

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

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

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

**COMES NOW** the Staff of the Missouri Public Service Commission and submits the attached Staff Response to Laclede's Report on the Operation and Impact of Various Rate Designs ("Response") and in support respectfully states as follows:

1. On May 4, 2016, Laclede Gas Company ("Laclede"), on behalf of its operating units Missouri Gas Energy ("MGE") and Laclede Gas, filed a report on the operation and impact of various rate designs ("Report") in this case pursuant to paragraph 3 of the Stipulation and Agreement ("Stipulation") filed on April 11, 2014.
2. On May 5, 2016, in response to a request filed by Staff, the Commission issued an *Order Granting Time for Parties to Respond* ("Order") to the Report which gave parties until no later than June 3, 2016, to file a response to the Report.
3. Pursuant to the Order, Staff submits the attached Response.

**WHEREFORE**, Staff respectfully requests that the Commission accept the attached Staff Response to Laclede's Report on the Operation and Impact of Various Rate Designs.

Respectfully submitted,

**/s/ Jeffrey A. Keevil**

Jeffrey A. Keevil  
Deputy Counsel  
Missouri Bar No. 33825  
Attorney for the Staff of the  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102  
(573) 526-4887 (Telephone)  
(573) 751-9285 (Fax)  
Email: [jeff.keevil@psc.mo.gov](mailto:jeff.keevil@psc.mo.gov)

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 3<sup>rd</sup> day of June, 2016.

**/s/ Jeffrey A. Keevil**

**GR-2014-0007**

**Staff Response to Laclede's Report on the Operation and Impact of Various Rate Designs**

On May 4, 2016 Laclede Gas Company ("Laclede"), on behalf of its operating units Missouri Gas Energy ("MGE") and Laclede Gas, filed a Report on the Operation and Impact of Various Rate Designs ("Report"), along with a cover pleading titled Submission of Report, pursuant to paragraph 3 of the Stipulation and Agreement ("Stipulation") filed on April 11, 2014 in Case No. GR-2014-0007. The Report was filed on behalf of only Laclede and MGE, and not on behalf of the other parties. Staff requested an Order granting parties time to respond to the Report. On May 5, 2016 the Commission issued an Order Granting Time for Parties to Respond no later than June 3, 2016. This Response is being submitted in compliance with such order.

According to Laclede's filing, in the Report Laclede attempts to capture a significant portion of the work product produced to date pursuant to paragraph 3 of the Stipulation and presents some of Laclede's preliminary comments.

Fundamentally, the term "rate design" refers both to the process of establishing specific charges for each customer class, as well as the rate structure (e.g., monthly customer charges and dollars per CCF/therm) of an individual class rate. The specific charges within a rate classification are established such that the application of individual rate component charges to the total annual customer class gas usage will result in the collection of the annual revenue requirement for each of Laclede's retail rate classes. This rate design effort should result in rates for each of the different classes that collect from those customers the costs they have imposed on the utility system. Staff relies on the class cost-of-service as a primary determinant in setting the level of rates for each customer class. The intent is to promote a result that is fair and reasonable between, and among, customers and Laclede. The significance is the widespread adherence to cost, or to some approximation of cost, as a basis of ratemaking. This process is and has been used in determining the just and reasonable rates that a utility can charge its customers. This ratemaking principle gives the utility an opportunity, but not a guarantee, to earn its authorized rate of return on its investment.

Staff appreciates Laclede's effort to explore the relationship between natural gas usage and income levels in the MGE and Laclede territories. Staff would tend to agree with Laclede's assessment that customer consumption of natural gas has declined by more than 20% over the last several decades due to conservation efforts, energy efficiency programs, improved appliance efficiencies, and insulation improvements. Staff has concerns that the data compiled thus far may be mismatched or does not represent a true and complete picture of the correlation between usage and income. For example, Exhibit 1 of the Report represents Laclede and MGE's annual use per customer for 2014/2015 while the average household income is from 2010 census data.

There are many factors that can influence the use of natural gas in addition to income, such as housing, appliances, number of occupants in the home, weather, and others. As noted in the Report, "While the graphs do not indicate that low income is highly correlated with high gas usage, it appears to be an influencing factor, possibly due to poor housing stock and older, less efficient appliances (furnaces, water heaters, etc) as well as other factors. Additional analysis in this area is merited." While Staff generally agrees that the graphs do not indicate that low income is highly correlated with high gas usage due to a number of factors, Staff questions whether additional analysis at this time would be beneficial due to difficulties in defining and identifying low income customers and the variables which affect their usage.

In the Report, Laclede discussed four different rate design alternatives along with some of the associated rate impacts:

1. Laclede's current Weather Mitigation Rate Design ("WMRD")
2. A low use rate with a lower customer charge but higher volumetric charge
3. Straight fixed variable ("SFV")
4. Traditional rate design (with a weather normalization clause)

While Staff generally agrees with the description of the alternative rate design methodologies in the Report, there are pros and cons to each alternative. Staff will briefly discuss below each of the alternatives addressed by Laclede.

### **WMRD**

The WMRD attempts to reduce the impacts of weather in the winter season by attempting to recover all of the distribution costs in the customer charge and 1<sup>st</sup> block. In the summer season the WMRD consists of a customer charge and a 1<sup>st</sup> and 2<sup>nd</sup> block rate. The PGA rates are also blocked so that the applicable PGA rate for the 1<sup>st</sup> block is smaller than the 2<sup>nd</sup>. Even though WMRD reduces the impacts of weather the Company may still under collect its distribution cost when weather is warmer in the shoulder months, or over collect when weather is colder. The WMRD rate design methodology has been in effect since 2002 for Laclede.

### **Low Use Rate Design Methodology**

As presented by Laclede in the Report, the low use rate design methodology involves two different residential rate options based on customer consumption. Under the first option, the low use customers may benefit by paying a lower customer charge along with a delivery charge thus providing a lower total bill. The second option requires customers to pay a larger customer charge each month with no delivery charge. Under both options the customer also pays for the amount of gas that is consumed. While this rate design may help low use customers it may also hurt customers by being placed on the wrong option (or choosing the wrong option) and having to remain on it for a period of no less than twelve (12) months.

### **SFV Rate Design**

Under the SFV rate design every residential customer pays a higher fixed monthly fee for the delivery of services and continues to pay on a volumetric basis through the Purchased Gas Adjustment ("PGA") for the amount of gas used each month. As noted on pages 6 and 7 of Laclede's Report, SFV has numerous benefits. These benefits are revenue stability, simplicity, and addressing of intra-class cross subsidization to name a few. Low use customers will pay the same for delivery services (which excludes gas commodity) as a high use customer under the SFV.

### **Traditional Rate Design**

The traditional rate design has a lower customer charge along with a volumetric rate which includes some distribution costs, as well as a PGA rate. Low use customers that do not use natural gas for space heating may benefit from a traditional rate design. However, those that do use natural gas for space heating may experience higher bills due to weather fluctuations. If weather is warmer than

normal, customers' bills may be lower due to decreased demand for space heating; however, it has the opposite effect if the weather is colder than normal. Laclede suggests that, from its perspective, a traditional rate design would only be fair to the Company and customers if it was used in conjunction with a Customer Usage Adjustment ("CUA") or weather clause. Although the CUA could alleviate the volatility of weather, it would also complicate and add a regulatory process. It would also contribute to customer confusion relating to their monthly bill statement. Laclede refers to Section 386.266.3, RSMo, as authority for a weather clause, but notes that no Commission rules have been promulgated to implement this provision.

### **Staff's Analysis**

Historically, the deviation from normalized usage is driven by the vagaries of weather. Consequently, when weather is warmer/colder than normal the utility may under/over recover its distribution costs. Like most businesses, the utility benefits from selling more of its product. The more it sells; the more revenue it collects. The less it sells; the fewer revenues it collects. Staff agrees with Laclede's assertion that the SFV is the least weather sensitive alternative and the traditional rate design without a CUA/weather clause is the most weather sensitive alternative. Gas utility systems are built to meet peak demand in a safe and reliable manner on the anticipated coldest heating day. Once the facilities are in place, a change in the amount of gas delivered to any one customer does not have a great impact on the cost of delivery. It is important to send customers an appropriate price signal related to the cost to serve them so that they may make better consumption decisions. As provided in Laclede's Report, 12-15% of Residential customers use less than 500 CCF/Therms annually, while 56-63% use under 900 CCF/Therms. Both low and high use customers are impacted when delivery charges shift. The costs to provide less than 500 CCF/Therms and under 900 CCF/Therms are generally the same, since the system is designed and built to meet the highest anticipated demand in a service territory. The distribution system investment does not change if a customer uses more or less gas. Low use customers also benefit from the distribution system investment as a matter of safety, reliability, and availability of natural gas if the need arises. Therefore, Staff maintains the position that rates should generally be designed so that each class pays its cost of service based on cost-causation principles and that rate design should be reconsidered in each general rate case.