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Rate Design Recommendations/
Tariff Design Recommendations/
Class Cost of Service Method

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Public Counsel

Case No.:

GR-2007-0208

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

May 18, 2007

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

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate) **Case No. GR-2007-0208**
Schedules.)

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 direct 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 18th day of May 2007.



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


Kendelle R. Stratton
Notary Public

My Commission expires February 4, 2011.

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DIRECT TESTIMONY
OF
BARBARA A. MEISENHEIMER

LACLEDE GAS

(COST OF SERVICE & RATE DESIGN)

CASE NO. GR-2007-0208

I. Introduction

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

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel (OPC or Public Counsel), P. O. Box 2230, Jefferson City, Missouri 65102. I am also employed as an adjunct Economics and Statistics Instructor for William Woods University.

Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?

A. Yes. I filed direct revenue requirement testimony on May 4, 2007.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In this testimony I will present Public Counsel's recommendations regarding rate design and class cost of service.

II. Rate Design Recommendations

Q. WHICH CUSTOMER CLASS DOES YOUR RATE DESIGN RECOMMENDATIONS ADDRESS?

A. This testimony primarily addresses preliminary rate design recommendations for the Residential class. As I explain in the Class Cost of Service (CCOS) section of this testimony, there are significant discrepancies in the reported revenues that must be resolved before I will be able to address rate design recommendations for the business classes.

Q. WHAT IS YOUR PRILIMINARY RECOMMENDATION REGARDING THE PROPORTION OF REVENUES COLLECTED FROM THE RESIDENTIAL CLASS?

A. Based on the CCOS study I performed, it appears that the Residential class revenues are within about 1% of cost of service on a revenue neutral basis and no revenue neutral adjustment is needed. Therefore, it would be appropriate to increase or decrease the Residential class, consistent with the system-wide change in revenue requirement approved by the Commission in this case.

Q. WHAT IS YOUR PRILIMINARY RECOMMENDATION REGARDING THE RESIDENTIAL CUSTOMER CHARGE?

A. My CCOS study indicates that a cost basis exists to increase the Residential Customer Charge to at most \$14.05. The current Residential Customer Charge is \$12 excluding the ISRS. Public policy considerations justify maintaining the customer charge at the lower \$12 level and I encourage the Commission to do so. However, in the event that the Commission decides that the Customer Charge

1 should increase, I recommend that the increase be limited and in no case should
2 the Customer Charge exceed \$14.05.

3 **Q. DO YOU RECOMMEND CHANGES TO THE RESIDENTIAL RATE STRUCTURE?**

4 Yes. As the result of settlements in the previous two rate cases, GR-2002-356 and
5 GR-2005-0284, Laclede has enjoyed an experimental rate design that sheltered
6 the Company from what it viewed as weather related risk by decoupling revenue
7 from volumetric sales. The risk was shifted to ratepayers by ensuring that forgone
8 non-gas revenue resulting from warmer than normal weather would be recovered
9 through an ACA adjustment to future gas cost recovery. This was accomplished
10 by setting the first non-gas rate block at a high level and the first block of the
11 PGA rate at a low level in the winter months. In exchange for continuation of
12 this rate design in GR-2005-0284, Laclede committed to implement and make
13 significant contributions toward new low-income and efficiency initiatives. As I
14 illustrated in my direct revenue requirement testimony, the programs have failed
15 to meet the anticipated expenditure levels. My perception of the decoupling
16 experiment is that Laclede got too much “carrot” too soon in the process.

17 While some may have hoped that decoupling would result in successful
18 low-income and efficiency programs, in this case it did not. Instead, the result has
19 benefited Laclede by ensuring more secure revenue streams while providing
20 insufficient reciprocating benefit to consumers in the form of low-income and
21 efficiency programs. The experimental decoupling rate design should be
22 eliminated. A traditional rate structure consisting of a single PGA rate and dual
23 blocked non-gas rates should be reinstated. If the Commission decides to modify
24 and continue the low-income and efficiency programs in the manner that Public
25 Counsel recommends, then a tempered form of decoupling would be acceptable.

1 This could be achieved by allowing a moderate shift from the second block to the
2 first block of winter non-gas rates.

3 If contrary to Public Counsel's recommendation, the Commission decides
4 to continue to experiment with mechanisms that substantially decouple in
5 exchange for efficiency programs, then Public Counsel recommends that
6 Laclede's current rate design continue as is. Unlike the Atmos and MGE Delivery
7 Charge mechanisms that recover all non-gas costs through a uniform fixed charge,
8 Laclede's rate design preserves some link between a customer's use and the
9 amount of non-gas costs the customer pays.

10 **III. Tariff Change Recommendations**

11 **Q. WHAT IS THE FIRST TARIFF CHANGE YOU RECOMMEND?**

12 A. Laclede's tariff language defining the circumstances under which the Company
13 may demand a deposit from new Residential customers differs from the
14 Commission's Rule. The result is that Laclede believes it may demand a deposit
15 from all new customers that rent rather than own a home. Laclede's tariff states;

16 (1) The Company may require a deposit or other guarantee as a condition of new
17 residential service if-

18 ...

19 (C) The customer is unable to establish a credit rating that is acceptable to
20 the Company, or, if the Company does not utilize credit ratings, the
21 customer is unable to meet these standards:

22 1. Owns or is purchasing a home; and

23 2. Is and has been regularly employed on a full-time basis for at
24 least one (1) year; or

3. Has an adequate regular source of income; or

4. Can provide adequate credit references from a commercial credit source;

In contrast, the Commission's Rule 4 CSR 240-13.030 (1)(C) lists a number of additional circumstances such as regular full-time employment or an adequate regular source of income as alternatives for which the Company is not entitled to demand a deposit. Commission's Rule 4 CSR 240-13.030 (1)(C) states;

(1) A utility may require a deposit or other guarantee as a condition of new residential service if

...

(C) The customer is unable to establish an acceptable credit rating under standards contained in tariffs filed with and approved by the commission. The customer shall be deemed *prima facie* to have established an acceptable credit rating if the customer meets any of the following criteria:

1. Owns or is purchasing a home;

2. Is and has been regularly employed on a full-time basis for at least one (1) year;

3. Has an adequate regular source of income; or

4. Can provide adequate credit references from a commercial credit source.

Laclede's practice makes it more costly for some consumers to initiate utility service and circumvents the current rulemaking process. I recommend that Laclede be directed to modify its tariff to be consistent with Commission Rule 4 CSR 240-13.030 (1)(C).

1 **Q. WHAT IS THE SECOND TARIFF CHANGE YOU RECOMMEND?**

2 A. Laclede and Public Counsel recently settled Public Counsel's Complaint, Case
3 No. GC-2006-0318, regarding the period for which undercharges can be billed to
4 customers. As part of the agreement, Laclede agreed to apply Public Counsel's
5 interpretation of the Commission Rule 4 CSR 240-13.025(1)(B) to future cases of
6 underbilling. Public Counsel's interpretation of the Rule is that the maximum
7 period adjusted for underbilling cannot exceed 12 months. I recommend that
8 Laclede be directed to clarify its tariff language consistent with the agreement.

9 **IV. Class Cost of Service Method**

10 **Q. WHAT IS THE REGULATORY PURPOSE OF A CLASS COST OF SERVICE STUDY?**

11 A. A Class COS Study is a tool used by regulators to aid in determining an
12 appropriate rate structure. A class cost of service study can be used as a guide in
13 identifying, on a cost causative basis, the cost of serving a particular group of
14 customers. A Class COS Study can also be used to evaluate the relative cost of
15 service among classes. This comparison of relative cost is the focus of Public
16 Counsel's study and is reflected in the study assumption that the Company's
17 revenue requirement is equal to the level of current revenue.

18 **Q. WHAT IS THE RELATIVE IMPORTANCE OF CCOS STUDY RESULTS IN RATE DESIGN?**

19 A. A CCOS study provides the Commission with a general guide for a service based
20 on costs to determine the just and reasonable rate. Other relevant factors must
21 also be considered when setting rates, such as the value of a service, the
22 affordability of service, the rate impact, and rate continuity, to highlight a few.

1 The Commission must on a case by case basis balance the results of a cost of
2 service study with other relevant factors that go into the rate making decision
3 process.

4 **Q. LACLEDE DID NOT PREPARE A CLASS COS STUDY IN THIS CASE. HOW DID THAT**
5 **AFFECT YOUR CLASS COST OF SERVICE STUDY?**

6 A. While Laclede developed and provided some of the information needed to
7 complete a CCOS, other information that would have enhanced my study was not
8 available so I relied on previously developed allocators and judgment in assigning
9 costs. The most significant examples impact the meter, service and regulator
10 allocation factors. If additional information becomes available, I will update my
11 CCOS study to reflect it.

12 **Q. WHAT ARE THE REPRESENTATIVE CLASSES INCLUDED IN PUBLIC COUNSEL’S**
13 **CLASS COS STUDY?**

14 A. In performing a Class COS Study, customers should be grouped into “classes”
15 based on type of customer and utilization patterns. Public Counsel’s Class COS
16 Study identifies five distinct classes of customers: Residential, Commercial &
17 Small Industrial, Large Volume, Interruptible and Transport.

18 **Q. ON WHAT DATA IS YOUR CLASS COS STUDY BASED?**

19 A. The data is associated with a test year ending September 30, 2006. The
20 Accounting Schedules filed with the Staff’s revenue requirement testimony were
21 the source of most of the financial and revenue data that I utilized in preparing my
22 study. I utilized annual, monthly and winter customer usage data provided by the

1 Company and adjusted by Staff. My use of this information should not be viewed
2 as an endorsement of either Staff's or the Company's method for calculating
3 accounting costs, billing determinants or peak demands. I have used this
4 information because it contained the detail needed to perform my study.

5 **Q. WILL SOME INFORMATION USED IN YOUR STUDY BE UPDATED AND REVISED AS**
6 **THIS CASE PROGRESSES?**

7 A. Yes. I believe that there are significant discrepancies in the relative revenues and
8 volumes reported for the business classes. I have discussed some of my concerns
9 with the Staff and Company and I anticipate that corrections to the data will
10 significantly impact my CCOS study results. For this reason, I have not attached
11 a copy of my preliminary CCOS study results. I have provided the study along
12 with my other workpapers to the parties. I will update my study and develop
13 rate design recommendations for the business classes as better data becomes
14 available.

15 **Q. PLEASE DESCRIBE THE ASSIGNMENT OF COST TO THE CUSTOMER CLASSES.**

16 A. The assignment of costs to customer classes is a three-step process in which costs
17 are first functionalized, then classified, and finally allocated. Public Counsel's
18 Class COS Study primarily reflects the booked cost incurred through the test year
19 as determined by the Staff's accounting run.

1 **Q. ARE PURCHASED GAS COSTS TREATED DIFFERENTLY THAN OTHER COSTS?**

2 A. Yes. The Company's base tariff rates recover only its non-gas or margin costs. A
3 purchased gas adjustment cost factor is used to recover gas costs. The cost of
4 service study will develop the non-gas or margin costs incurred by the LDC in
5 delivering gas from the city-gate to its customers.

6 **Q. PLEASE DESCRIBE THE FUNCTIONALIZATION OF COSTS.**

7 A. Functionalization is achieved by categorizing cost accounts by associated
8 function. Functional categories include; Production, Storage, Transmission,
9 Distribution, Customer Accounts and Administrative and General (A&G). Some
10 functional categories contain accounts that are identifiable as being directly or
11 jointly caused by particular customer classes. Other functional categories contain
12 costs associated with common facilities or common overheads.

13 **Q. PLEASE DESCRIBE THE CLASSIFICATION OF COSTS.**

14 A. The next step, Classification, is achieved by further categorizing costs into
15 customer related, commodity related, demand related or "other related" costs.

16 **Q. PLEASE DESCRIBE CUSTOMER RELATED COSTS.**

17 A. Customer related costs should vary directly with the number of customers served.
18 Examples of costs commonly classified as customer related costs include:
19 expenses associated with metering, reading, billing, and the costs associated with
20 metering equipment and service connections

1 **Q. PLEASE DESCRIBE COMMODITY RELATED COSTS.**

2 A. Commodity related costs vary with the quantity of gas purchased. Historically,
3 commodity related costs primarily have included purchased gas cost. Today local
4 distribution companies recover purchased gas cost through the PGA but other
5 plant accounts may still be categorized as commodity related.

6 **Q. PLEASE DESCRIBE DEMAND RELATED COSTS.**

7 A. Demand related costs vary with the capacity requirement of plant or equipment.
8 They are related to the maximum system requirements that reflect the capacity
9 necessary to serve demand during peak periods. Demand related costs include:
10 production, transmission and storage costs and expenses associated with these
11 types of plant. In addition, some distribution plant and related expenses are
12 demand related costs.

13 **Q. PLEASE DESCRIBE THE ALLOCATION PROCESS.**

14 A. Following functionalization and classification, allocation factors are applied to
15 distribute a reasonable share of jurisdictional costs to each customer class. Some
16 allocation factors are based on a simple ratio of a particular class' share of total
17 costs. Other allocation factors are based on usage, sales, or weighted share of
18 customers. Allocation factors are designed to reflect the appropriate classification
19 in allocating costs.

1 **Q. HOW ARE INTANGIBLE PLANT ACCOUNTS ALLOCATED?**

2 A. Intangible plant accounts include expenses related to organizing the enterprise,
3 obtaining franchise and consent and other miscellaneous items. These costs are
4 not attributable to a particular subset of customer classes; instead they are
5 considered to be common costs and are allocated on the basis of the portion of
6 total non-general plant cost assigned to each customer class.

7 **Q. HOW ARE GAS PRODUCTION COSTS ALLOCATED?**

8 A. Gas production costs are generally considered demand related and/or energy
9 related and are allocated on the basis of weather normalized annual gas sales.

10 **Q. HOW ARE STORAGE ACCOUNTS ALLOCATED?**

11 A. Storage is generally viewed as related to winter period demand. I allocated
12 storage costs based on weather normalized winter sales volumes.

13 **Q. HOW ARE TRANSMISSION PLANT ACCOUNTS ALLOCATED?**

14 A. Transmission plant is generally viewed as demand related. I allocated
15 transmission costs based on the single noncoincident peak demand.

16 **Q. HOW ARE DISTRIBUTION PLANT ACCOUNTS ALLOCATED?**

17 A. Land and Land Rights, Structures and Improvements, and Mains Plant (Accounts
18 374, 375, and 376) are allocated on the basis of a distribution mains allocator.

Based on the current Commission's past decision to reject the mains allocation, the method previously used by Public Counsel, I have developed alternative allocators for this case.

I developed a weighted allocation factor of which 10% weight is given to service weighted customer counts and the remaining 90% weight is given to a demand related component of the allocator. For the demand portion, I used an Average and 3 Coincident Peak allocator.

Q. PLEASE CONTINUE.

A. Measuring and Regulating Station Equipment (Accounts 378 and 379) are classified as commodity related and allocated on the basis of annual volumes. Accounts 380 through 386 are customer related. The following summary identifies the allocation factor for each account.

Table 1.

| <u>Account</u> | <u>Description</u> | <u>Allocator</u> |
|----------------|--|-------------------------------------|
| 380 | Services | Services Allocator |
| 381 | Meters | Meter Allocator |
| 383 | House Regulators | Regulator Allocator |
| 385 | Meas. and Reg. Station Equip. - Industrial | Commercial and Industrial Customers |

Q. HOW ARE GENERAL PLANT ACCOUNTS ALLOCATED?

A. General plant accounts are allocated on the basis of net non-general plant.

1 **Q. PLEASE DESCRIBE HOW OPERATION AND MAINTENANCE EXPENSES ARE**
2 **ALLOCATED?**

3 A. For allocating most of the accounts in this category, I used the “expenses follow
4 plant principle” and relied on the same or similar allocator to those used for
5 allocating associated plant accounts.

6 **Q. HOW ARE CUSTOMER ACCOUNTS, CUSTOMER SERVICE, AND SALES PROMOTION**
7 **EXPENSES ALLOCATED?**

8 A. Certain accounts such as some Customer Accounts expenses are treated as
9 customer related and are allocated on the basis of number of customer bills or
10 weighted customers. Sales promotion expenses are allocated on the basis of the
11 overall class cost of service. The following summary outlines the allocation of
12 customer accounts expenses.

13 **Table 2.**

| <u>Account</u> | <u>Description</u> | <u>Allocator</u> |
|----------------|----------------------------------|------------------------------------|
| 901 | Supervision | Customer Accounts |
| 902 | Meter Reading Expenses | Meter Reading Weighted Customers |
| 903 | Customer Records and Collections | Meter Weighted Customers Allocator |
| 904 | Uncollectible Accounts | Class Cost of Service |
| 905 | Misc. Customer Accounts | Customer Accounts Allocator |

1 **Q. HOW ARE ADMINISTRATIVE AND GENERAL (A & G) EXPENSES ALLOCATED?**

2 A. Property insurance (Account 924) and rents (Account 931) is allocated on the
3 basis of net plant. Injuries and damages and employee salaries, pensions and
4 benefits (Accounts 920, 921, 922, 923, 925 and 926) are allocated on the basis of
5 payroll. The remainder of A & G expenses are allocated on the basis of the
6 overall class cost of service.

7 **Q. HOW ARE TAXES ALLOCATED?**

8 A. Franchise taxes are allocated on the basis of class cost of service. Payroll taxes
9 are allocated as a function of payroll expense. Income taxes are allocated
10 according to the rate base attributable to each class.

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes.