

Exhibit No.:

Issue(s):

Rate Design

Witness/Type of Exhibit: Meisenheimer/Surrebuttal

Sponsoring Party:

Public Counsel

Case No.:

GR-2010-0171

SURREBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

LACLEDE GAS COMPANY

CASE NO. GR-2010-0171

July 20, 2010

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's)
Tariff to Increase Its Annual Revenues)
for Natural Gas Service.)
Case No. GR-2010-0171

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

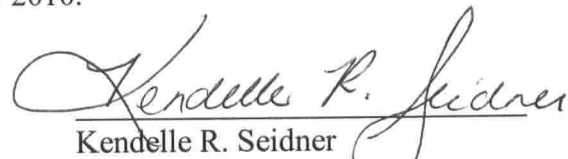
1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Barbara A. Meisenheimer

Subscribed and sworn to me this 20th day of July 2010.



KENDELLE R. SEIDNER
My Commission Expires
February 4, 2011
Cole County
Commission #07004782


Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2011.

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **BARBARA MEISENHEIMER**

4 **CASE NO. GR-2010-0171**

5 **LACLEDE GAS COMPANY**

6 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

7 A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
8 P. O. Box 2230, Jefferson City, Missouri 65102.

9 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?**

10 A. Yes, I filed direct testimony on revenue requirement issues on May 10, 2010, rate
11 design issues on May 24, 2010. I also filed rebuttal testimony on June 24, 2010.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to respond to portions of the rebuttal testimony of
14 Michael Cline filed on behalf of Laclede Gas Company (Laclede or the
15 Company), and the rebuttal testimony of Dr. Henry Warren filed on behalf of the
16 Missouri Public Service Commission Staff (Staff).

17 **Q. IN REBUTTAL TESTIMONY, MR. CLINE CHARACTERIZES OPC'S PREFERRED RATE**
18 **DESIGN AS LITTLE MORE THAN A GRATUITOUS ATTEMPT TO CHANGE THE**
19 **COMPANY'S EXISTING RATE DESIGN FOR CHANGE'S SAKE. PLEASE RESPOND.**

20 A. Contrary to Mr. Cline's assertion, Public Counsel's support for a traditional rate
21 design is warranted and is not simply a proposal for change for change's sake. As
22 I discussed in direct testimony, Public Counsel's proposal is based on a strong
23 belief that traditional rate design consisting of a moderate customer charge

1 coupled with a volumetric rate is superior to either a Straight Fixed Variable
2 (SFV) or Laclede's current rate design. Under traditional rate design, consumers
3 have better ability to control the non-gas portion of their bill by reducing use and
4 the Company and customers share the risk associated with weather. The
5 volumetric component of traditional rate design aligns rates with costs by
6 collecting a larger portion of costs in the winter months when peak usage occurs
7 and by collecting a greater portion of costs from customers that use more. The
8 volumetric component also provides an incentive to conserve within the non-gas
9 rate structure. Traditional rate design also benefits both high and low use
10 customers. High use customers and other customer classes benefit by low use
11 customers sharing some of the cost of the shared system. Low use customers
12 benefit by retaining access to utility service when it might otherwise be cost
13 prohibitive. As I discussed in rebuttal testimony, low-income customers are on
14 average low use customers so the traditional rate design has the additional benefit
15 of imposing a reduced burden on low-income customers relative to alternative
16 rate designs such as the SFV.

17 It is worth noting that while Mr. Cline criticizes Public Counsel for
18 proposing a change to Laclede's current rate design, he too proposed change.
19 Laclede's position in direct testimony sought to eliminate what little weather
20 related risk that remains in the Company's current rate structure by either moving
21 to a SFV rate design which would more than double the minimum fixed charge
22 that a customer must pay to retain service or by supplementing the current

1 weather mitigation rate design (WMRD) with an adjustment that would add
2 phantom usage to customers' bills.

3
4 **Q. IS MR. CLINE CORRECT THAT LACLEDE'S CURRENT WEATHER MITIGATION RATE**
5 **DESIGN HAS FEATURES THAT ADDRESS SOME OF THE CONCERNS THAT PUBLIC**
6 **COUNSEL HAS RAISED IN OPPOSITION TO THE SFV RATE DESIGN?**

7 A. Yes. The current WMRD provides consumers some ability to control the non-gas
8 portion of their bill by reducing use. There is also some limited sharing of
9 weather related risk between the Company and customers. The existing WMRD
10 rate design is also preferable to a SFV in that it better aligns rates with costs by
11 collecting a larger portion of costs in the winter months when peak usage occurs
12 and by collecting a greater portion of costs from customers that use more. The
13 current weather mitigation rate design also provides some benefit to both low and
14 high use customers. Low use customers benefit from a lower customer charge
15 than under the SFV. High use customers and other customer classes benefit by
16 greater utilization of the system. Finally, the volumetric component of rates
17 under the current weather mitigation rate design provides some incentive to
18 conserve within the non-gas rate structure while the SFV rate design does not.

19 Pubic Counsel acknowledges these attributes; however, Public Counsel
20 has argued in the past and continues to believe that there are also certain
21 undesirable aspects of the current weather mitigation rate design. For example,
22 the current weather mitigation rate design shifts cost recovery to the PGA through
23 ACA adjustments. Let me explain. The current weather mitigation rate design
24 couples a relatively high first block winter non gas rate with a relatively low first

1 block winter PGA rate. In a warmer than normal winter, the Company faces less
2 risk of under recovery of non gas costs due to this rate design. This is because the
3 Company will recover its non gas cost at relatively low levels of customer usage.
4 With respect to gas cost recovery in the same scenario, the artificially low first
5 block PGA rate will not recover the total gas costs but the Company can seek to
6 recover those costs through the ACA process

7 **Q. ARE LACLEDE'S PROPOSALS TO SUPPLEMENT THE WMRD WITH CUSTOMER**
8 **USAGE ADJUSTMENTS OR ONE WAY REVENUE TRACKERS ACCEPTABLE TO**
9 **PUBLIC COUNSEL?**

10 A. No. In addition to existing concerns with the “shell game” mechanics of the
11 WMRD which allows Laclede to shift cost recovery between margin and PGA
12 rates, the addition of a customer usage adjustment or one way revenue tracker
13 would introduce a whole new set of issues. For example, setting aside the issue of
14 whether a customer usage adjustment can be implemented at this time, adding a
15 customer usage adjustment to Laclede’s current weather mitigation rate design
16 would likely result in significant customer confusion regarding the volume based
17 billing adjustment and customer frustration at being charged for phantom usage.
18 In terms of promoting conservation and efficiency and addressing the needs of
19 low income customers, both the customer usage adjustment and one way tracker
20 seek even more excessive reward for Laclede’s marginal performance in
21 developing and implementing customer programs.

1 **Q. DO YOU AGREE WITH DR. WARREN’S OBSERVATION THAT THE CUA RATE DESIGN**
2 **COMPLICATES THE REGULATORY PROCESS BY REQUIRING RATE ADJUSTMENTS**
3 **BETWEEN RATE CASES BASED ON WEATHER VARIATIONS?**

4 A. Yes. However, I disagree that an SFV rate design should be implemented to
5 address any perceived need to further reduce Laclede’s weather related risk.

6 **Q. MR. CLINE USES CELL PHONE, CABLE AND SATELLITE SERVICES AS EXAMPLES OF**
7 **HIGHLY COMPETITIVE MARKETS IN WHICH FIRMS DO NOT RECOVER ALL COSTS**
8 **THROUGH USAGE BASED FEES. PLEASE RESPOND.**

9 A. While I agree that in these industries not all cost are recovered in usage based
10 fees, these industries are best described as oligopolies in which a relatively small
11 number of firms control a concentrated market primarily due to the existence of
12 significant barriers to entry. Each of these industries is characterized by high
13 capital investment, specialized knowledge, and differentiated products.

14 It is instructional to note that even for these imperfectly competitive
15 markets, none of these firms go as far as 1) recovering all costs through a fixed
16 flat fee like the SFV, 2) adding phantom usage to the bill as would the customer
17 usage adjustment or 3) as with a revenue tracker, by initially overcharging
18 customers and later refunding any revenue collected in excess of costs. In fact,
19 cable television and phone service rates are more like the traditional rate structure
20 for gas services than they are like any of the rate designs proposed by the
21 Company or Staff. Cable television and phone service include both fixed and
22 variable rate components. Cable television and satellite television rates are set so
23 that as I demand either more services “over the pipe” or “a larger pipe” I pay

1 more. I can only subscribe to basic satellite or basic cable for a fixed minimum
2 charge. In order to have access to and to receive a greater variety of channels,
3 pay-per-view movies or high speed internet I pay additional incremental charges.

4 **Q. HAVE YOU PROPOSED TO USE WHAT COMPANIES IN HIGHLY COMPETITIVE**
5 **MARKETS DO FOR PURPOSES OF FASHIONING REGULATORY SOLUTIONS?**

6 A. No. The statement that Mr. Cline references was limited to a discussion regarding
7 pricing. Laclede is a natural monopoly providing a utility service and should be
8 allowed to continue to operate in a more favorable environment than a
9 competitive firm. In exchange for achieving economies of scale and providing
10 broadly available service under conditions that are favorable to consumers,
11 Laclede should be afforded certain considerations that the regulatory compact
12 already provides. For example, Laclede is allowed an exclusive service area,
13 allowed to file for increases when costs exceed revenues and is allowed to build
14 uncollectibles into rates.

15 **Q. MR. CLINE ARGUES THAT DUE TO THE RELATIVELY FIXED NATURE OF**
16 **DISTRIBUTION COSTS, COST CAUSATION WOULD APPEAR TO BE BETTER ALIGNED**
17 **WITH A DESIGN THAT PROVIDES FOR FIXED DISTRIBUTION CHARGES. MR.**
18 **WARREN MAKES A SIMILAR CLAIM. DO YOU AGREE?**

19 A. No. In both direct and rebuttal testimony I have demonstrated that tradition rate
20 design is consistent with cost causation while full recovery through a fixed rate is
21 not. I would like to point out that most if not all the costs that Mr. Cline identifies
22 in his argument including the service pipe, installed meter and billing costs would
23 be recovered under my proposal through the fixed customer charge component.

- 1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
- 2 **A. Yes, it does.**