Exhibit No.:	________________
Issue(s):	SNG's Commitments to Insulate Customers from Risk/ Additional Revenue Requirement Issues/ Customer Response to the proposed Rate Increases/ Response to the Staff and Company Rate Design Proposals/ Consolidation of Tariffs and Misc. Fees/ Other Tariff Issues
Witness/Type of Exhibit:	Meisenheimer/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2014-0086

REBUTTAL TESTIMONY

OF

BARBARA MEISENHEIMER

Submitted on Behalf of
the Office of the Public Counsel

SUMMIT NATURAL GAS

Case No. GR-2014-0086

July 11, 2014

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri Inc.'s Filing of Revised Tariffs To Increase its Annual Revenues For Natural Gas Service	))))	Case No. GR-2014-0086

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 rebuttal 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 11th day of July 2014.

NOTARY SEAL

JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

TABLE OF CONTENTS

REBUTTAL TESTIMONY
OF
BARBARA A. MEISENHEIMER

SUMMIT NATURAL GAS

CASE NO. GR-2014-0086

I. INTRODUCTION

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

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

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My rebuttal testimony addresses five issues related to the proposed rate increase and tariff modifications proposed by Summit Natural Gas of Missouri, Inc. (SNG or the Company). The first issue I address is Public Counsel's recommendation that the filed tariff sheets associated with the Company's proposal to raise base rates should be rejected. I base my recommendation primarily on the Company's failure to demonstrate compliance with both its past commitments and Commission directives to insulate customers from the risks associated with service area expansions. Public Counsel does not oppose a limited uniform increase to base rates to recover the cost of the low-income weatherization expenditures as discussed in the rebuttal testimony of Public Counsel's witness,

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Geoff Marke. Second, I address economic and other customer impacts that Public Counsel encourages the Commission to consider in rejecting the Company's proposed increase. Third, I address rate design, including the Company and Staff proposed rates for general service residential and small commercial customers. Public Counsel strongly opposes the Staff proposal to have all residential and small commercial customers pay the same distribution charges regardless of use. Fourth, I address the Company's proposal to consolidate the terms and conditions of service and the miscellaneous service fees for the previous Southern Missouri Natural Gas (SMNG) and Missouri Gas Utility (MGU) service areas. Public Counsel does not oppose working toward a consolidated tariff, but recommends that the process be conducted in a manner that minimizes detrimental customer impacts. For example, where the SMNG and MGU tariffs currently reflect different fees for a like service, Public Counsel suggests that instead of allowing the higher of two fees the Commission should instead allow a consolidated rate set at the lower of the two fees. If particular terms and conditions differ between the tariffs, the Commission should only allow consolidation if the more customer-friendly term or condition is adopted. Finally, I will address miscellaneous tariff issues, including the Company's proposal to revise its flexible pricing provision for commercial and industrial classes and its proposal for approval of a conversion incentive program.

Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?

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A. No.

Q. IN PREPARING TESTIMONY WHAT MATERIAL DID YOU REVIEW?

A. I have reviewed SNG's initial filing requesting an increase in its service rates, its minimum filing submission and its proposed tariff. I also have reviewed the direct testimony, and supporting documentation of Michelle A. Moorman, Tyson D. Porter, Kent D. Taylor and Martha R. Wankum filed on behalf of SNG; the Cost of Service Report and the Class Cost Of Service And Rate Design Report filed on behalf of the Staff of the Missouri Public Service Commission (Staff); Staff work papers supporting the Reports; the direct testimony of Staff witness Tom Imhoff; materials from past certification and rate cases related to the service areas that SNG serves; customer complaints and comments filed with the Commission regarding the proposed increase in this case; customer comments at public hearings; and data request responses provided to the Staff and Public Counsel by SNG.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-Columbia and have completed the comprehensive and qualifying exams for a Ph.D. in Economics from the same institution. My two areas of concentration were Quantitative Economics and Industrial Organization. My outside field of study was Statistics.

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I have been with the Office of the Public Counsel since January 1996. I have testified on economic issues and policy issues in the areas of telecommunications, gas, electric, water and sewer. In rate cases, my testimony has addressed class cost of service, rate design, miscellaneous tariff issues, low-income and conservation programs, and revenue requirement issues related to the development of class revenues, billing units, low-income program costs, incentive programs and fuel cost recovery. A list of my filed testimony is attached to this testimony. In addition to preparing filed testimony, I have regularly participated in meetings, workshops and settlement negotiations regarding issues before the Commission.

Over the past twenty years I have also taught courses for the following institutions: University of Missouri-Columbia, William Woods University, and Lincoln University. I currently teach undergraduate and graduate level economics courses for William Woods University.

Q. WHAT IS YOUR EXPERIENCE REGARDING CASES RELATED TO THE SNG NATURAL GAS SERVICE AREA?

A. I participated in the negotiations in Case No. GO-2005-0120, in which MGU received initial approval of a Certificate of Convenience and Necessity (CCN) to serve as a local gas distribution company (LDC) in Missouri. I reviewed the certification applications as MGU expanded its service area first into areas which are currently part of the Gallatin Division, later into the Warsaw area and finally into the Lake of the Ozarks region. I also filed testimony in Case. No. GR-2008-0060, related to MGU's request for an increase in base rates.

Regarding Southern Missouri Natural Gas case, I have participated in the review and negotiation of issues related to the Company. My earliest work on issues related to Southern Missouri Natural Gas occurred in 2005, in Case No. GE-2006-0156. In that case, the Company sought a waiver of the Commission's Promotional Practices Rule in order to offer a water heater rebate program. I also participated in negotiations which led to the resolution of Public Counsel's Complaint against Southern Missouri Natural Gas in Case No. GC-2006-0180, regarding the Company's gas procurement and hedging practices. In GR-2010-0347, SMNG sought an increase in base rates and I participated in initial meetings and reviewed the initial disposition agreement between Staff and the Company.

II. SNG'S COMMITMENTS TO INSULATE CUSTOMERS FROM RISK

Q. AT PAGE 6 OF HER DIRECT TESTIMONY, SNG WITNESS MICHELLE MOORMAN IDENTIFIES CERTAIN REQUIREMENTS FROM PREVIOUS COMMISSION CASES THAT THE COMPANY ADDRESSES IN THIS CASE. WHAT ADDITIONAL REQUIREMENTS SHOULD THE COMPANY ADDRESS PRIOR TO RECEIVING APPROVAL TO INCREASE RATES?

A. SNG and its predecessors have pursued aggressive expansion over the past 20 years. For each incremental expansion, the Company filed an Application for a CCN. As part of the documentation supporting these Applications, the Company

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submitted feasibility studies which the Company asserted justified the proposed expansions. Public Counsel, the Staff and other parties questioned the projected customer conversions, growth and cost assumptions contained in the feasibility studies. In order to secure Commission approval of the Applications, the Company consistently committed to bear the financial risk associated with the expansions and the Commission ordered the Company to bear such financial risk. The Company should be required to demonstrate how the proposed rate increase for each Division does not result in customers bearing the risk of the Company's decisions to expand.

Q. PLEASE PROVIDE EXAMPLES OF SNG'S EXPANSION AND COMMITMENTS RELATED TO THE GALLATIN SERVICE AREA.

A. The development of the Gallatin Division in Northwest Missouri is associated with six certificate cases, one rate case and a financing case.

GO-2005-0120: MGU's Application for a CCN to serve Harrison, Daviess, and Caldwell Counties, and to Acquire the Gallatin (460 customers) and Hamilton (277 customers) systems. A feasibility study was submitted in support of the Application. Many conditions were stipulated to by the parties, including the following risk of project success: *"The Company shall be responsible in future rate cases for any failure of this system to achieve forecasted conversion rates and/or its inability to successfully compete against propane."* (Nonunanimous Stipulation and Agreement Case No. GO-2005-0120, 12/8/2004)

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GA-2007-0421: MGU's Application for a CCN for expansion in Daviess County to serve a single customer, Landmark Manufacturing Co. A feasibility study was submitted in support of the Application. While the Company and Staff indicated that additional customers could be served by the proposed extension, the Company's feasibility study suggested that the project revenue would cover the projected cost in a short period of time.

GR-2008-0060: MGU Rate Case.

GA-2008-0078: MGU CCN expansion in Harrison County to serve Maschhoffs, Inc. A feasibility study was submitted in support of the Application.

GA-2008-0321: MGU CCN expansion into Harrison County per franchise with Ridgeway, Mo. A feasibility study was submitted in support of the Application.

GA-2008-0322: MGU CCN expansion into Daviess County per franchise agreement with Plattonsburg, Mo. A feasibility study was submitted in support of the Application.

GA-2008-0348: MGU CCN expansion into Daviess County per franchise agreement with Jamestown, Mo. A feasibility study was submitted in support of the Application.

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GF-2009-0057: MGU Application for $7M Debt, to fund current and planned operations in MO. The PSC ordered Staff's proposed 6 conditions. The PSC reserved the right to consider ratemaking treatment to be afforded these financing transactions in any later proceeding.

Q. **HAS THE GALLATIN SYSTEM ACHIEVED THE PROJECTED CUSTOMER COUNTS AND SALES VOLUMES REFLECTED IN THE FEASIBILITY STUDIES SUBMITTED IN SUPPORT OF THE SERVICE AREA EXPANSIONS?**

A. No. The Company has not achieved the projections. This conclusion is based on my review of the projected customer counts and projected sales volumes contained in the service area feasibility studies compared to information reflected in the Company's current filing. In an effort to provide a very conservative comparison, Table 1 compares the customer counts and volumes for the third-year period referenced in the feasibility studies compared to the Company's current customer counts and volumes. Current customer counts were calculated as the number of bills divided by 12. A copy of the Applications and feasibility studies used in my analysis are included in Schedule 1-Gallatin HC.

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Q. PLEASE PROVIDE EXAMPLES OF SNG'S EXPANSION AND COMMITMENTS RELATED TO THE WARSAW SERVICE AREA.

A. The development of the Warsaw Division in Central Missouri is associated with eight certificate cases.

GA-2009-0264: MGU's CCN for expansion into Pettis and Benton Counties including Green Ridge, Cole Camp, Lincoln and Warsaw. A feasibility study was submitted in support of the Application. The PSC ordered 6 conditions, including, "*MGU's shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers*."

GA-2009-0422: MGU's Application for a CCN expansion into Benton County, to serve Green Ridge, Cole Camp, Lincoln and Warsaw. The Company stated that it needed to use an alternate route for the main line route proposed in GA-2009-0264. The Company incorporated the feasibility study from Case No. GA-2009-0264. The PSC ordered 6 conditions, including, "*MGU's shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers*." (Report and Order p. 8, Case No. GA-2009-0422)

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GA-2010-0189 MGU's CCN for expansion into Greene, Polk and Dallas Counties. A feasibility study was submitted in support of the Application. Approval included the condition, "*MGU's shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers.*" (Report and Order p. 8, Case No. GA-2010-0189)

GA-2010-0289: MGU's CCN to serve Pettis and Benton Counties. A feasibility study was submitted in support of the Application. Approval included the condition, "*MGU's shareholders accept full financial responsibility for the success of these projects, with no liability or responsibility falling on customers.*" (Report and Order p. 4, GA-2010-0289. Case Nos. GA-2010-0290 and GA-2010-0291 were consolidated with GA-2010-0289).

GA-2012-0044: MGU's CCN for expansion in Benton County. A feasibility study was submitted in support of the Application. The Commission's approval included the condition, "*MGU's shareholders shall be fully responsible for the success of the project, with no liability or responsibility put on MGU's existing customers.*" (Report and Order p. 4, Case No. GA-2012-0044)

GA-2013-0404: Summit's CCN expansion in Pettis and Benton Counties. A feasibility study was submitted in support of the Application. The Commission's approval included the condition, "*SNG's shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers.*" (Report and Order p. 4, Case No. GA-2013-0404)

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Q. HAS THE WARSAW SYSTEM ACHIEVED THE PROJECTED CUSTOMER COUNTS AND SALES VOLUMES REFLECTED IN THE FEASIBILITY STUDIES SUBMITTED IN SUPPORT OF THE SERVICE AREA EXPANSIONS?

A. No. The Company has not achieved the projections. This conclusion is based on my review of the projected customer counts and projected sales volumes contained in the service area feasibility studies compared to information reflected in the Company's current filing. In an effort to provide a very conservative comparison, Table 2 compares the customer counts and volumes referenced in the feasibility studies compared to the Company's reported customer current counts and volumes. Projections for the third-year period were used for most expansions. Case No. GA-2012-0044 reflects a more recent expansion and reflects only a Year 2 projection. Similarly, Case No.GA-2013-0404 reflects only a Year 1 projection. A copy of the Applications and feasibility studies used in my analysis are included in Schedule 1-Warsaw HC.

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Q. PLEASE PROVIDE EXAMPLES OF SNG'S EXPANSION AND COMMITMENTS RELATED TO THE BRANSON SERVICE AREA.

A. The development of the Branson Division in Southern Missouri is associated with Case No. GA-2007-0168.

GA-2007-0168: SMNG's Application for a CCN to serve Branson, Branson West, and Hollister. The Company included a feasibility study, however, the original document filed was missing relevant pages. The Commission's approval applied to Branson and Hollister only until a franchise was granted for Branson West. The Commission's Second Report and Order at page 10 states "*It also bears noting that during the hearing, Mr. Maffett expressly agreed to have SMNG's shareholders bear the economic risks associated with the expansion of its service area to the Branson area (just as in the Lebanon case), including a failure to achieve forecasted conversion rates and/or customer growth projections. Tr. 87-88 passim. In the first Report and Order, the Commission required SMNG to agree to this as a condition of being issued a conditional CCN. Report and Order, Case No. GA-2007-0168 (Feb. 5, 2008) at 18.*"

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Q. HAS THE BRANSON SYSTEM ACHIEVED THE PROJECTED CUSTOMER COUNTS AND SALES VOLUMES REFLECTED IN THE FEASIBILITY STUDIES SUBMITTED IN SUPPORT OF THE SERVICE AREA EXPANSIONS?

A. No. The Company has not achieved the projections. This conclusion is based on my review of the projected customer counts and projected sales volumes contained in the service area feasibility studies compared to information reflected in the Company's current filing. In an effort to provide a very conservative comparison, Table 3 compares the customer counts and volume for the third-year period referenced in the feasibility studies compared to the Company's reported current customer counts and volume. A copy of the Applications and feasibility studies used in my analysis are included in Schedule 1-Branson HC. The original feasibility studies filed in the CCN case, and the copy provided to Public Counsel in this case, are missing sheets that contain customer and volume data that I use in my analysis. I was able to obtain a copy of the data from Exhibit 22, filed in EFIS in Case No. GA-2007-0168. The copy quality is poor, so I may need to update the customer and volume calculations once I am able to obtain a more legible copy.

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Q. PLEASE PROVIDE EXAMPLES OF SNG'S EXPANSION AND COMMITMENTS RELATED TO THE ROGERSVILLE SERVICE AREA.

A. The development of the Rogersville Division in South Central Missouri is associated with five certificate cases.

GA-94-127: Tartan Energy Co, L.C., d/b/a Southern Missouri Gas Company's (Tartan) Application for a CCN to serve Wright, Texas, Howell, Webster, Greene and Douglas Counties, including the cities of Cabool, Houston, Licking, Mountain Grove, Mountain View, West Plains, Ava, Mansfield, Marshfield, and

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Willow Springs. A feasibility study was submitted as a late-filed exhibit. The Commission's Report & Order conditioned approval of the Application on terms contained in a Stipulation and Agreement. The Stipulation and Agreement included the following conditions: (1) Tartan consented to achieve a capital structure reflecting 40%-42% common equity to total capital ratio; and (2) Tartan imputed a volume level of at least 1,797,000 Mcf (for all future rate cases), which results in a conversion rate based on Tartan's conversion estimate. The imputation reflected that Staff's predicted conversion rate was much lower. Other conditions also applied. At Page 25, of the Commission's Report & Order, the Commission discussed the Company's desire to move forward with the project despite the Company's concession to use an imputed level of volumes and despite a Company conducted sensitivity study showing that a lower conversion rate might result in a single digit return.

GA-95-349: Tartan's CCN for Mountain View was requested because the Company did not have franchise authority in time to get approval in GA-94-127.

GA-2007-0212: SMNG's CCN for Lebanon. This case was consolidated with GF-2007-0215 and GA-2007-0310. The Commission granted SMNG a CCN for Lebanon, Licking, and Houston conditioned upon shareholders, rather than ratepayers, being deemed responsible for the detrimental effects of a loss resulting from inaccurate estimations of customer conversion or usage rates. (Report and Order p. 25, Case No. GA-2007-0212)

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GA-2010-0114: SMNG's CCN for expansion into Laclede County to serve Willard Asphalt Paving. The Commission approved the CNN "conditioned on SMNG's shareholders assuming total responsibility for any loss associated with this project, with no liability or responsibility put on customers." (Report and Order p. 4, Case No. GA-2010-0114)

Q. **HAS THE ROGERSVILLE SYSTEM ACHIEVED THE PROJECTED CUSTOMER COUNTS AND SALES VOLUMES REFLECTED IN THE FEASIBILITY STUDIES SUBMITTED IN SUPPORT OF THE SERVICE AREA EXPANSIONS?**

A. No. The Company has not achieved the projections. This conclusion is based on my review of the projected customer counts and projected sales volumes contained in the service area feasibility studies compared to information reflected in the Company's current filing. In an effort to provide a very conservative comparison, Table 4 compares the customer counts and volumes for the third-year period referenced in the feasibility studies compared to the Company's reported current customer counts and volumes. For customer counts and volumes related to the areas reflected in the CCN granted in GA-94-127, I used the imputed volumes approved by the Commission. A copy of the Applications and feasibility studies used in my analysis are included in Schedule 1-Rogersville HC.

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Q. DOES THE COMPANY ACKNOWLEDGE THAT ITS LOWER RATE OF RETURN HAS BEEN CAUSED BY FEWER CUSTOMERS CONNECTING, LOWER GAS CONSUMPTION, CONSTRUCTION DELAYS, DELAYS IN CUSTOMERS CONNECTING AND HIGHER CONSTRUCTION COSTS?

A. Yes, In response to Public Counsel Data Request No. 4 **

** The Company's response to Public Counsel Data Request No. 4 is attached to this testimony as Schedule 2HC.

Q. DOES THE COMPANY ALSO ACKNOWLEDGE THAT COMPETITION FROM ALTERNATIVE FUELS HAS IMPACTED THE COMPANY?

A. In response to Public Counsel Data Request No. 5 Company witness James Anderson describes alternative fuels, particularly propane, as increasing the perceived risk associated with the Company. He also acknowledges it has affected the Company's ability to gain customers.

The Company's response to Public Counsel's Data Request No. 5 is attached to this testimony as Schedule 3.

III. ADDITIONAL REVENUE REQUIREMENT ISSUES

Q. HAS THE COMPANY CLAIMED ANY OF THE FINANCIAL RISK FOR THE SYSTEMS FALLING SHORT OF PROJECTED CUSTOMERS AND VOLUMES?

A. Only to a limited extent. The Company claims to have made "management policy decisions" to reduce the requested increase for Branson and Warsaw. The Company's reasoning is that the Branson system is still growing and the Company does not want to assign the full cost of the system to early movers. The decision to reduce the request for Warsaw relates to a mainline shared with the Lake of the Ozarks system. The Company decided to reduce its request pending growth on the Lake of the Ozarks system.

Q. **IS THIS METHOD OF ADJUSTING ITS REVENUE REQUIREMENT TRANSPARENT OR ADEQUATE IN DEMONSTRATING THAT IT HAS MET ITS COMMITMENTS TO INSULATE CUSTOMERS FROM THE RISK OF NOT ACHIEVING FORECASTED CONVERSION RATES AND/OR CUSTOMER GROWTH PROJECTIONS IN EACH DIVISION?**

A. No.

Q. **FOR THE PURPOSE OF DETERMINING REVENUE REQUIREMENT FOR THE ROGERSVILLE DIVISION, HAS THE COMPANY IMPUTED THE VOLUMES OF AT LEAST 1,797,000 MCF AS IT AGREED TO DO IN CASE NO. GA-94-127?**

A. No. Schedule TDP-1 Exhibit 1 and Schedule TDP-1 Exhibit 3, attached to the direct testimony of Company witness Tyson Porter and included in Schedule 4 of this testimony, indicate that the Company is using a volume level of only 1,755,522 for purposes of determining its claimed current revenues. Using the lower volume level produces a lower current revenue estimate and a higher revenue requirement estimate than would result from using the required imputation.

Q. **SHOULD SNG BE ALLOWED TO RECOVER IN RATES THE PURCHASE DISCOUNT ASSOCIATED WITH THE SALE OF SMNG TO MGU APPROVED IN CASE NO. GM-2011-0354?**

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A. No. Public Counsel witness Keri Roth identifies the level of bargain purchase discount as ** ** which resulted from the sale of SMNG to MGU. In this case, MGU, the buyer, appears to have recorded the booked value for rate making purposes instead of the lower value reflective of the discounted price paid.

The difference should not be charged to ratepayers for two reasons. The first relates to SMNG's commitments and Commission decisions requiring that if the Company failed to meet the projections in its original CCN case and subsequent CCN and rate cases, any risk associated with this failure would not be passed on to ratepayers. As described above, the seller SMNG has historically failed to achieve its projected customer counts and sales volumes. The SMNG assets were eventually sold to MGU for an amount significantly below the recorded book value. The lost value should be borne by shareholders.

The second reason the Company should be allowed to recover only the discounted sale price rather than the booked value paid for SMNG's assets relates to the Commission's Affiliate Transaction Rules. At the time of the sale the seller and buyer, SMNG and MGU, were under common ownership as discussed at Page 2, of the direct testimony of MGU witness Michael Earnest in the merger case GM-2011-0354. A copy of his testimony is attached as Schedule 5. Under common ownership, both MGU and SMNG should have acted in accordance with the pricing standards of the Affiliate Transaction Rule.

4 CSR 240-40.015 (2) (A) states:

> A regulated gas corporation shall not provide a financial advantage to an affiliated entity. For the purposes of this rule, a regulated gas corporation shall be deemed to provide a financial advantage to an affiliated entity if –
>
> 1. It compensates an affiliated entity for goods or services above the lesser of –
>
>   A. The fair market price; or
>
>   B. The fully distributed cost to the regulated gas corporation to provide the goods or services for itself; or
>
> 2. It transfers information, assets, goods or services of any kind to an affiliated entity below the greater of –
>
>   A. The fair market price; or
>
>   B. The fully distributed cost to the regulated gas corporation.

Under the Rule, SMNG should have documented the fair market price and sold the assets at the higher of fully distributed cost or the fair market price. MGU as the buyer, should have documented the fair market price and bought the assets at the lower of fully distributed cost or the fair market price.

While at this point there appears to be no clear way to determine the fair market price as might have occurred in an "arms length" transaction, it is at least reasonable to have expected SMNG to have received the booked cost as a representation of fully distributed cost of the assets. To conform to the Affiliate Transaction Rules while also accepting the discounted sale price, SMNG should have written off a portion of the booked value. Likewise, since the transaction was not an arms length transaction, MGU should not be allowed any advantage by valuing the assets at a value higher than it paid for the assets.

Q. SHOULD SNG BE GRANTED INCREASES WHEN IT HAS NOT DEMONSTRATED THAT IT HAS MET ITS BURDEN TO INSULATE CUSTOMERS FROM RISK?

A. No. As I have demonstrated the Company has consistently failed to meet projections and other commitments, it has also failed to demonstrate that ratepayers have been sheltered from its aggressive growth strategy.

IV. CUSTOMER RESPONSE TO THE PROPOSED RATE INCREASES

Q. MANY RESIDENTIAL CUSTOMERS FILED COMMENTS WITH THE COMMISSION OR TESTIFIED AT ONE OF THE LOCAL PUBLIC HEARINGS REGARDING SNG'S PROPOSED RATE INCREASE. WERE ANY ISSUES RAISED IN THOSE COMMENTS THAT ARE CONCERNING TO YOU?

A. Yes, there were many issues raised in the public comments that are of great concern. The majority of customers are distraught over the size of the proposed increase and the impact it would have on their bills and their budgets. Many customers in SNG's service territory are elderly or low-income and living on a low fixed income such as social security, and the size of the proposed increase would pose a significant burden to these customers. The common theme among the customer comments is that the magnitude of SNG's request is extremely excessive, with many customers referencing the 100% increase in the customer charge for two SNG districts, and a 60% increase in the commodity rate.

Q. HOW DOES SNG'S REQUESTED INCREASE COMPARE TO RATE INCREASE REQUESTS FILED BY OTHER NATURAL GAS COMPANIES IN MISSOURI?

A. Excluding SNG's current request, in the past five (5) years the average requested rate increase by natural gas companies is $65.54 annually. See Table 5 below.

Table 5

Natural Gas Company	***Proposed* Annual Increase for Average Residential Customer**	**Case Number**
Summit Natural Gas	**$346.61** to **$228.32**[1]	GR-2014-0086
Missouri Gas Energy	$27.96[2]	GR-2014-0007
Laclede Gas Company	$59.16[3]	GR-2013-0171
Ameren Missouri	$87.00[4]	GR-2010-0363

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[1] Request for Approval of Proposed Customer Notice, filed April 10, 2014. The Warsaw District has the lowest proposed average impact of $228.32, while the Branson District has the highest proposed average impact of $346.61. The Gallatin and Rogersville Districts proposed average impacts are $244.50 and $289.70 respectively.

[2] Direct Testimony of Steve Lindsey, GR-2014-0007, p. 10, line 5.

[3] Direct Testimony of Steve Lindsey, GR-2013-0171, p. 4, line 1.

[4] Case No. GR-2010-0363, UE Exhibit No. 1, General Information, Schedule 4, page 1 of 1.

So. Mo. Natural Gas	$54.50[5]	GR-2010-0347
Atmos Energy Corp.	$105.72[6]	GR-2010-0192
Laclede Gas Company	$67.08[7]	GR-2010-0171
Empire District Gas Co.	$57.36[8]	GR-2009-0434

For the Branson District, SNG is requesting a rate increase that is *five times* greater than the average. It is certainly understandable why so many SNG customers are angry and distressed over the magnitude of SNG's request.

Q. WERE CONCERNS SIMILAR TO THOSE RAISED BY RESIDENTIAL CUSTOMERS ALSO RAISED BY OTHER CLASSES OF CUSTOMERS?

A. Yes. Based upon my experience, it is uncommon in local public hearings regarding natural gas rate increase proposals to have many small business and commercial customers testify. However, SNG's public hearings are noteworthy

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[5] *Order Approving Small Company Rate Increase and Approving Tariff,* Case No. GR-2010-0347, January 19, 2011. This number is based on the *approved* rate request rather than the proposed increase because the impact of the proposed increase was not available. It should be noted that the approved increase was $300,000 higher than the requested increase.

[6] Direct Testimony of Kevin Akers, GR-2010-0192, p. 6, line 3.

[7] Case No. GR-2010-0171, Laclede Letter to Commission Secretary, December 4, 2009.

[8] Case No. GR-2009-0434, Empire General Information filing, June 5, 2009.

for the number of small business and commercial customers that have expressed concern over their ability to afford the large bill increase proposed by SNG. Many are concerned that the increase will force them into bankruptcy. In the public hearing held in the City of Warsaw, for example, several chicken farmers raised concerns over bankruptcy if the proposed increase is approved. Mr. Jeffrey Miller testified that his chicken farming business spends approximately $40,000 annually on natural gas, and that SNG's proposal would increase his gas bill by 26.5%, or over $10,000, which could force his business into bankruptcy.[9]

Q. DO YOU HAVE ADDITIONAL CONCERNS THAT A PORTION OF SNG'S CUSTOMERS BELIEVE THEY WERE MISLED INTO SUBSCRIBING TO SNG'S GAS SERVICE?

A. Yes. This is another area of great concern. Many customers expressed feelings of being misled by SNG regarding future rates when they originally switched from propane to natural gas. During the local public hearing in the City of Branson, Ms. Reanne Presley, Mayor of Branson, explained:

[9] Transcript (Tr.), Vol. 4, pp. 15-17.

> On behalf of our citizens and business owners within the City of Branson, Missouri, I would like to raise a voice of concern about the proposed level of increase in the price of natural gas. It appears that much of the requested increase is due to the installation of the distribution system in our area. Before this installation took place, the community was not given adequate notification that the cost of this construction was not built into the current rate structure. It was not clear that the utility expected to recoup these expenses in future years with rate increases. I have learned, since, that this is a common practice, but I must say that it was not made clear to our community, I think neither to our citizens, nor to our businesses, nor to our city staff.[10]

Ms. Gail Meyer, a SNG customer with a degree in chemical and petroleum refining and engineering, echoed similar feelings.[11] Ms Meyer testified that when she originally subscribed for gas service for her commercial properties, “there was a substantial amount of salesmanship” to convince her to switch to natural gas.[12] For this reason, Ms. Meyer urges the Commission to “go to the lower end of the

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[10] Tr., Vol. 6, p. 6.

[11] *Id.*, p. 14.

[12] *Id.*, p. 15.

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return on investment."[13] Many other customers raised similar concerns throughout the public hearing testimony and filed comments. I strongly encourage the Commission to read through the comments and public hearing testimony and factor customer feedback into the Commission's deliberations as it determines whether to grant SNG a rate increase.

Q. WOULD IT BE COST PROHIBITIVE FOR SOME CUSTOMER TO SWITCH BACK TO PROPANE ONCE THEY HAVE CONVERTED TO NATURAL GAS?

A. Yes. Staff requested information from SNG regarding the cost for customers to convert to propane from natural gas. The Company estimated that depending on the number of appliances and manufacturer of the appliances, the cost to the customer could be between $100 and $450. For low income customers and customers living on fixed incomes, an up-front cost of $100 to $450 can be cost prohibitive. The Company's response was unclear on whether there might be additional costs related to renting or buying a propane tank or paying for a minimum initial propane delivery.

V. RESPONSE TO THE STAFF AND COMPANY RATE DESIGN PROPOSALS

Q. PLEASE DESCRIBE THE COST ASSIGNMENTS AT ISSUE IN THIS CASE.

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[13] *Id.*, p. 16.

A. Natural gas commodity costs. which are recovered through the Purchased Gas Adjustment (PGA) and Actual Cost Adjustment (ACA) mechanisms, are not at issue in this case. The remaining costs associated with providing natural gas service, referred to as margin costs, are at issue. Margin costs are the cost of physical plant, including: land, structures, mains, measuring and regulating equipment, service lines, meters, house regulators, facilities used to deliver natural gas to customers throughout the local service area, and other equipment. In addition to plant costs, margin costs include costs related to the operation and maintenance of physical plant; service related costs such as meter reading, billing, records and collections, advertising and marketing; administrative and general costs and taxes.

Q. PLEASE DESCRIBE THE PARTIES' PROPOSED METHODS FOR RECOVERING THE COST TO PROVIDE SERVICE TO SMALL RESIDENTIAL AND COMMERCIAL CUSTOMERS.

A. Traditionally, rate designs that recover margin costs have been constructed to include a fixed monthly customer charge and a volumetric charge.

The customer charge collects those costs exclusive to serving a particular customer, such as the service line which carries gas from the main running along the street to the customer meter, as well as, the cost of the meter and regulator located at the customer premises. Assuming that customers in the customer class: have sufficiently similar characteristics, they are served by the same size meter and regulator, are served by a line similar in length and diameter, their installation costs are similar, then, in mathematical terms, the relationship between the costs and the number of customers is a direct relationship; each customer adds a uniform amount to costs. Serving each customer in a customer class also results in incurring similar costs for meter reading, issuing a bill, processing payment and recording activity on a customer's account. The cost of physical plant at the customer premises, related operations and maintenance expenses, and customer service expenses directly related to the customer are costs that have, in the past, been included in the monthly customer charge.

Other costs, such as the cost of mains, are driven by a need to satisfy demand during peak periods and total consumption throughout the year. These types of costs traditionally have been recovered through a volumetric charge.

This Company, like most regulated gas distribution and electric utilities, collects costs through the combination of a customer charge and a volumetric charge. In the current case, both the Public Counsel and the Company propose to continue the use of this traditional two-part rate structure. Staff, however, proposes to implement a Straight Fixed Variable (SFV) rate design that would recover all the margin costs assigned to the residential and small commercial classes through a single fixed monthly charge.

Q. WHAT RATE LEVELS DOES THE COMPANY PROPOSE TO IMPLEMENT FOR THE RESIDENTIAL AND SMALL GENERAL SERVICE COMMERCIAL CUSTOMERS?

A. The Company's proposed rates are shown in Table 6.

Table 6

Summit Current and Proposed Small Customer Rates				
	Customer Charge		Commodity Charge (Ccf)	
	Existing	Proposed	Existing	Proposed
Gallatin				
GS-residential	$15.00	$20.00	$0.44	$0.72
GS-commercial	$15.00	$20.00	$0.44	$0.72
Warsaw				
GS-residential	$15.00	$15.00	$0.55	$0.95
GS-commercial	$15.00	$15.00	$0.55	$0.95
Rogersville				
GS-residential	$10.00	$20.00	$0.47	$0.74
GS-residential-optional			$0.71	$1.21
GS-commercial	$15.00	$40.00	$0.46	$0.68
GS-commercial-optional			$0.70	$1.27
Branson				
GS-residential	$10.00	$20.00	$0.57	$0.94
GS-residential-optional			$0.81	$1.41
GS-commercial	$15.00	$40.00	$0.56	$0.88
GS-commercial-optional			$0.80	$1.47

Q. WOULD THE PROPOSED INCREASES BE DETRIMENTAL TO RESIDENTIAL AND SMALL GENERAL SERVICE COMMERCIAL CUSTOMERS?

A. Yes, the increases would be detrimental, especially to the most vulnerable customers such as low-income consumers and consumers living on fixed incomes. The Company proposes that the customer charge *increase by a third* for residential customers in the Gallatin District *and double* for residential customers in the Rogersville and Branson Districts. Later in this testimony I explain how high fixed charges are detrimental not only to the affected customer, but also to other customers on the shared system. The Company's proposed increase to the Small General Service customer charge for commercial customers is even larger

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at an increase of 167%. Further, he Company proposes volumetric increases ranging from 43% to 80%.

Q. SHOULD THE COMMISSION APPROVE THE COMPANY'S PROPOSED RATES FOR THE RESIDENTIAL AND SMALL GENERAL SERVICE COMMERCIAL CUSTOMERS?

A. No. The Company has failed to demonstrate that the increases it proposes should be borne by ratepayers.

Q. WHAT RATE LEVELS DOES THE STAFF PROPOSE TO IMPLEMENT FOR THE RESIDENTIAL AND SMALL GENERAL SERVICE COMMERCIAL CUSTOMERS?

A. Neither the Class Cost of Service Report nor testimony identify the specific rates that the Staff proposes based on an SFV rate design. I have used information from the Staff's Class Cost of Service Report, Staff's Class Cost of Service work papers and Staff's filed Accounting Schedules to quantify the rates that would result from the Staff's proposal to implement a SFV rate design. The rates are shown in Table 7.

Table 7.

Staff Proposed Small Customer Rates					
	Distribution Charge Calculation from CCOS				
	Margin Increase	Current Revenue	Resulting Revenue	No. of Bills	Dist. Charge
Gallatin					
General Service	7.84%	$638,738	$688,831	15,845	$43.47
Warsaw					
General Service	103.47%	$393,886	$801,443	10,295	$77.85
Rogersville					
GS-residential	18.34%	$3,717,806	$4,399,583	117,964	$37.30
GS-residential-optional					
GS-commercial	18.34%	$1,895,892	$2,243,563	28,601	$78.44
GS-commercial-optional					
Branson					
GS-residential	165.10%	$184,071	$487,977	6,518	$74.87
GS-residential-optional					
GS-commercial	165.10%	$344,529	$913,356	3,278	$278.63
GS-commercial-optional					

Q. WOULD THE STAFF'S PROPOSED SFV DISTRIBUTION RATES BE DETRIMENTAL TO CUSTOMERS?

A. Staff's proposed monthly rates are excessive. In support of its proposal, the Staff has provided no customer bill analysis to demonstrate the impact on customers at different usage levels.

Q. DOES ANY REGULATED NATURAL GAS DISTRIBUTION COMPANY USE AN SFV RATE DESIGN?

A. No. The only two local distribution companies that have ever used an SFV rate design have discontinued its use, agreeing instead to a traditional rate design.

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Q. WHAT POPULATION WOULD BE MOST NEGATIVELY IMPACTED BY A STRAIGHT FIXED RATE DESIGN THAT REQUIRES LOW-USE CUSTOMERS TO PAY THE SAME DISTRIBUTION RATE AS HIGH-USE CUSTOMERS?

A. Rate designs that recover all distribution costs through a fixed charge, and without a volumetric rate, require low-use customers to pay more for their distribution service than rate designs that include both a fixed charge and a volumetric rate. This negatively impacts those households that use less than average amounts of natural gas, which historically includes low-income households.

Q. WOULD IT BE BEST TO PRICE SERVICE SO HIGH THAT THOSE CUSTOMERS WITH VERY LOW USE DISCONNECT SERVICE?

A. Absolutely not. If low-use customers are paying the customer-related costs dedicated to serving them, such as the cost of the meter, service and meter reading and, in addition, are making some contribution to the shared system costs, then having that customer on the system benefits other customers.

Q. IF THE LOW-USE CUSTOMER PAYS LESS TOWARD SHARED SYSTEM COSTS THAN DOES A HIGH USE CUSTOMER, DOES THAT MEAN THAT THE LOW-USE CUSTOMER'S SERVICE IS SUBSIDIZED?

A. No. While the low-use customer may provide a lower return than a high use customer, if the low-use customer is paying the customer-related costs and making some contribution to shared system costs, the low-use customer's service is not subsidized.

Q. MIGHT HIGH CUSTOMER CHARGES PROVIDE AN INCENTIVE FOR LOW-USE CUSTOMERS TO DISCONNECT SERVICE?

A. Yes, high customer charges may result in pricing some low-use customers out of the market. This would be an undesirable and potentially harmful outcome. A high customer charge could also result in an increase in customers disconnecting service during the summer when space heating is not necessary.

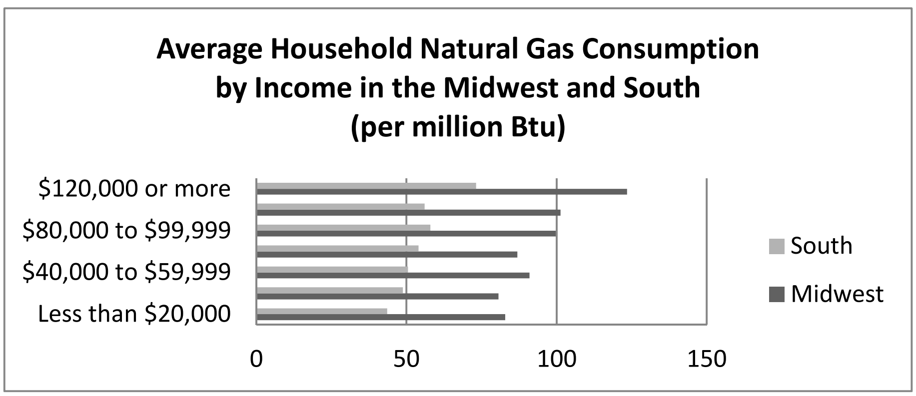
Q. DO LOW-INCOME MISSOURI HOUSEHOLDS TEND TO CONSUMES LESS NATURAL GAS THAN THE AVERAGE INCOME HOUSEHOLD?

A. Yes. Although low-income consumers tend to live in less energy efficient housing, they tend to use less energy due to living in housing units with less square footage.

Q. WHAT EVIDENCE SUPPORTS YOUR CONCLUSION THAT THE AVERAGE LOW-INCOME MISSOURI HOUSEHOLD CONSUMES LESS NATURAL GAS THAN THE AVERAGE HOUSEHOLD?

A. The U.S. Energy Information Administration's (EIA) 2009 Residential Energy Consumption Survey (RECS) provides statistics on energy consumption in the U.S. This statistical evidence is gathered and published to assist in the establishment of sustainable energy policies, such as an energy policy that recognizes the needs of vulnerable low-income households. The RECS energy consumption data in Diagram 1 shows that average household natural gas usage increases with income in both the Midwest region, which includes Missouri, and the South region, which borders Missouri to the south.[14] This shows that low-income households in colder regions and in warmer regions use below average amounts of natural gas. Accordingly, rates that harm low-volume users are disproportionately harmful to low-income households.

Diagram 1



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Q. ARE THERE PUBLIC HEALTH CONCERNS ASSOCIATED WITH A RATE DESIGN THAT PLACES MORE COST RESPONSIBILITY ON LOW-INCOME HOUSEHOLDS?

[14] Source: U.S. Energy Information Administration, 2009 Residential Energy Consumption Survey, Final Energy Consumption and Expenditures Tables CE2.3 and CE2.4 (See Schedule 6). The 12-state Midwest region includes Missouri and the bordering states of Illinois, Iowa, Kansas, and Nebraska. The 15-state South region includes Arkansas, Oklahoma, and Tennessee that border Missouri to the south.

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A. Yes. Access to affordable home energy is a serious matter of health and safety for low-income households. High gas bills force low-income households to go without service or to lower their home temperatures to levels that threaten the health of vulnerable populations, particularly children and the elderly. There is a direct link between body temperature, health, and safety. Cold weather "challenges the body's ability to maintain a steady core temperature. Anything that impairs the body's ability to regulate its own temperature heightens vulnerability."[15] This poses a "significant risk factor" for children and the elderly and those already suffering from chronic diseases such as heart disease, stroke, respiratory disease like asthma, and diabetes.[16] This risk is higher in low-income households because they are likely to have seniors, disabled members, or children in the home. In fact, ninety percent (90%) of low-income homes receiving energy assistance have a household member that is among these vulnerable populations,[17] and in 19% of low-income households an illness was caused by keeping the home too cold.[18] "Financial stresses on households facing high home energy bills mean that some will go without food or a full dose of medically necessary prescription

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[15] *Affordable Home Energy and Health: Making the Connections*, by Lynn Page Snyder, PhD, MPH, National Energy Assistance Directors Association, and Christopher A. Baker, AARP Public Policy Institute, June 2010. (see Schedule 7)

[16] *Id.*

[17] National Energy Assistance Directors Association (NEADA), http://neada.org/program-policy-reports/

[18] *Id.*

medicines," posing further threats to public health.[19] The Commission has an opportunity to make a meaningful impact on low-income households with a rate design that helps low-income gas users stay connected and maintain an adequate level of service, resulting in positive health benefits for children, disabled, and elderly that are most vulnerable to cold weather.

Q. ARE THERE PUBLIC SAFETY CONCERNS ASSOCIATED WITH A RATE DESIGN THAT PLACES MORE COST RESPONSIBILITY ON LOW-INCOME HOUSEHOLDS?

A. Yes. The inability to afford natural gas causes many households to move to an auxiliary heat source such a kitchen oven or a portable electric space heater. The Missouri Department of Public Safety, Office of the State Fire Marshall, reports on its website that "space heaters account for about one-third of home heating fires and 80 percent of home heating fire deaths annually, according to the National Fire Protection Association."[20] A rate design that places more cost responsibility on low-income households increases these threats to public safety.

Q. WHAT REASONS DO THE STAFF GIVE IN THE STAFF CLASS COST OF SERVICE REPORT IN SUPPORT OF THE SFV RATE DESIGN?

A. Staff argues that collecting the residential and small commercial customers' cost-of-service in a fixed monthly Delivery Charge is an equitable and reasonable way

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[19] *Id.*

[20] http://www.dfs.dps.mo.gov/safetytips/home-heating-safety.asp

to recover cost. Staff claims that the difference in the cost of serving two customers within the residential or small commercial rate class is not driven by the customer load. Staff reasons that any difference in the cost to serve these classes is more likely driven by factors other than customer size, such as distance from the transmission pipeline, customer density in the area, the terrain in the customer's geographical area, or the exact age and depreciated cost of the equipment serving the customer.

Q. DOES THE SFV RATE DESIGN MEET THE OBJECTIVE OF DESIGNING RATES BASED ON COST CAUSATION?

A. No. The SFV rate design is inappropriate for recovering all distribution costs because, while the SFV recovers costs in a one-size-fits-all fee, a portion of distribution costs vary with use and would be best recovered on a volumetric basis. Businesses generally have certain costs, such as building and equipment costs that are fixed over a period of time. Once those investments are made, they may be considered fixed costs but that does not dictate the manner in which the fixed cost should be recovered or the proportion of the cost that should be recovered from each customer. For example, the cost of mains, once placed, may be considered a fixed cost but the cost depends, in part, on the level of demand reflected in planning for capacity requirements. Design day demand, which is used for planning capacity requirements is developed based on historic demand during extremely cold weather that reflects variation in use across customers. Higher anticipated demand causes larger capacity mains to be placed and a larger level of total mains investment. Because the level of fixed cost in mains investment depends in part on demand that varies among customers, the investment should not be recovered in a uniform fixed charge but would be better recovered through charges that reflect variations in customer demand.

In this case, both the Company and Staff cost of service studies allocate the cost of mains on a volumetric basis. As described in Schedule 8 which is a copy of an email that I received in response to an inquiry to Dan Beck, the witness that developed the Staff's mains allocator, Mr. Beck describes that both the Company and Staff mains allocations are based on customer class usage for the months of January and February. This means that customers within a customer class who use more in peak winter months contribute to greater costs being assigned for recovery from the customer class. It is reasonable and appropriate to design rates to include a volumetric component that recovers more costs from those customers with greater use.

Because Staff and the Company allocate costs to the small customer classes relative to other classes based on the peak winter month volumes consumed, the mains costs are not directly related to the number of residential customers, but instead are related to usage characteristics. Schedule 4 illustrates the portions of the Staff workpapers showing that costs are allocated to the customer classes based on usage factors. The costs Staff allocates to small customer classes based on volumetric usage include, the cost of plant investment and all associated expenses, such as operations and maintenance expense and a portion of overheads.

Since individual small customer usage characteristics including total consumption and peak period consumption contribute to developing the allocations of costs to the small customer classes, it is again perfectly reasonable that rates are constructed so that customers within the class who use more overall, and use more in peak demand periods, pay more. A traditional rate design which combines a uniform customer charge with a volumetric rate component has the flexibility to recover a basic level of costs from all customers, and to recover the remaining costs incrementally consistent with use. The SFV is inflexible and does not recover costs consistent with volumetric cost drivers.

Q. HAS THE STAFF PREVIOUSLY REJECTED PROPOSALS TO RECOVER ALL DISTRIBUTION COSTS THROUGH A FIXED CHARGE DUE TO CONCERNS REGARDING THE POTENTIAL DETRIMENT TO LOW-USE CUSTOMERS?

A. Yes. The detrimental impact on low-use customers of full non-gas recovery through a fixed flat rate was foreseen by Staff witness Dr. Michael Proctor in his Surrebuttal Testimony in Laclede Gas Case No. GR-2002-356. In testimony responding to Laclede's proposed weather mitigation rate design proposal, Dr. Proctor explained: "While the Staff favors using rate design as a weather mitigation measure, because of the detrimental impact on small users, the **Staff was not willing to recommend recovering all of the non-gas costs in** either **the**

customer charge, first block rate or a combination of these rate components…." (emphasis added) The SFV has exactly the effect that Dr. Proctor rejected because it is designed to collect all distribution costs through a monthly customer charge.

Q. THE STAFF ARGUES THAT THE SFV RATE DESIGN IS DESIGNED TO COLLECT IN RATES THE COSTS ASSOCIATED WITH ACTUALLY SERVING CUSTOMERS, SUCH AS COSTS FOR METERING THE CUSTOMER'S USAGE, PREPARING BILLING, AND COSTS RELATING TO THE DISTRIBUTION SYSTEM USED TO SUPPLY NATURAL GAS TO CUSTOMERS. THE STAFF ALSO ARGUES THAT THESE TYPES OF COSTS DO NOT VARY WITH INDIVIDUAL CUSTOMER USAGE BUT ARE FIXED IN NATURE. PLEASE RESPOND TO THE STAFF'S POSITION.

A. The key to determining what costs can reasonably be recovered in a uniform customer charge is to identify the costs that are directly related to serving a particular customer irrespective of the commodity used. The cost of customer dedicated plant, such as the cost of meters and service lines located at the customer premise, associated expenses, meter reading and arguably some customer service expenses for billing, can reasonably be recovered through the customer charge. Capacity-related common costs that are used to provide service to multiple customers and have associated costs driven by use characteristics related to peak demand or total consumption should not be treated as customer related for purposes of assigning costs. While the Staff's policy position on rate design may not acknowledge that distribution costs vary with individual customer

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use, as I provided evidence of above, its cost studies do assign costs to the small customer classes based, in part, on individual customer volumetric usage characteristics.

To understand the magnitude of this cost assignment issue, the Commission should note that while the Staff proposes to recover all distribution costs in the fixed customer charge, in its class cost of service study, on a revenue neutral basis, it assigns only a fraction of costs as direct customer costs. The Staff then adds a significant increment per customer in other common costs to arrive at what it considers cost-based fixed delivery charges. A copy of the portion of Staff's work papers showing these calculations is included as Schedule 10. The amount of costs collected in the delivery charge far exceeds a level of costs that reasonably can be considered as customer-related costs.

Q. THE STAFF ALSO ARGUES THAT AN SFV RATE DESIGN MORE CLOSELY ALIGNS THE COMPANY'S AND CUSTOMERS' INTERESTS REGARDING CONSERVATION, AND ENABLES GAS UTILITIES TO ACTIVELY PROMOTE CONSERVATION WITHOUT HARMING THEIR SHAREHOLDERS, BECAUSE REVENUES FROM RESIDENTIAL AND SMALL GENERAL SERVICE CUSTOMERS NO LONGER DEPEND ON RESIDENTIAL AND SMALL GENERAL SERVICE CUSTOMERS' USAGE. PLEASE RESPOND TO THE STAFF'S POSITION.

A. The SFV relieves shareholders only of not the risk of reduced usage due to conservation and efficiency measures, but also all risk associated with warmer than normal weather. In addition, Companies generally are allowed to recover the cost of conservation and efficiency programs in rates. In contrast, customers lose the ability to reduce the portion of the bill related to distribution charges and still face the risk of adverse market movements that increase the commodity cost of natural gas. Staff's position on this issue does not reasonably balance the interests of the Company and its customers.

A factor related to the potential impact of conservation and efficiency programs that influenced the Commission's past limited approval of the SFV rate design was that extensive conservation and efficiency programs *might* lower the commodity cost of natural gas at the national level, which in turn might benefit Missouri consumers. Unlike electric utilities that have significant control over generation costs, Missouri's LDC's have limited opportunities to influence the price consumers pay for the gas commodity. The cost effectiveness of natural gas conservation and efficiency programs are tied to the price of the natural gas commodity. In recent years, the price of delivered natural gas has fallen significantly and become less volatile. In turn, this has lowered customers' bills and reduced the risk of upward volatility. These factors have reduced the cost effectiveness and net benefit of natural gas conservation and efficiency programs to Missouri customers. This is not to say that we should abandon cost effective conservation and efficiency efforts, but it is reasonable to reevaluate what customers receive in exchange for the SFV rate design. A traditional rate design allows customers to benefit directly and immediately through their own conservation and efficiency efforts.

Q. DO YOU BELIEVE THAT A TRADITIONAL RATE DESIGN THAT RECOVERS A PORTION OF COSTS IN A CUSTOMER CHARGE AND A PORTION IN A VOLUMETRIC RATE PER UNIT PROVIDES A BETTER INCENTIVE FOR CONSERVATION THAN RECOVERING ALL COST IN A FIXED FLAT RATE?

A. Yes. The traditional rate design provides a better incentive for customer to conserve than does the SFV rate design, because under traditional rate design increasing consumption increases the distribution charges a customer must pay. Under the SFV rate design, a customer using little or no natural gas in a month pays just as much in distribution cost recovery as a customer using limitless natural gas. Setting distribution rates in a manner that recovers a portion of costs based on volumes creates a financial incentive for a customer to turn back the thermostat and to reduce the gas used for cooking and water heating.

Q. HAS THE COMMISSION RECENTLY MADE FINDINGS CONSISTENT WITH YOUR CONCERNS ABOUT COST ALLOCATIONS, CONSERVATION INCENTIVES AND CUSTOMERS' ABILITY TO CONTROL THEIR BILLS?

A. Yes. In recent electric cases, the Commission has rejected proposals to recover a greater proportion of distribution costs through the customer charge requiring that some distribution costs be recovered on a volumetric basis. The Commission also recognized that high customer charges diminish efforts toward conservation and reduce low-use customers' ability to control their bill. For example, in Case No. ER-2012-0166 the Commission made the following findings related to these issues.

Case No. ER-2012-0166 -Findings of Fact:

10. The chief difference between the various cost of service studies is the amount of distribution plant that each expert assigned to customer-related usage. Ameren Missouri's study tends to overstate the amount of the distribution system that would appropriately be allocated to customer-related usage. On that basis, for this purpose, the Commission finds the cost of service studies submitted by Staff and Public Counsel to be more reliable.

11. Regardless of their details, the Commission is not bound to set the customer charges based solely on the details of the cost of service studies. The Commission must also consider the public policy implications of changing the existing customer charges. There are strong public policy considerations in favor of not increasing the customer charges.

12. Recently, in File Number EO-2012-0142, the Commission approved Ameren Missouri's first energy efficiency plan under the Missouri Energy Efficiency Investment Act. (MEEIA). Shifting customer costs from variable volumetric rates, which a customer can reduce through energy efficiency efforts, to fixed customer charges,

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> that cannot be reduced through energy efficiency efforts, will tend to reduce a customer's incentive to save electricity.
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> 13. Admittedly, the effect on payback periods associated with energy efficiency efforts would be small, but increasing customer charges at this time would send exactly to [sic] wrong message to customers that both the company and the Commission are encouraging to increase efforts to conserve electricity.

In Case No. ER-2012-0176, the Commission also rejected a proposal to increase monthly customer charges recognizing that it was more appropriate to increase volumetric charges because those charges are more within the customer's control to consume or conserve.

Q. HOW HAVE CONSUMERS RESPONDED TO THE SFV RATE DESIGN?

A. Consumers who have commented on this rate design when it was implemented for other LDCs have overwhelmingly opposed it. In comment after comment customer responses demonstrated that customers viewed the SFV rate design as burdensome and unfair. The clearest evidence of customer opposition to the SFV rate design was conveyed to the Commission in Case GR-2009-0355 by the Commission's Consumer Services Manager Ms. Gay Fred. She testified that her department received and read all of the approximately 12,000 comment cards received by the Commission. Ms. Fred personally read about 9,000 of the 12,000 comments. She testified that customers appeared unhappy with the adverse effect of the new SFV rate design and described the overall customer reaction to the SFV rate design as negative. Ms. Fred also testified that the Consumer Services Department received a lot of calls complaining of the SFV, but did not receive a single call in support of the high fixed charge rate design. The negative public reaction to the high fixed charge is indicative of the negative impact a high fixed charge has on rate affordability.

Q. WHAT IMPACT DOES THE SFV RATE DESIGN HAVE UPON RATEPAYER CONSERVATION AND ENERGY EFFICIENCY INCENTIVES?

A. The SFV rate design has a negative impact on conservation and energy efficiency because it reduces the ratepayer's incentive to implement energy efficiency measures and conserve usage. This negative impact was recognized in the 2006 National Action Plan for Energy Efficiency, which is described as "a plan developed by more than 50 leading organizations in pursuit of energy savings and environmental benefits through electric and natural gas energy efficiency." The Plan was funded by the U.S. Department of Energy (DOE) and the U.S. Environmental Protection Agency (EPA), and included input from all sectors of the utility industry, including public utility companies. The Plan includes a chapter on rate design, which addresses rate designs similar to the SFV and concludes that "they create a barrier to customer adoption of energy efficiency because they reduce the savings that customers can realize from reducing

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usage."[21] It further states that "volumetric rates are more favorable for energy efficiency promotion." Key findings regarding rate design include:

- Rate design is a complex process that balances numerous regulatory and legislative goals. It is important to recognize the promotion of energy efficiency in the balancing of objectives.

- Utility rates that are designed to promote sales or maximize stable revenues tend to lower the incentive for customers to adopt energy efficiency.

- Rate forms like declining block rates, or rates with large fixed charges reduce the savings that customers can attain from adopting energy efficiency.

The Plan concludes its chapter on rate design with a section titled Recommendations and Options, and recommends "eliminating rate designs that discourage energy efficiency by not increasing costs as customers consume more electricity or natural gas."

Q. IS THE NATIONAL ACTION PLAN FOR ENERGY EFFICIENCY CRITICAL OF THE SFV RATE DESIGN SPECIFICALLY?

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[21] National Action Plan for Energy Efficiency, U.S. Department of Energy and U.S. Environmental Protection Agency, July 2006, page 5-2.

A. Yes. In 2009, the EPA and DOE released a comprehensive study titled Customer Incentives for Energy Efficiency Through Electric and Natural Gas Rate Design: A Resource of the National Action Plan for Energy Efficiency (See Schedule 4).[22] Its purpose is to address "the issues and approaches involved in motivating customers to reduce the total energy they consume through energy prices and rate design."[23] Under a list of four "specific findings," the first finding states:

- Shifting costs from volumetric to fixed charges, through rate designs such as straight fixed-variable, does not encourage customer energy efficiency.[24]

Adopting a rate design that includes a flat customer charge coupled with a volumetric rate will maintain the additional incentive to reduce usage through energy efficiency investments and conservation.

Q. ARE THERE ADDITIONAL STUDIES THAT SUPPORT THE D.O.E. AND E.P.A. NATIONAL ACTION PLAN CONCLUSION THAT SFV RATE DESIGNS ARE HARMFUL

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[22] Customer Incentives for Energy Efficiency Through Electric and Natural Gas Rate Design: A Resource of the National Action Plan for Energy Efficiency, U.S. Department of Energy and U.S. Environmental Protection Agency, September 2009.

[23] *Id.*

[24] *Id.*

TO ENERGY EFFICIENCY AND CONSERVATION GOALS?

A. Yes. According to The Regulatory Assistance Project (RAP), "some studies have estimated that SFV pricing can cause usage to go up 10% or more, enough to offset much or all of the benefit of energy efficiency programs."[25] The RAP is "a global, non-profit team of experts focused on the long-term economic and environmental sustainability of the power and natural gas sectors, providing assistance to government officials on a broad range of energy and environmental issues."[26] The RAP study identified the following "adverse side effects" of SFV: (1) Energy prices are set far below long-run marginal cost, leading to uneconomic usage; (2) Small users, particularly seniors and apartment dwellers, pay much higher electric and gas bills; and (3) Consumers investment in energy efficiency is discouraged.[27]

VI. CONSOLIDATIN OF TARIFFS AND MISCELLANEOUS FEES

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[25] Revenue Regulation and Decoupling: A Guide to Theory and Application, June 2011, The Regulatory Assistance Project, www.raponline.org/document/download/id/902. [emphasis added].

[26] www.raponline.org.

[27] *Id.*

Q. SNG WITNESS MARTHA WANKUM DESCRIBES THE COMPANY'S PROPOSAL TO CONSOLIDATE THE SMNG SERVICE AREA TARIFF AND THE MGU SERVICE AREA TARIFF. DOES PUBLIC COUNSEL SUPPORT THIS PROPOSAL?

A. Public Counsel does not oppose working toward a consolidated tariff provided that the process is not detrimental to customers. Where the SMNG and MGU tariffs currently reflect different fees for a like service, Public Counsel suggests that instead of allowing the higher of two fees, as the Company suggests, the Commission should instead allow a consolidated rate set, at most, at the lower of the two fees. For example, as the Company currently applies charges for the disconnection and reconnection of service for a residential customer during normal business hours, the Company would charge a customer $70 in the SMNG service area and $80 in the MGU area. The SMNG rate of $70 is already high, yet the Company proposes to charge that customer $80 under a consolidated tariff.

Q. WOULD YOU OPPOSE ANY INCREASE IN LATE PAYMENT CHARGES DUE TO CONCERNS REGARDING THE IMPACT ON LOW-INCOME HOUSEHOLDS?

A. Yes. In a 1994 journal article, Roger Colton, a well know expert on low-income affordability issues, explained the potential harm of imposing late payment fees on low-income customers;

> A fourth component of addressing low-income energy problems is to provide regulatory protections against actions that tend to

> irrationally and unreasonably inflate the cost of low-income energy. Protecting against the imposition of late fees is one such example.
>
> …
>
> Low-income households do not pay because they cannot afford to pay. Seeking to create an incentive to make prompt payments by making unaffordable bills even higher is not only ineffective, but ultimately counter-productive.[28]

At least with respect to low-income households, increasing late payment charges would be counter-productive.

Q. WOULD YOU ALSO OPPOSE EFFORTS TO IMPOSE A SEASONAL DISCONNECTION CHARGE?

A. Yes. Customers should not be forced to pay for service they do not want or cannot afford. Requiring returning customers to pay seasonal disconnection charges creates an unnecessary barrier to customers joining the system.

Q. WHAT OTHER CONDITIONS DO YOU RECOMMEND FOR A CONSOLIDATED TARIFF?

[28] Colton (1994). "Energy Efficiency and Low-Income Housing: Energy Policy Hurts the Poor." XVI ShelterForce: The Journal of Affordable Housing Strategies 9.

A. If particular terms and conditions differ between the tariffs, the Commission should allow consolidation only if the more lenient term or condition is adopted. For example, in the SMNG territory, the Company currently offers customers a 175 foot main extension at no charge and $3.00-$9.00 per additional foot. Under the consolidated tariff, the Company would offer customers a 200 foot main extension at no charge and $3.00 per additional foot. In this case, new SMNG customers would benefit from a consolidated tariff while new MGU customers are made no worse off.

VII. Other Tariff Issues

Q. SNG WITNESS MARTHA WANKUM DISCUSSES SNG'S PROPOSAL TO IMPLEMENT A FREE CONVERSION PROGRAM. WHAT ARE OPC'S CONCERNS WITH SNG'S FREE CONVERSION PROGRAM PROPOSAL?

A. First, the proposal is not adequately explained in the testimony or in the tariff sheets to provide the reader with a good understanding of what exactly is being offered for "free" to new customers, and whether consideration is being offered for conversions, installations, neither or both. Second, OPC opposes giving ratepayer-funded consideration to a new customer to switch to natural gas when the low price of natural gas alone provides a significant incentive for existing propane customers to switch to natural gas from propane. Third, the proposal violates the Commission's promotional practices rules in several respects, further explained below.

Q. SNG HAS NOT LABELED ITS PROPOSED FREE CONVERSION PROGRAM AS A PROMOTIONAL PRACTICE. WOULD THE PROPOSED FREE CONVERSION PROGRAM CONSTITUTE A PROHIBITED PROMOTIONAL PRACTICE?

A. Yes. Commission rule 4 CSR 240-14.010 (6)(L) defines promotional practices as "any consideration offered or granted by a public utility…to any person for the purpose, express or implied, of inducing the person to select and use the service…of the utility or to select or install any appliance or equipment designed to use the utility service, or for the purpose of influencing the person's choice or specification of the efficiency characteristics of appliances, equipment, buildings, utilization patterns or operating procedures." SNG's proposal would appear to offer some form of consideration to applicants for new service for the sole purpose of inducing the applicant to install a gas furnace and/or thermostat and become a new SNG customer. For this reason, the free conversion program would constitute a promotional practice. It also would constitute a prohibited promotional practice under 4 CSR 240-14.020, which prohibits promotional practices that offer consideration to induce a person to subscribe to the services of the utility.

Q. HAS SNG REQUESTED A VARIANCE FROM THE COMMISSION TO AUTHORIZE A PROHIBITED PROMOTIONAL PRACTICE?

A. No. Commission Rule 4 CSR 240-14.010(2) states that the Commission may grant a variance from the promotional practice rules "for good cause shown." SNG has not requested a variance, nor as SNG explained what good cause exists to allow the prohibited promotional practice. In addition, SNG has not shown proof of service that it served a copy of the request on other public utilities operating in the SNG service area, which is also required when seeking such a variance.

Q. ARE THERE SPECIFIC FILING REQUIREMENTS FOR PROMOTIONAL PRACTICES THAT SNG DID NOT COMPLY WITH REGARDING ITS FREE CONVERSION PROGRAM PROPOSAL?

A. Yes. SNG's proposal does not comply with Commission Rule 4 CSR 240-3.255, Filing Requirements for Gas Utility Promotional Practices. Specifically, SNG's proposed tariff sheets do not identify the proposed program as a promotional practice, and they do not include a description of the promotional practice with a statement of its purpose or objective. Moreover, the proposed tariff sheets do not adequately explain the terms of the program. The direct testimony of SNG witness Ms. Martha Wankum describes the "free conversion program" as being offered "for a charge" to new customers. Customers would be charged for the actual cost of pipe and fittings to customers, and customers would pay a "technician-only hourly labor charge of $30 and a technician and truck hourly labor charge of $40." Not explained in the testimony or in the tariff is what precisely would be "free," and the tariffs do not adequately explain that customers will be charged for pipe and fittings. Furthermore, the proposed free conversion program tariff sheets also address installations without an adequate description of what is included in the installations and whether all or any costs of installations are the customer's responsibility.

Q. PLEASE SUMMARIZE OPC'S OBJECTIONS TO THE PROPOSED FREE CONVERSION PROGRAM.

A. OPC objects to the program because it is vague, it would require customers to pay for SNG's growth initiatives, good cause has not been shown, and the proposal violates the Commission's promotional practices rules.

Q. SNG WITNESS MARTHA WANKUM ALSO DISCUSSES SNG'S PROPOSAL TO MODIFY THE COMMODITY CHARGE FLEX PROVISIONS. THE PROPOSAL WOULD ALLOW THE COMPANY TO FLEX BETWEEN TWO DIFFERENT COMMODITY RATES FOR CONTRACT COMMERCIAL SERVICE CUSTOMERS AS WELL AS LARGE GENERAL SERVICE, LARGE VOLUME AND TRANSPORT CUSTOMERS. WHAT ARE OPC'S CONCERNS WITH SNG'S PROPOSAL TO MODIFY THE FLEX PROVISIONS?

A. This proposal, like the conversion program discussed above, appears to qualify as a promotional practice and should conform to the requirements discussed above. Another concern is that it allows the Company substantial discretion in granting a significantly different rate to customers that do not necessarily reflect unique characteristics which justify extending such extraordinary discounts. For example, the qualifying criteria are simply that a Commercial Service class customer using 3,000 Ccf per year and agreeing to a contract of one year could potentially pay a flex rate of $0.25 per Ccf while another Commercial Service customer also using 3,000 Ccf per using could pay as much as $1.00 per Ccf. In addition to the discriminatory treatment that might occur within a customer class, I am also concerned that the Company ultimately will seek to recover the shortfall associated with this offering on an inter-class basis.

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

A. The Commission should reject the Company's proposal to raise rates based on the Company's failure to demonstrate compliance with its past commitments and

Commission directives to insulate customers from the risks associated with service area expansions. The Company has failed to achieve the level of customer growth it projected and now seeks rate increases at levels that are extremely excessive to customers. Customers are concerned about their ability to afford service, and some expressed feeling misled by SNG regarding future rates when they originally switched from propane to natural gas. Public Counsel strongly opposes the Staff proposal to have all residential and small commercial customers pay the same distribution charges regardless of use. High fixed charges are detrimental to low-use customers and provide customers with less incentive to conserve and less ability to control their bills. The traditional method of designing rates to include both a monthly customer charge and a volumetric rate fairly recovers costs and promotes greater use of the shared system. Consolidation of the Company's terms and conditions of service and miscellaneous service fees should be done in a manner that minimizes detrimental customer impacts. Finally, the Company's proposal to revise its flexible pricing provision for commercial and industrial classes, and its proposal for approval of a conversion incentive program, should be rejected.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Case	Company	Direct	Rebuttal	Surrebuttal
TO-99-615	AT&T		√	
TO-99-483	Provisioning of MCA	√		
TT-99-428	Mid-MO Group			√
EO-99-599	UE & Ozark		√	
TA-99-425	Payroll Advance		√	
GT-99-303	Laclede		√	√
TO-2000-374	North American Numbering Plan	√	√	√
TM-2000-182	Spectra		√	
TT-2000-22	AT&T		√	
GT-2001-329	Laclede		√	√
TR-2001-344	Northeast Missouri Rural Telephone		√	
TT-2001-347	AT&T		√	
TO-98-329	USF	√	√	√
TO-2001-467	Southwestern Bell	√		√
WC-2002-155	Warren County Water & Sewer	√		√
SC-2002-160	Warren County Water & Sewer	√		
TR-2001-65	Investigation of Exchange Access	√	√	√
TT-2002 472	Southwestern Bell		√	
GR-2002-356	Laclede Gas Company		√	
TM-2002-465	NE Missouri Rural Telephone Co.			√
GT-2003-0117	Laclede	√		
IO-2003-0012	BPS Telephone Company	√		
IO-2003-0281	Sprint Missouri		√	√
IT-2004-0015	Southwestern Bell		√	
WR-2003-0500	Missouri-American Water Co.	√	√	√
GR-2004-0072	Aquila	√	√	
TR-2002-251	Sprint Missouri			
GR-2004-0209	Missouri Gas Energy	√	√	√
IR-2004-0272	Fidelity Telephone	√		
TO-2004-0527	WWC License (Cellular One)		√	
ER-2004-0570	Empire District	√	√	√
TO-2005-0035	Southwestern Bell		√	√
TO-2005-0325	Mid Missouri Cellular		√	
TT-2002-129	AT&T		√	
TO-2005-0384	USCOC of Greater Missouri		√	
EO-2002-384	Aquila	√	√	√
TO-2006-0102	Southwestern Bell		√	
ER-2005-0436	Aquila	√	√	√
TO-2005-0423	Chariton Valley Telecom		√	
IO-2005-0144	Greenwood MCA Case	√		
TO-2006-0172	Mark Twain Rural		√	
TO-2005-0466	Northwest Missouri Cellular		√	
ER-2006-0315	Empire District Electric	√	√	
GC-2006-0318	Laclede Gas Company	√		√
ER-2006-0314	Kansas City Power & Light	√	√	√
GR-2006-0387	Atmos Energy Corporation	√	√	√

GR-2006-0422	Missouri Gas Energy	√	√	√
TO-2007-0053	Southwestern Bell	√		√
ER-2007-0002	AmerenUE	√	√	√
GR-2006-0003	AmerenUE	√		
GR-2007-0208	Laclede Gas Company	√		
WR-2007-0216	Missouri-American Water Co.	√	√	√
ER-2007-0291	Kansas City Power & Light		√	
GR-2008-0060	Missouri Gas Utility	√		
ER-2008-0093	Empire District Electric	√		√
TC-2008-0346	Winstar Communications	√		
ER-2008-0318	AmerenUE	√		√
WR-2008-0311	Missouri-American Water Co.	√	√	√
GT-2008-0374	Laclede Gas Company		√	√
ER-2009-0089	Kansas City Power & Light	√	√	√
GT-2009-0056	Laclede Gas Company		√	√
GR-2009-0355	Missouri Gas Energy	√	√	√
GR-2009-0434	Empire Gas Company	√		
ER-2010-0036	AmerenUE	√	√	√
ER-2010-0130	Empire District Electric	√		√
WR-2010-0131	Missouri American Water Company		√	
GR-2010-0171	Laclede Gas Company	√	√	√
GR-2010-0192	Atmos Energy Corporation	√		
GR-2010-0363	AmerenUE	√		
ER-2010-0355	Kansas City Power & Light	√	√	
ER-2010-0356	Kansas City Power & Light (GMO)	√		
ER-2011-0028	AmerenUE	√	√	√
ER-2011-0004	Empire District Electric	√	√	√
GC-2011-0098	Laclede Gas Company		√	
WR-2011-0337	Missouri American Water Company	√	√	√
GE-2011-0282	Missouri Gas Energy		√	
ER-2012-0166	AmerenUE	√	√	√
ER-2012-0174	Kansas City Power & Light	√		
ER-2012-0175	Kansas City Power & Light (GMO)	√	√	
ER-2012-0345	Empire District Electric	√	√	√
GR-2014-0007	Missouri Gas Energy	√	√	√
EO-2014-0095	Kansas City Power & Light		√	√