

Exhibit No.:	
Issue(s):	Rate Design Late Payment and Disconnection Fees Other Tariff Issues
Witness/Type of Exhibit:	Meisenheimer/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2014-0007

SURREBUTTAL TESTIMONY

OF

BARBARA MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

MISSOURI GAS ENERGY
A DIVISION OF LACLEDE GAS

CASE NO. GR-2014-0007

April 3, 2014

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

In the Matter of the General Rate Increase)
Tariffs of Missouri Gas Energy, a)
Division of Laclede Gas Company)

Case No. GR-2014-0007

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.

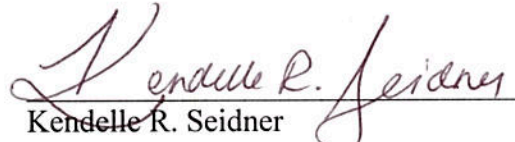


Barbara A. Meisenheimer

Subscribed and sworn to me this 3rd day of April 2014.



KENDELLE R. SEIDNER
My Commission Expires
February 4, 2015
Cole County
Commission #11004782



Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2015.

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **BARBARA MEISENHEIMER**

4 **CASE NO. GR-2014-0007**

5 **MISSOURI GAS ENERGY**

6 **I. INTRODUCTION**

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

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

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

11 A. Yes, I filed direct testimony on February 7, 2014. I also filed rebuttal testimony
12 on March 4, 2014.

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

14 A. The purpose of my testimony is to respond to portions of the rebuttal testimony of
15 Michael Noack filed on behalf of Missouri Gas Energy a division of Laclede Gas
16 Company (MGE), and the rebuttal testimony of Joel McNutt and Michael Ensrud
17 filed on behalf of the Missouri Public Service Commission Staff (Staff).

18 **II. RESPONSE TO STAFF TESTIMONY**

19 **Q. STAFF WITNESS MICHAEL ENSRUD DISCUSSES STAFF'S OPPOSITION TO THE**
20 **COMPANY'S PROPOSAL TO SIGNIFICANTLY RAISE THE RECONNECTION CHARGE.**
21 **PLEASE RESPOND TO MR. ENSRUD'S TESTIMONY ON THIS ISSUE.**

22 A. I agree with Mr. Ensrud that MGE has not provided adequate cost support for its
23 proposal to increase the reconnection charge. I also agree that increasing the

1 reconnection charge would disproportionately and adversely impact low-income
2 customers. Regarding the Company's proposal to earmark funds generated from
3 the reconnection charge to fund a low-income program, Mr. Ensrud raises a
4 relevant concern about the Company's lack of a clear proposal on how and under
5 what conditions earmark funds will be spent.

6 Mr. Ensrud also discusses Staff's policy position that reconnection charges
7 should be based on costs. While Public Counsel has in the past supported a cost
8 based reconnection charge for MGE, we recognize that there are benefits to
9 keeping reconnection charges affordable to promote greater subscription to the
10 shared system.

11 **Q. STAFF WITNESS MICHAEL ENSRUD DISCUSSES CONCERNS REGARDING THE**
12 **COMPANY'S PROPOSAL TO RAISE THE LATE PAYMENT FEE. PLEASE RESPOND TO**
13 **MR. ENSRUD'S TESTIMONY ON THIS ISSUE.**

14 **A.** Mr. Ensrud makes four important points in his testimony on this issue. The first
15 point relates to the magnitude of the proposed increase. As he points out, the
16 Company is seeking a 200 percent increase in the late fee. As I discuss in
17 testimony, increasing late payment fees can have an adverse impact on low-
18 income customers. Second, as Mr. Ensrud discussed with respect to the proposed
19 increase of the reconnection charge, the proposal for increasing the late payment
20 charge lacks clarity on how the revenue would be spent. Public Counsel opposes
21 earmarking the revenue for a low-income program as the Company proposes to
22 do. Mr. Ensrud also demonstrates that at .5%, the Company's late payment
23 charge is at the same level as another LDC operating in Missouri. Finally, he

1 points out that, as with the reconnection charge, the Company fails to provide cost
2 support demonstrating the need for an increase in the charge.

3 **Q. WHAT IS YOUR GENERAL RESPONSE TO MR. MCNUTT'S TESTIMONY REGARDING**
4 **THE COMMISSION'S FINDINGS IN GR-2009-0355?**

5 A. I do not dispute that the Commission made the findings that Mr. McNutt
6 references from the Commission's Order in GR-2009-0355. However, Public
7 Counsel disagrees so strongly with some of those findings that we must once
8 again bring these issues before the Commission.

9 **Q. WHAT IS YOUR GENERAL RESPONSE TO MR. MCNUTT'S TESTIMONY REGARDING**
10 **THE RELATIONSHIP BETWEEN RATES AND COST?**

11 A. Mr. McNutt's testimony offers few facts in support of the Staff's rate design
12 position. On issues of cost allocations, as I demonstrated in rebuttal testimony,
13 Mr. McNutt's testimony is inconsistent with his own cost study and the testimony
14 of past Staff witnesses.

15 **Q. WHAT IS YOUR GENERAL RESPONSE TO MR. MCNUTT'S TESTIMONY REGARDING**
16 **INCENTIVES TOWARD EFFICIENCY?**

17 A. In support of SFV, Mr. McNutt makes claims related to efficiency but fails to
18 recognize that customers as a whole may benefit little from natural programs
19 since the commodity costs of gas are a pass through cost. In contrast, customers
20 have more of an incentive to conserve when there is a volumetric distribution rate
21 element. By reinstating a volumetric component, the Commission can provide
22 consumers an additional incentive to conserve.

1 **Q. MR. MCNUTT ARGUES THAT “IN A COLDER THAN NORMAL WINTER, SUCH AS THIS**
2 **WINTER, CUSTOMERS WOULD OVERPAY THEIR COST OF SERVICE. IN A WARMER**
3 **THAN NORMAL WINTER, LIKE LAST WINTER, THE COMPANY LOSES THE**
4 **OPPORTUNITY TO RECOVER ITS COST OF SERVICE.” WHAT IS YOUR RESPONSE?**

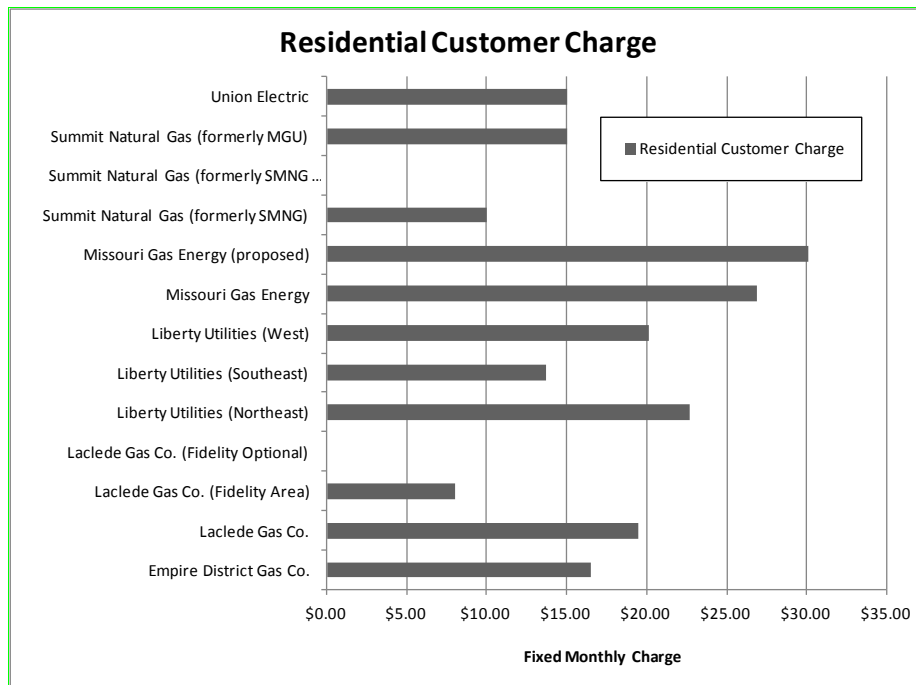
5 **A.** I would agree that a traditional rate structure does increase the possibility of
6 higher recovery of non gas costs in colder than normal winters, however, I do not
7 consider an inescapable fixed charge to be a better option. The SFV rate design
8 substantially increases the non gas recovery on some low use customers’ bills
9 with no ability to avoid the increase by curbing use except through disconnection.
10 There are alternatives to the SFV that can reduce undesirable effects of weather
11 on customers’ bills while preserving an individual customer’s ability to control
12 the distribution charges they pay. Voluntary level payment plans can assist
13 customers in budgeting for high costs associated with cold weather while
14 retaining the ability to save by reducing or forgoing consumption when they
15 choose to do so and by benefiting from reduced costs during periods of above
16 normal temperatures. Under the SFV customers are truly captive to a monopoly.
17 They have no ability to reduce the distribution portion of the bill without
18 discontinuing service. Further, low use customers pay substantially more whether
19 or not they want or need the same level of service as high use customers.

20 Contrary to Mr. McNutt’s implication, companies are not guaranteed the
21 opportunity to recover a specific level of revenue on a yearly basis. Traditional
22 rate design utilizes weather normalized billing units to establish a target level of
23 revenue requirement that offers a utility the opportunity to earn a normal return

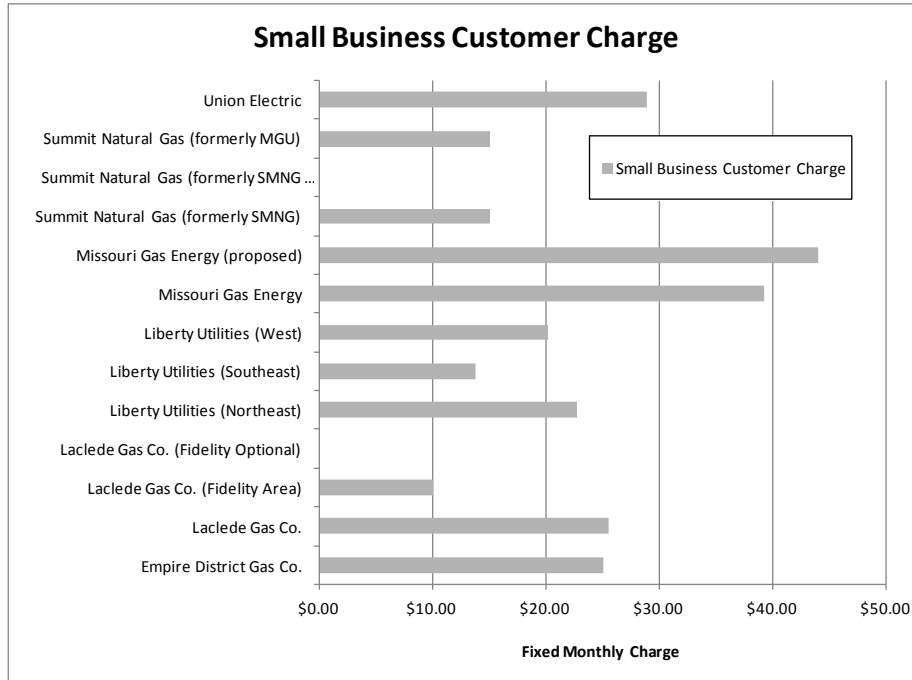
1 over the life of investments. Companies are afforded other protections for cost
2 recovery such as the PGA/ACA mechanism and the ability to file for increased
3 rates if a company is under earning after consideration of all relevant factors.

4 **Q. WHAT IS YOUR GENERAL RESPONSE TO MR. MCNUTT’S CLAIM THAT OPC’S**
5 **PROPOSED VOLUMETRIC RATE DESIGN PROVIDES NO WEATHER RISK**
6 **PROTECTION TO EITHER MGE OR ITS CUSTOMERS?**

7 A. This claim is incorrect. The Company is afforded some weather related
8 protection through a high customer charge of \$16.50 for residential and \$25.50 for
9 SGS. This is significantly above the direct customer costs determined in the
10 Staff’s CCOS study. As shown below, this level of protection is also more in-line
11 with the protection afforded to other natural gas companies than is the SFV
12 residential customer charge of \$26.88 and SGS customer charge of \$39.26.



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With respect to the risk faced by customers, I have already described ways that customers can mitigate risk of an unanticipated bill under traditional rate design. In addition, customers are provided some ability to control the distribution charges they pay. This flexibility allows customers to budget to meet their needs. For example, in the summer, paying a high gas delivery charge may result in vulnerable customers deciding to turn off the air conditioner because they have to choose between paying the gas bill or the electric bill. Mr. McNutt fails to address these types of risks that the SFV poses to customers.

Q. MR. MCNUTT RAISED CONCERN OVER YOUR PROPOSAL TO SPREAD ANY INCREASE OR DECREASE TO CURRENT BASE RATE REVENUE TO CUSTOMER CLASSES IN PROPORTION TO EACH CLASS'S SHARE OF CURRENT BASE RATE REVENUES. IS YOUR PROPOSAL CONSISTENT WITH THE STIPULATION TERM THAT HE REFERENCED IN HIS TESTIMONY?

1 A. Yes, it is. I contacted Mr. McNutt to clarify this issue. I believe he now agrees
2 that the proposal in my direct testimony was consistent with the Stipulation he
3 referenced.

4 **Q. MR. MCNUTT ARGUES THAT THE COMMISSION DECISION IN ELECTRIC RATE CASE**
5 **ER-2012-0166 IN WHICH THE COMMISSION VOTED IN FAVOR OF RECOVERING A**
6 **GREATER PORTION OF THE UTILITY'S DISTRIBUTION COSTS THROUGH AN**
7 **INCREASING VOLUMETRIC RATE INSTEAD OF A FIXED CUSTOMER CHARGE**
8 **SHOULD NOT HAVE INFLUENCE OR BEARING ON THIS CASE. PLEASE RESPOND.**

9 A. For a number of years I have prepared and reviewed natural gas and electric class
10 cost of service studies and worked with data underlying those studies. While it is
11 true that generation and to some extent transmission have characteristics that call
12 for dissimilar treatment, distribution is similar in that the systems are designed to
13 do three things: reach the customer, serve annual demand and serve peak demand.
14 Cost causative principles for annual loads and peak loads assign costs to customer
15 classes based on sales for electric service and costs based on volumes for natural
16 gas service. These allocations, in turn, justify an electric rate based in part on
17 kWh sales and a natural gas rate based in part on Ccf volumes.

18 **III. RESPONSE TO MGE REBUTTAL**

19 **Q. MR. NOACK ARGUES THAT COLLECTING ALL COSTS THROUGH A SINGLE FIXED**
20 **CHARGE IS APPROPRIATE BECAUSE DELIVERY COSTS DON'T VARY WITH USAGE.**
21 **IS MR. NOACK'S CLAIM THAT DELIVERY COSTS DON'T VARY WITH USAGE**
22 **ACCURATE?**

1 A. No. This incorrect and misleading claim regarding delivery costs, which MGE
2 has not supported with evidence in this case and is contrary to the evidence they
3 submitted in past cases, is the primary reason why the SFV rate design is harmful
4 to low-usage customers. There are costs that vary based upon gas demand, and
5 these demand related costs play a significant part in the cost-of-service. By
6 requiring low-usage customers to pay the same as high-usage customers, the
7 result is that low-usage customers are paying unfairly for costs that are assigned
8 to the class disproportionately based on the usage characteristics of high-usage
9 customers.

10 In rebuttal testimony I provided evidence that the company cost witness
11 from the last general rate case acknowledged that mains investments are in part
12 based on demand characteristics. I also provided schedules of the Staff's
13 workpapers from this case showing that a portion of distribution costs are
14 allocated to the residential class based on annual and peak demand characteristics.
15 In addition to mains, another example is the costs of measuring and regulating
16 equipment which is associated with volumetric flow throughout the year. The
17 SFV rate design collects these costs uniformly from residential customers
18 ignoring any demand or commodity related components. To suggest that once a
19 cost is incurred it becomes fixed, and should be collected in a manner that does
20 not reflect the drivers underlying the level of cost, is unreasonable.

21 **Q. ARE THERE OTHER REASONS WHY LOW-USAGE CUSTOMERS UNDER A SFV RATE**
22 **DESIGN ARE OVERPAYING FOR THEIR SERVICE?**

1 A. Yes. "Value of service" is another reason why low-usage customers overpay for
2 service under a SFV rate design. Rates should recognize the value received by
3 the customer. A customer in a large home that uses gas for space heating, water
4 heating, and cooking, places a higher value on their gas service than a customer
5 living in an efficiency apartment that uses gas only for cooking or only for water
6 heating. The same low-use customer may be heating with electric and already
7 paying higher charges to the electric provider for that service. The SFV rate
8 design ignores these concepts and overvalues the service for low-usage
9 customers. A rate that includes a usage element, as proposed by Public Counsel,
10 recognizes that the value of service increases as gas usage increases.

11 **Q. MR. NOACK TAKES ISSUE WITH YOUR CHART SHOWING THAT IF THE COMPANY'S**
12 **RATE INCREASE REQUEST IS APPROVED, MGE REVENUES WILL HAVE GROWN BY**
13 **TWICE THE RATE OF WAGES AND TWICE THE CPI. HE COUNTERS BY ARGUING**
14 **THAT, IF MGE WAS GRANTED THE FULL INCREASE IT HAS REQUESTED IN THIS**
15 **CASE, ITS RATES OVER THE PAST 4+ YEARS SINCE ITS LAST RATE CASE WOULD**
16 **SHOW AN ANNUAL INCREASE OF WELL UNDER 3%. HOW DO YOU RECONCILE**
17 **THESE POSITIONS?**

18 A. My charts show a cumulative impact over a longer period of time. His example is
19 incremental to the last rate case. My chart was intended to demonstrate the trend
20 of the company's long term performance relative to the performance of general
21 economic indicators that affect consumers' wages and purchasing power.

22 **Q. AT PAGE 5, OF HIS REBUTTAL TESTIMONY, MR. NOACK ARGUES THAT DEMAND**
23 **AND CAPACITY RESERVATION CHARGES ARE FIXED COSTS THAT ARE**

1 COLLECTED YEAR ROUND AND DO NOT VARY WITH USAGE. HE ARGUES THAT IF
2 THE COMPANY WERE TO ADJUST GAS RATES TO MATCH THE WAY THESE
3 TRANSPORTATION AND STORAGE COSTS ARE ASSESSED AND COLLECTED FROM
4 THE COMPANY, THE PGA SHOULD BE SET TO RECOVER $\frac{1}{4}$ OF GAS COSTS AS FIXED,
5 AND THE REST AS VARIABLE. PLEASE RESPOND TO THIS TESTIMONY.

6 A. It is my understanding that the original contracts for reserving capacity are
7 negotiated based on the potential volumes of natural gas commodity that the
8 Company may need to serve customers. Simply because the terms may specify
9 monthly payments by the Company does not imply that volumetric considerations
10 did not cause the costs.

11 Q. ON PAGE 10 OF HIS REBUTTAL TESTIMONY, MR. NOACK ADMITS THAT
12 APPROXIMATELY 20,000 CUSTOMERS DISCONNECT IN SUMMER. WHAT
13 IMPLICATION DOES THIS HAVE FOR RATE DESIGN?

14 A. While many of these customers are likely disconnected on a non voluntary basis,
15 the Company's proposal for movement toward a sculpted rate should be a clear
16 indication of the customer impact of the SFV. A high customer charge that
17 results in customers disconnecting from the system in the summer does not
18 benefit the Company, other customers or the public interest. The overwhelming
19 response to the sculpted rate proposal has also been negative because customers
20 are concerned about facing even higher winter customer charges. The SFV and
21 sculpted rate proposals are viewed very unfavorably by customers as a whole.
22 These rate designs should be rejected in this case.

1 **Q. MR. NOACK CONTINUES TO SUPPORT AN INCREASE IN THE RECONNECTION**
2 **CHARGE. IN ADDITION TO THE CONCERNS RAISED ALREADY BY STAFF AND**
3 **PUBLIC COUNSEL, HAVE CUSTOMERS VOICED OPPOSITION TO THE PROPOSAL?**

4 A. At public hearings the testimony from MGE's customer regarding their inability
5 to afford MGE's service was compelling. Disconnection fees and late payment
6 fees represent charges that the Commission should consider in determining the
7 affordability of rates. Low-income customers are more likely to struggle with
8 paying their bill, which in turn makes them more likely to be late with their
9 payment, which often results in disconnection. One way to address rate
10 affordability is to avoid raising these additional fees that disproportionately
11 impact low-income customers.

12 **Q. IN RESPONSE TO YOUR PROPOSAL TO MODIFY THE COMPANY'S OFF-SYSTEM**
13 **SALES AND CAPACITY RELEASE SHARING GRID MR. NOACK SAYS OF YOUR OSS**
14 **PROPOSAL: "AS FAR AS I CAN TELL, THE PURPOSE IS SIMPLY TO REDUCE THE**
15 **AMOUNT MGE CAN EARN UNDER THE INCENTIVE." PLEASE RESPOND TO THIS**
16 **STATEMENT.**

17 A. Customers have already paid for the gas through the PGA and have paid the other
18 costs associated with conducting these activities through rates. It is reasonable for
19 customers to expect a minimum level of performance before compensating the
20 company above costs. The adjustments to the tiers reflect the declining value that
21 customers have been receiving from these types of transactions.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes, it does.