

Exhibit No.: _____
Issues: Policy
Witness: Robert J. Hack
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2009-0355
Date Testimony Prepared: September 28, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

REBUTTAL TESTIMONY OF

ROBERT J. HACK

Jefferson City, Missouri

September 2009

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REBUTTAL TESTIMONY OF

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SEPTEMBER 2009

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Robert J. Hack, and my business address is 3420 Broadway, Kansas City,
3 Missouri 64111.

4

5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

6 A. Yes. I filed direct testimony in April of 2009.

7

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. I will address and refute an assertion made by OPC witness Barbara A. Meisenheimer
10 with respect to her recommendation that the Commission revert to a “traditional”
11 volumetric rate design for MGE’s residential customers.

12

13 **RATEMAKING PRACTICE, POLICY AND IMPACTS**
14 **REVENUE DECOUPLING**

15

16 **Q. BEGINNING ON PAGE 4 OF MS. MEISENHEIMER’S DIRECT**
17 **TESTIMONY, SHE ASSERTS THAT A VOLUMETRIC RATE DESIGN**
18 **“PROVIDES A BETTER INCENTIVE FOR CUSTOMERS TO CONSERVE**
19 **THAN DOES THE SFV RATE DESIGN.” DO YOU AGREE?**

1 A. No. I do not agree with this assertion as it ignores three significant facts. It ignores
2 the fact that gas costs, which are recovered through the PGA clause on a volumetric
3 basis, constitute approximately 70% of a typical residential customer's annual gas
4 bill. Consequently, usage reductions resulting from customer conservation efforts
5 translate directly into gas cost-related bill reductions. Her assertion also ignores the
6 fact that, setting aside gas cost-related savings, customer conservation efforts in the
7 natural gas distribution service arena result in no other cost savings. For example,
8 usage reductions do not result in a need for fewer employees or service vehicles or
9 buildings used by Company employees, nor do usage reductions extend the life of
10 distribution facilities (e.g., mains, service lines, regulators, meters, etc.). In fact, the
11 volumetric rate design OPC recommends provides false price signals to the customer
12 by indicating that usage reductions actually result in reductions in the cost of
13 providing distribution service (i.e., over and above reduced gas costs). Finally, Ms.
14 Meisenheimer's assertion ignores the fact that under a volumetric-reliant rate design
15 like that recommended by Ms. Meisenheimer, MGE would be unwilling to administer
16 the high efficiency gas appliance incentive programs that it has undertaken since
17 2007. Unless revenues are decoupled from volumetric sales – as is the case with SFV
18 rate design (and also would be the case under a weather normalization/conservation
19 adjustment mechanism) – LDCs like MGE would suffer a financial penalty for
20 advocating energy efficiency efforts by its customers. Said another way, SFV rate
21 design – unlike the volumetric rate design recommended by OPC – ensures that
22 MGE's business interests are aligned with helping MGE customers use natural gas
23 more efficiently and provides timely cost recovery and timely earnings opportunity

1 for the efforts MGE has undertaken to help its customers take energy efficiency
2 measures.

3

4 Moreover, this assertion by Ms. Meisenheimer is at odds with the overwhelming
5 regulatory consensus that has emerged over the past ten years in this state and
6 elsewhere, that a volumetric rate design discourages utilities from promoting
7 conservation and energy efficiency. Increasingly, state and federal energy policy is
8 moving in the direction of revenue decoupling rate designs like SFV. Ms.
9 Meisenheimer's claim is also inconsistent with previous policy statements by OPC
10 favoring a departure from volumetric pricing. Finally, her recommendation contains
11 the perverse suggestion that enlightened public policy will be advanced by increasing
12 the cost of natural gas service paid for by residential customers during the winter
13 months, an idea with which I cannot agree.

14

15 **Q. PLEASE EXPLAIN.**

16 A. In response to a dramatic spike in the commodity price of natural gas in the winter of
17 2000-2001, Governor Holden asked then-Attorney General Jeremiah (Jay) Nixon to
18 investigate the causes. Attorney General Nixon conducted an inquiry in early 2001
19 which included an examination of the mechanics of retail pricing of natural gas for
20 residential and small businesses. His findings were summarized in an Attorney
21 General's News Release dated February 27, 2001, a copy of which is attached to my
22 testimony as Schedule RJH-1. Conspicuous among the several areas he identified for
23 long-term solutions to high commodity prices was the following: "Allowing industry

1 to recover fixed distribution costs on a monthly basis rather than through volumetric
2 charges. The current system requires consumers to pay a substantial portion of those
3 costs during high heating bill months.”
4

5 **Q. ARE THERE ANY OTHER DEVELOPMENTS OR REPORTS TO WHICH**
6 **THE COMMISSION MAY LOOK TO FOR POLICY GUIDANCE ON THE**
7 **EFFICACY OF SFV RATE DESIGN AS A TOOL TO MODERATE**
8 **RESIDENTIAL CUSTOMERS’ GAS SERVICE BILLS?**

9 A. Yes. Shortly before then-Attorney General Nixon issued his report to the Governor,
10 the Commission established a Natural Gas Commodity Price Task Force (the “2001
11 Task Force”) to investigate the process for the recovery of natural gas commodity
12 cost increases by local distribution companies (“LDCs”). Members of the 2001 Task
13 Force included the Commission’s staff, OPC and representatives of LDCs. The 2001
14 Task Force issued its Final Report on August 29, 2001, in Case No. GW-2001-398, a
15 copy of which is attached to my testimony as Schedule RJH-2. One of the options
16 discussed on page 89 of the Final Report was the “[r]edesign of base rates for fixed
17 (non-commodity related) distribution charges, placing more or all costs in the
18 monthly service charge and less or none in the commodity charge.”
19

20 **Q. WAS THIS RATE DESIGN OPTION THOUGHT TO BE AT ODDS WITH**
21 **ENERGY EFFICIENCY/FUEL CONSERVATION OBJECTIVES?**

22 A. No, quite the opposite. The Final Report addressed the topic of energy conservation
23 at pages 58 through 60. A number of possible programs are described there. In this

1 regard, the Final Report specifically observed that “[a]n LDC may have little
2 incentive to facilitate programs designed to reduce energy use because in doing so the
3 LDC may be reducing its revenue base.” This is a recognition of the fact that a
4 revenue decoupling rate design like SFV is an essential component of a meaningful
5 natural gas conservation policy.

6
7 **Q. WHAT OTHER INDICATIONS ARE THERE TO SUPPORT THE**
8 **PRINCIPLE THAT A VOLUMETRIC RATE DESIGN FOR NATURAL GAS**
9 **SERVICE IMPAIRS THE ABILITY OF CUSTOMERS TO UNDERTAKE**
10 **CONSERVATION/EFFICIENCY EFFORTS?**

11 A. The Commission established a Cold Weather Rule & Long Term Energy
12 Affordability Task Force in 2004 (the “2004 Task Force”) in response to high natural
13 gas prices to examine “possible programs to improve long-term energy affordability
14 for persons who need help with their utility bills.” Members of this task force
15 included representatives of the Missouri Department of Natural Resources, the
16 Commission’s staff, OPC and Missouri LDCs. The case was docketed as GW-2004-
17 0452. The Final Report of the 2004 Task Force was issued on March 31, 2005, a
18 copy of which is attached hereto as Schedule RJH-3.

19
20 **Q. WERE THE 2004 TASK FORCE RECOMMENDATIONS UNANIMOUS?**

21 A. Yes. The Final Report stated that “the recommendations in this report were supported
22 by all of its members (with the exception of one that is noted in the legislative
23 recommendations section)”. The dissenting member was AmerenUE.

1

2 **Q. DID THE FINAL REPORT ADDRESS THE ISSUES OF ENERGY**
3 **EFFICIENCY AND RATE DESIGN?**

4 A. Yes. The Final Report at page 18 stated that the development of future long-term
5 energy affordability programs should include “[e]nergy efficiency and education”.
6 Significantly, the Final Report at page 26 also included the recommendation that the
7 Commission consider implementing “rate designs that remove disincentives for
8 utilities to pursue programs aimed at reducing usage” as part of the objective to
9 improve long-term energy affordability.

10

11 **Q. HOW DO YOU VIEW THESE RECOMMENDATIONS?**

12 A. There seems to be no other way to understand these recommendations than as a
13 validation of the idea that a volumetric rate design is inconsistent with the objective
14 of promoting energy efficiency and long-term energy affordability.

15

16 **Q. HOW DO THE POLICY RECOMMENDATIONS CONTAINED IN THE 2004**
17 **TASK FORCE FINAL REPORT COMPARE TO MS. MEISENHEIMER’S**
18 **ARGUMENT IN THIS CASE THAT A VOLUMETRIC RATE DESIGN**
19 **ENCOURAGES RESIDENTIAL CUSTOMERS TO CONSERVE ENERGY?**

20 A. I do not believe the two concepts can be reconciled. OPC signed onto a policy
21 statement in 2004 expressly endorsing the implementation of “rate designs that
22 remove disincentives for utilities to pursue programs aimed at reducing usage” -
23 which SFV does – as a means to achieve energy affordability for customers, whereas

1 Ms. Meisenhiemer on behalf of OPC in this case claims that SFV should not be
2 adopted because a volumetric rate design better encourages energy conservation
3 practices by customers. These statements are inherently contradictory.
4

5 **Q. IS THIS JUST YOUR OPINION?**

6 A. No, the Commission specifically noted this inconsistency in the context of MGE's
7 last rate case, Case No. GR-2006-0422. At page 11 of the Commission's March 27,
8 2007, Report and Order, it observed the following: "Although OPC opposes the SFV
9 design, as a participant in an energy task force it agreed that the Commission should
10 incorporate rate designs that remove the disincentive for utilities to pursue programs
11 aimed at reducing usage. OPC's recommendation in support of the current
12 [volumetric] rate design does not remove the company's disincentive to pursue
13 programs aimed as [sic] reducing natural gas usage." It is fair to conclude that the
14 Commission thought that OPC lacked credibility on this topic because of its
15 contradictory statements.
16

17 **Q. HAVE THERE BEEN ANY OTHER DEVELOPMENTS THAT POINT TO A**
18 **REGULATORY CONSENSUS FOR THE PROPOSITION THAT A**
19 **VOLUMETRIC RATE DESIGN DISCOURAGES THE IMPLEMENTATION**
20 **OF ENERGY CONSERVATION PROGRAMS DESIGNED TO ASSIST**
21 **RESIDENTIAL CUSTOMERS WITH ISSUES OF NATURAL GAS**
22 **AFFORDABILITY?**

1 A. Yes. On the federal level, the 2009 stimulus legislation¹ includes \$3.1 billion dollars
2 in funding for the State Energy Program, including state level energy efficiency block
3 grants. Those funds can be released only if the Governor of the recipient state
4 certifies to the Secretary of the Department of Energy that he will take certain steps to
5 ensure that the state's utility regulatory agency implements a policy "that ensures that
6 a utility's financial incentives are aligned with helping their customers use energy
7 more efficiently and that provide timely cost recovery and a timely earnings
8 opportunity for utilities associated with cost-effective measurable and verifiable
9 efficiency savings, in a way that enhances utility customers' incentives to use energy
10 more efficiently."² This is a strong endorsement of revenue decoupling rate designs
11 like SFV. As I have noted above, LDCs would suffer a financial penalty for
12 advocating energy efficiency efforts by its customers under a volumetric rate design
13 such as that advocated by OPC so their financial incentives would not be aligned with
14 the efficient use of energy by their customers.

15
16 **Q. HAS GOVERNOR NIXON ISSUED SUCH ASSURANCES?**

17 A. Yes. Attached hereto as Schedules RJH-4 and RJH-5, respectively, are copies of a
18 letter to Chairman Robert Clayton of the Commission and a confirming
19 correspondence to Mr. Steven Chu, Secretary of the United States Department of
20 Energy, each dated March 23, 2009.

21

¹ The American Recovery and Reinvestment Act of 2009. The full text of the bill (which is voluminous) can be obtained here: <http://www.govtrack.us/congress/billtext.xpd?bill=h111-1>

² H.R. 1, Sec. 410.

1 **Q. DO YOU HAVE ANY FURTHER OBSERVATIONS CONCERNING MS.**
2 **MEISENHEIMER'S TESTIMONY ON THIS TOPIC?**

3 A. Yes. I believe OPC's endorsement of a volumetric rate design for residential
4 ratepayers as an energy conservation policy represents a recommendation that
5 actually harms the constituency she professes to represent in this case. Ms.
6 Meisenheimer apparently believes that the best way to encourage energy conservation
7 by MGE's residential and small general service customers is to keep their natural gas
8 service bills as high as possible, particularly during the winter heating months.
9 Presumably, the idea is to send a stinging price signal by freighting the price of fuel
10 with distribution costs that are independent of both volumes consumed and the actual
11 commodity cost. I believe this is a counterproductive policy and would be
12 detrimental to the long-term interests of MGE's residential and small general service
13 customers. An SFV rate design more closely aligns costs with causation, moderates
14 bill volatility throughout the year and encourages MGE to promote energy efficiency
15 and conservation efforts on the part of its customers. These topics are more
16 thoroughly addressed in the rebuttal testimony of company witnesses Russell
17 Feingold and Philip Thompson.

18

19 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

20 A. Yes.

21

22