

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

In the Matter of Missouri Gas Energy,)
Inc.'s Filing of Revised Tariffs to Increase)
its Annual Revenues for Natural Gas) Case No. GR-2014-0007

**REPLY TO LACLEDE'S REPORT ON THE
OPERATION AND IMPACT OF VARIOUS RATE DESIGNS**

COMES NOW the Missouri Office of the Public Counsel ("OPC") and for its Reply to Laclede Gas Company's ("Laclede") Report on the Operation and Impact of Various Rate Designs states:

1. In Case No. GR-2014-0007, the last general rate case for Missouri Gas Energy ("MGE"), an operating unit of Laclede, the Commission ordered the parties to follow the terms of a Stipulation and Agreement entered into between all relevant parties. One term is that the parties meet on a monthly basis to discuss rate design issues and to collaboratively prepare and complete a rate design report for submission to the Commission. On May 4, 2016, MGE filed its Report on the Operation and Impact of Various Rate Designs ("Report").

2. Although the parties met on several occasions prior to MGE filing the Report, the Report was written only by MGE and the positions and assertions stated within the Report are not necessarily those of any other party. OPC agrees with certain assertions and positions of the Report but disagrees with other assertions and positions taken by MGE.

3. The "Data Analysis" section of the Report correctly points out low-use customers are adverse to high customer charges. However, OPC disagrees with

Laclede’s method for attempting to determine “the relationship between customer income levels and natural gas usage”, which makes usage assumptions on a zip code level lacking the necessary detail to make any definitive conclusions about the income levels of low-use consumers. Moreover, Laclede’s study contradicts data published by the U.S. Department of Energy, the U.S. Department of Health and Human Services, and the U.S. Bureau of Labor Statistics Consumer Expenditure Surveys demonstrating most low-income consumers have below-average natural gas usage. These reputable findings are better reasoned and more accurate - low income consumers tend to live in smaller homes or apartments, are more likely to be on fixed incomes, and are more conscientious of their usage due to affordability concerns. This data is far more detailed and reliable than Laclede’s exclusive use of zip codes. Accordingly, rate designs that recovery more revenue through the customer charge disproportionately harm low-income consumers because they also tend to be low-use consumers. Despite OPC’s disagreement with Laclede’s methods and conclusions on the income/usage relationship, OPC concurs with its ultimate conclusion that “additional analysis in this area is merited.”

4. One aspect of rate design Laclede’s Report does not address is designing rates in a manner that best reflects a competitive market, which is an important factor given that monopoly regulation is a substitute for competition.¹ Designing rates that mimic a competitive market rate serves the public purpose of bringing the benefits of competition to the rates charged by a regulated monopoly that does not otherwise face competitive pressure on rates. This is best exemplified by the rates charged by Summit Utilities, Inc; a company that faces competition from propane service providers and

¹ *In the Matter of St. Louis County Water Company for Authority to File Tariffs Reflecting Increased Rates for Water Service*, Case No. WR-2000-844, May 3, 2001, 10 Mo. P.S.C. 3d 255.

admittedly must keep its customer charge low to remain competitive with the low customer charge of propane providers. Laclede does not face that same competitive pressure on rates and it is the Commission's role to set rates that provide a substitute for competition.

5. OPC is not aware of any facts justifying a departure from the current rate design approach that includes a customer charge coupled with a volume-based rate. The current rate design for gas companies, which Laclede characterizes as a "more traditional rate design," has been in place for decades and has been repeatedly found to be just and reasonable by the Commission. Laclede correctly states "under normal weather conditions the "traditional" rate design would produce the lowest bill at low usage levels but the highest bill at higher usage levels." Laclede is incorrect, however, when it states that the traditional rate design is only "fair" if it is "used in conjunction with a Customer Usage Adjustment or weather clause." The current rate design has consistently allowed Laclede and other Missouri gas companies to serve their customers with safe and reliable service while earning a reasonable profit at the same time without any such usage or weather adjustment.

6. Another important aspect of rate design not thoroughly addressed in Laclede's Report is the importance of designing rates that send the proper price signal to customers to encourage energy efficiency and conservation. Rate designs that recover more revenue through a volumetric rate, as opposed to a fixed charge, provide customers with a meaningful incentive to conserve their usage. In the same vein, rate designs that recover more costs through a fixed customer charge have the opposite impact - they tend to provide customers with a disincentive for implementing energy efficiency or

conservation practices. These important considerations should be a part of any serious discussion about rate design.

7. This reply to Laclede's Report is not comprehensive as there are many other aspects of the Report where OPC either agrees or disagrees with Laclede's assertions. OPC will not address all of those issues here but reserves the right to raise those issues the next time Laclede's rates are reset in a general rate review.

WHEREFORE, the Office of the Public Counsel respectfully offers this reply to Laclede's Report.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 3rd day of June 2016.

/s/ Marc Poston
