

Eighth Revised
Seventh Revised

SHEET No. 25
SHEET No. 25

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

RESIDENTIAL GAS SERVICE
RS

AVAILABLE

At points on the Company's existing distribution facilities located in the communities specified in the Index.

APPLICABLE

To natural gas service supplied at one point of delivery to residential customers for domestic use by the customer or by members of customer's household for nonbusiness, noncommercial or nonindustrial purposes. Such domestic use shall include space heating, water heating, cooking, air conditioning, and other household uses.

Service hereunder is not available to locations served through a master meter or to a location other than the customer's domicile.

NET MONTHLY BILL

Rate – The monthly charge shall consist of a fixed monthly charge plus a charge for gas used as set forth below:

Fixed Monthly Charge:

\$24.62 per month

Summer billing
Months of May-
October

Winter billing
Months of November-
April

Charge for gas used – per Ccf

For the first 30 Ccfs used per month	\$0.0000	\$0.1895
For all Ccfs used in excess of 30 Ccfs	\$0.0000	\$0.0000

DATE OF ISSUE _____
month day year

DATE EFFECTIVE _____
month day year

ISSUED BY: Michael R. Noack

Director, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

FORM NO. 13
P.S.C. MO. No. 1
Canceling P.S.C. MO. No. 1

Seventh Revised
Sixth Revised

SHEET No. 28
SHEET No. 28

Missouri Gas Energy,
a Division of Southern Union Company

For: All Missouri Service Areas

SMALL GENERAL GAS SERVICE
SGS

NET MONTHLY BILL

Rate-The monthly charge shall consist of a fixed monthly charge plus a charge for gas used as set forth below:

Fixed Monthly Charge:

\$34.00 per month

Volumetric Delivery Charge:

For all gas delivered during the billing months of November through April:

\$0.22730 per Ccf for the first 50 Ccf delivered, plus
\$0.00000 per Ccf for all additional gas delivered.

For all gas delivered during the billing months of May through October:

\$0.16080 per Ccf for the first 50 Ccf delivered, plus
\$0.00000 per Ccf for all additional gas delivered.

In the event that a billing cycle has usage in more than one calendar month, the volumetric delivery charge will be prorated.

Standby facilities charge - When a customer requests (in writing) retention of a meter larger than what is typical for the class of service that the customer has subscribed, the Company may charge the customer the Fixed Monthly Charge commensurate with the size of meter being retained. In situations where a customer has two meters on the customer's premise, MGE may charge the customer for the higher of the two Fixed Monthly Charges commensurate with the size of the larger of the two meters being retained, but shall not bill the customer the Fixed Monthly Charges for both meters. If the customer does not agree (in writing) to pay the Fixed Monthly Charge commensurate with the larger sized meter being retained, MGE is free to remove the un-utilized meter.

Minimum

The higher of the above rate for zero consumption plus applicable adjustments and surcharges, but subject to the Company's proration rule contained in Section 7.02 of the Company's General Terms and Conditions.

DATE OF ISSUE _____
month day year

DATE EFFECTIVE _____
month day year

ISSUED BY: Michael R. Noack Director, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

MISSOURI GAS ENERGY
Estimated Monthly Bill Impacts (Winter)
Residential Service (RS) - Laclede Gas Type Rate Design

Line No.	(a)	(b)	(c)	(d)	(e)	(f)
		Present Rates		Proposed Rates		
1	Fixed Monthly Charge	\$24.62		\$24.62		
2	1st 30 Ccf (Winter)	\$0.00000		\$0.18950		
3	PGA Rate	\$0.77358		\$0.77358		
			REVENUE AT PRESENT RATES	REVENUE AT PROPOSED RATES	REVENUE CHANGE	
	MONTHLY CONSUMPTION (CCF)				AMOUNT	PERCENT
4	0		\$24.62	\$24.62	\$0.00	0.00%
5	25		\$43.96	\$48.70	\$4.74	10.78%
6	30		\$47.83	\$53.51	\$5.69	11.89%
7	35		\$51.70	\$57.38	\$5.69	11.00%
8	40		\$55.56	\$61.25	\$5.69	10.23%
9	45		\$59.43	\$65.12	\$5.69	9.57%
10	50		\$63.30	\$68.98	\$5.69	8.98%
11	60		\$71.03	\$76.72	\$5.69	8.00%
12	66	<i>Average</i>	\$75.68	\$81.36	\$5.69	7.51%
13	70		\$78.77	\$84.46	\$5.69	7.22%
14	80		\$86.51	\$92.19	\$5.69	6.57%
15	90		\$94.24	\$99.93	\$5.69	6.03%
16	100		\$101.98	\$107.66	\$5.69	5.57%
17	110		\$109.71	\$115.40	\$5.69	5.18%
18	120		\$117.45	\$123.13	\$5.69	4.84%
19	130		\$125.19	\$130.87	\$5.69	4.54%
20	140		\$132.92	\$138.61	\$5.69	4.28%
21	150		\$140.66	\$146.34	\$5.69	4.04%
22	160		\$148.39	\$154.08	\$5.69	3.83%
23	170		\$156.13	\$161.81	\$5.69	3.64%
24	180		\$163.86	\$169.55	\$5.69	3.47%
25	190		\$171.60	\$177.29	\$5.69	3.31%
26	200		\$179.34	\$185.02	\$5.69	3.17%
27	210		\$187.07	\$192.76	\$5.69	3.04%
28	220		\$194.81	\$200.49	\$5.69	2.92%
29	230		\$202.54	\$208.23	\$5.69	2.81%
30	240		\$210.28	\$215.96	\$5.69	2.70%
31	250		\$218.02	\$223.70	\$5.69	2.61%
32	300		\$256.69	\$262.38	\$5.69	2.21%
33	350		\$295.37	\$301.06	\$5.69	1.92%
34	400		\$334.05	\$339.74	\$5.69	1.70%
35	450		\$372.73	\$378.42	\$5.69	1.53%
36	500		\$411.41	\$417.10	\$5.69	1.38%

MISSOURI GAS ENERGY

Estimated Average Monthly Bill Under Present and Proposed Rates

Residential Service (RS) - Laclede Gas Type Rate Design

Line No.	(a)	(b)	(c)	(d)	(e)	(f)
		<u>Present Rates</u>		<u>Proposed Rates</u>		
1	Fixed Monthly Charge	\$24.62		\$24.62		
2	1st 30 Ccf (Winter)	\$0.00000		\$0.18950		
3	PGA Rate	\$0.77358		\$0.77358		
		<u>AVERAGE CCF PER CUSTOMER</u>	<u>REVENUE AT PRESENT RATES</u>	<u>REVENUE AT PROPOSED RATES</u>	<u>MONTHLY BILL CHANGE</u>	
					<u>AMOUNT</u>	<u>PERCENT</u>
4	Jan-08	157	\$145.69	\$151.38	\$5.69	3.90%
5	Feb-08	156	\$145.06	\$150.75	\$5.69	3.92%
6	Mar-08	113	\$112.23	\$117.92	\$5.69	5.07%
7	Apr-08	68	\$77.07	\$82.76	\$5.69	7.38%
8	May-08	36	\$52.16	\$52.16	\$0.00	0.00%
9	Jun-08	19	\$39.03	\$39.03	\$0.00	0.00%
10	Jul-08	16	\$37.28	\$37.28	\$0.00	0.00%
11	Aug-08	14	\$35.61	\$35.61	\$0.00	0.00%
12	Sep-08	17	\$37.43	\$37.43	\$0.00	0.00%
13	Oct-08	19	\$39.24	\$39.24	\$0.00	0.00%
14	Nov-08	54	\$66.21	\$71.90	\$5.69	8.59%
15	Dec-08	129	\$124.36	\$130.05	\$5.69	4.57%
16	Total	796	\$911.37	\$945.48	\$34.11	3.74%

MISSOURI GAS ENERGY

Estimated Average Monthly Bill Under Present and Proposed Rates

Small General Service (SGS)

Line No.	(a)	(b)	(c)	(d)	(e)	(f)
		<u>Present Rates</u>		<u>Proposed Rates</u>		
1	Fixed Monthly Charge	\$18.39		\$34.00		
2	Nov-Mar: 1st 600 Ccf:	\$0.17590	Nov-Apr: 1st 50 Ccf:	\$0.22730		
3	Nov-Mar: >600 Ccf:	\$0.16752				
4	Apr-Oct: 1st 600 Ccf:	\$0.12297	May-Oct: 1st 50 Ccf:	\$0.16080		
5	Apr-Oct: >600 Ccf:	\$0.11103				
6	PGA Rate	\$0.77358		\$0.77358		

		<u>AVERAGE CCF PER CUSTOMER</u>	<u>REVENUE AT PRESENT RATES</u>	<u>REVENUE AT PROPOSED RATES</u>	<u>MONTHLY BILL CHANGE</u>	
					<u>AMOUNT</u>	<u>PERCENT</u>
7	Jan-08	264	\$269.05	\$249.59	(\$19.46)	-7.23%
8	Feb-08	276	\$280.45	\$258.87	(\$21.57)	-7.69%
9	Mar-08	210	\$217.78	\$207.82	(\$9.96)	-4.58%
10	Apr-08	116	\$122.39	\$135.10	\$12.71	10.39%
11	May-08	60	\$72.18	\$88.45	\$16.27	22.54%
12	Jun-08	31	\$46.18	\$62.97	\$16.78	36.34%
13	Jul-08	27	\$42.60	\$59.23	\$16.63	39.04%
14	Aug-08	25	\$40.80	\$57.36	\$16.56	40.57%
15	Sep-08	29	\$44.39	\$61.10	\$16.71	37.64%
16	Oct-08	32	\$47.08	\$63.90	\$16.82	35.73%
17	Nov-08	80	\$94.35	\$107.25	\$12.90	13.68%
18	Dec-08	211	\$218.73	\$208.59	(\$10.14)	-4.64%
19	Total	1,361	\$1,495.98	\$1,560.23	\$64.24	4.29%