Exhibit No.:	
Issues:	Low-Income Weatherization Assistance and Energy Efficiency Services
Witness:	John A. Buchanan
Sponsoring Party:	Missouri Department of Natural Resources - Missouri Energy Center
Type of Exhibit:	Rebuttal Testimony
Case No.:	GR-2007-0208

MISSOURI PUBLIC SERVICE COMMISSION

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

REBUTTAL TESTIMONY

OF

JOHN A. BUCHANAN

ON

BEHALF OF

MISSOURI DEPARTMENT OF NATURAL RESOURCES

ENERGY CENTER

Jefferson City, Missouri
June 22, 2007

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I. INTRODUCTION

Q. Please state your name and business address.

A. John A. Buchanan, Missouri Department of Natural Resources, Missouri Energy Center, 1101 Riverside Drive, Jefferson City, Missouri.

Q. Have you previously filed testimony in this case?

A. Yes. On May 4, 2007, I filed direct testimony on behalf of the Missouri Department of Natural Resources' Energy Center (DNR).

Q. On whose behalf are you presenting rebuttal testimony in this case?

A. Like my direct testimony, I am testifying on behalf of the DNR.

II. PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY

Q. What is the purpose of your rebuttal testimony in these proceedings?

A. The purpose of my rebuttal testimony is to address direct testimony filed by Lesa Jenkins, P.E., on behalf of the Staff of the Missouri Public Service Commission (Staff) and direct testimony filed by Ryan Kind on behalf of the Office of Pubic Counsel (OPC). I will specifically offer testimony regarding:

(1) Appropriate levels of funding to support cost effective energy efficiency programs to be designed and offered by Laclede Gas Company (Laclede);

(2) An initial target level of funding necessary to support cost effective energy efficiency programs by Laclede; and,

(3) An appropriate cost recovery process for any energy efficiency programs implemented by Laclede as a result of this general rate case.

III. APPROPRIATE FUNDING LEVELS TO SUPPORT ENERGY EFFICIENCY

Q. Please summarize Staff's funding recommendations regarding energy efficiency programs for Laclede.

A. Staff recommends that program costs for energy efficiency measures, other than the (Staff's) recommended annual funding for Low-Income Weatherization, be placed in a regulatory asset account and amortized over a ten-year period. Staff recommends that the Commission allow amounts accumulated in this regulatory asset account to earn a return not greater than Laclede's AFUDC rate. Staff further recommends that a specific funding level for energy efficiency programs be established through a Collaborative process. (Direct Testimony, Lesa Jenkins, May 2007, page 8, lines 17-23 and page 9, lines 1-11)

Q. Does Staff propose alternative funding in the event the Commission does not approve a regulatory asset account?

Yes. In the event the Commission does not approve a regulatory asset account for energy efficiency program costs, Staff recommends annual funding in rates of $972,000 per year based on per customer charge of $1.50, with the authority to allow any unexpended funds to be expended to the subsequent year. If Laclede elects to fund energy efficiency programs beyond the $972,000 per year, through program recommendations of the Collaborative, "such as at the funding levels of 0.5% to 1% of natural gas utility revenue reported in the 'National Action Plan for Energy Efficiency', Staff recommends that these additional costs be placed in a regulatory asset account, amortized over a ten-year period and that the Commission allow Laclede to earn a return not greater than the Laclede AFUDC rate (Direct Testimony, Lesa Jenkins, May 2007, page 9, 17-23 and page 10, lines 1-2).

Q. Please summarize OPC's funding recommendations regarding energy efficiency

programs for Laclede.

A. Staff of the OPC filed direct testimony addressing energy efficiency programs. Barbara Meisenheimer addressed low-income programs, and Ryan Kind addressed non-low income energy efficiency programs.

According to Ms. Meisenheimer, "with the exception of the low-income weatherization program, the low-income (Energy Assistance) programs (offered by Staff and authorized by the Commission in Laclede's last rate case GR-2005-0284) and rebate programs have low subscribership and are not meeting the current funding levels." (Direct Testimony, Barbara Meisenheimer, May 4, 2007, page 5, lines 3-5). The balance of Ms. Meisenheimer's direct testimony addresses issues regarding Staff's low-income energy assistance program and does not offer a specific funding level to continue the low-income weatherization assistance program.

Mr. Kind proposes, among others, an energy efficiency program expenditure level, specifically, "the initial targets for annual conservation program expenditures shall be 1% of Laclede's annual gross revenues so long as this level of expenditure is expected to be cost-effective." (Direct Testimony, Ryan Kind, page 8, line 31 and page 9, lines 1-2)

Q. Please summarize the basis of the energy efficiency expenditure level proposed by Mr. Kind.

A. Mr. Kind references the funding level authorized by the Commission in Atmos Energy Corporation's last rate case, GR-2006-0387. As noted by Mr. Ryan, "On page 21 of its February 22, 2007 Report and Order in Case No. GR-2006-0387, the Commission stated:

> 'Atmos has proposed $78,000 and unlimited energy audits creating a minimum of $1.75 million worth of potential liability. Obviously, not every one of the 50,000 residential customers served by Atmos will request an audit. However, that commitment shows that Atmos is capable and willing to provide enough funding to

> implement a meaningful conservation program. Thus, the Commission finds that it would be just and reasonable and in the public interest to implement a fixed delivery charge rate design as proposed by Staff **on the condition that Atmos contribute annually, one percent (1%) of its annual gross revenues (currently, approximately $165,000) to be used for an energy efficiency and conservation program. (Emphasis added)'"**
>
> (Direct Testimony, Ryan Kind, May 4, 2007, page 9, lines 7-19)

Q. Do you agree with Staff or OPC recommendations for energy efficiency funding levels?

A. No. While DNR appreciates the support provided by Staff and OPC regarding implementation and management of cost-effective energy efficiency programs, DNR proposes more significant funding for non-low income energy efficiency programs. With the exception of low income energy efficiency (weatherization), the DNR proposes that Laclede use the unexpended balance collected in rates to support the company's current energy efficiency rebate program until funds are exhausted or within an 18 month period, whichever occurs first, Laclede would no longer collect revenues to support the rebate program when new tariffs are filed at the conclusion of this rate case.

DNR proposes that Laclede would transition from this rate based funding approach to an energy efficiency funding methodology based on a percentage of Laclede's *total operating revenues*, a different funding basis compared to the methodology approved by the Commission in Atmos Energy Corporation's rate case GR-2006-0387. The basis for determining an initial target for annual energy efficiency program expenditures should be a range of 0.05% to 1.0% of Laclede's *total annual operating revenue*, so long as this level of expenditure is expected to be cost-effective as determined by the Collaborative process assisted by a professional energy consultant. At 0.05% of total annual operating revenue, Laclede's initial target for annual energy efficiency program expenditures would be approximately $5.705 million per year, and at 1.0% of total annual operating revenue, the target level of funding would be approximately $11.41 million per year to fully implement any cost-effective energy efficiency programs as determined by the Collaborative process. (Staff Accounting Schedules, Direct, May 2007, Schedule 9 – 1, reflecting total operating revenue calculated by Staff at $1,141,011,000).

This funding proposal is comparable to the funding recommendations offered by the OPC and authorized by the Commission in Atmos Energy Corporation's rate case GR-2006-0387, but uses total operating revenues rather than adjusted operating revenues to determine the basis for energy efficiency funding levels.

IV. ENERGY EFFICIENCY FUNDING METHODOLOGY

Q. Please briefly explain the purpose of using Laclede's total operating revenue as the basis for funding energy efficiency programs?

A. The Commission's Report and Order in Case No. GR-2006-0387, states that funding for Atmos Energy Corporation's energy efficiency programs should be based on "annual gross revenues". In fact, funding was based on annual *adjusted* operating revenue that excludes natural gas-related costs. This approach created only $165,000 in annual funding for energy efficiency programs to be designed and implemented by Atmos no later than August 2007. By contrast, if funding for energy efficiency programs was based on an initial target for annual energy efficiency program expenditures at 1% of annual operating revenues, which was reported at $57.104 million (Atmos Exhibit 105, Staff Accounting Schedules, Schedule 9 – 1), there would have been $571,000 in annual funding available from Atmos for energy efficiency programs. These funds were not included in rates, and they are not booked to a regulatory asset account. Essentially, Atmos is committed to an annual funding level linked to its adjusted operating revenue, and this approach provides no incentive or opportunities for the company to implement expanded or additional energy efficiency programs that may be designated as cost effective by the collaborative, which was also established by the Commission in the Atmos rate case. As a member of this collaborative, it has been difficult to identify programs that would have a meaningful impact in terms of energy savings due to the limited funding level, as Atmos is able to fund only one or two programs. Atmos is proposing to commit $100,000 to support low-income weatherization, leaving a balance of just $65,000 for an energy education and appliance rebate program.

If the Commission applies the same funding methodology to Laclede as it authorized for Atmos (based on adjusted operating revenue as opposed to total annual operating revenue), the Commission would be establishing a maximum funding commitment for Laclede of approximately $2.467 million (Staff Accounting Schedules, Direct, May 2007, Schedule 9 – 1, reflecting adjusted operating revenue calculated by Staff at $246,787,000). This amount is nearly equal to the funding level for Laclede's current authorized Insulation Loan Program and Appliance Rebate Program, combined, and does not even take into consideration current funding that supports the EnergyWise and low-income weatherization assistance programs. In effect, the use of a 1% maximum funding level using adjusted operating revenue for Laclede would result in lower funding levels than Laclede's current energy efficiency program funding levels.

Q. Did the Commission address the need for conservation programs in light of a fixed customer rate for Atmos?

A. Yes. On page 17 of the Report and Order, GR-2006-0387, issued February 22, 2007 the

Commission states:

> “The current rate design encourages conservation by increasing the minimum monthly bill paid by the customer. The rationale is that customers will notice a change in their fixed monthly bill charge and adjust their behavior appropriately. Requiring the company to initiate a conservation program is further insurance that the fixed delivery charge rate design will promote conservation. Thus, in order to change the rate structure, **the Commission finds that a conservation program of significant size would be necessary to offset any loss of traditional rate design conservation incentive**.” (Emphasis added)

Further, the Commission noted in the following paragraph:

> **“Eighty percent of a customer’s total bill is purchased gas cost.** Even under Staff’s proposed rate design where the volumetric portion of non-gas cost is removed in favor of a fixed delivery charge, **the customer is still going to have a great incentive to reduce consumption in order to reduce 80 percent of that customer’s bill. Thus, consumption is going to be largely driven by the wholesale cost of gas.**” (Emphasis added)

In order to achieve a level of funding to identify, design and fully implement a slate of cost effective energy efficiency programs “significant in size” and sufficient to help customers “reduce 80 percent of that customer’s bill”, I respectfully recommend that a percentage of total operating revenues that includes gas costs should be the methodology used to fund future energy efficiency programs. This is appropriate because long-term sustainable and cost effective energy efficiency programs that will result in meaningful impacts on natural gas use by Laclede customers and that send demand signals to natural gas producers and wholesalers to pressure prices lower require sufficient levels of funding. A funding method that relies only on the company’s adjusted operating revenue produces significantly lower funding levels and ignores one of the most significant costs to the company and to its customers – that is, the cost of the natural gas commodity itself.

Q. Please briefly summarize an example of natural gas utilities funding energy efficiency

programs at 1 percent of total annual operating revenues.

A. Effective July 1, 2007, Wisconsin adopted statewide legislation known as 2005 Act 141. The Act requires that each electric and natural gas energy utility in Wisconsin spend no less than 1.2% of its annual operating revenues, which includes adjusted operating revenues and natural gas commodity expenses, for energy efficiency and renewable resource programs. The legislation provided an effective guideline in determining adequate funding levels for utility-based energy efficiency programs. The Act requires that the investor-owned electric and gas public utilities in Wisconsin collectively create and fund statewide energy efficiency and renewable resource programs. It further requires the energy utilities to contract with one or more persons to administer the programs. The Act provides that the statewide programs must include components to address the energy needs of customers and initiatives to address market barriers to the offering of goods and services relating to energy efficiency and renewable resources.

Q. Why should the Commission establish an initial target for annual energy efficiency program expenditures in coordination with a professional consultant and a collaborative process?

A. First, an initial target for annual energy efficiency program expenditures (so long as this level of expenditure is expected to be cost-effective as determined by the Collaborative process) is necessary to assist Laclede in identifying and adopting a series of cost effective energy efficiency programs. A prescribed budget would help facilitate the evaluation of energy programs as well as assist in the design and implementation of the number and type of cost-effective programs that could be implemented from the Collaborative process.

Next, an initial target level of funding established by the Commission would assure a commitment by Laclede to implement cost-effective programs. Laclede customers should be assured of an ongoing level of funding by Laclede to support energy efficiency programs in future years.

Lastly, an initial target level of energy efficiency funding authorized by the Commission based on Laclede's annual operating revenues, and established as a condition for allowing a higher fixed customer charge, would assure that Laclede would implement a slate of cost effective energy efficiency programs considered to be "significant in size" and sufficient to help customers reduce the most substantial component of their monthly utility bill.

V. REGULATORY ASSET ACCOUNT

Q. Should Laclede account for energy efficiency expenditures?

A. Yes. Staff, OPC and DNR recommend that Laclede should be authorized to record energy efficiency expenditures in a regulatory asset account. However, Staff proposes an alternative if the Commission does not approve the creation of a regulatory asset account. According to Ms. Jenkins, the Commission should allow Laclede to expend $972,000 per year to support energy efficiency programs. Any expenditures that exceed $972,000 annually would be accounted for in a regulatory asset account, amortized over a ten-year period, and earn a return not greater than the Laclede AFUDC rate (Direct Testimony, Lesa Jenkins, May 2007, page 9, lines 17-23 and page 10, lines 1-2).

As I noted earlier in my rebuttal testimony, Laclede should refrain from collecting further rates to support non-low income energy efficiency programs following the completion of this rate proceeding and expend any carry-over funds to support the rebate program until such funds are depleted or within 18 months, whichever occurs first, following the Commission's

Report and Order in this case.

Q. Does this conclude your rebuttal testimony?

A. Yes. Thank you.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF JOHN A. BUCHANAN

STATE OF MISSOURI)
) **SS**
CITY OF JEFFERSON)

John A. Buchanan, of lawful age, being duly sworn on his oath, deposes and states:

1. My name is John A. Buchanan. I work in the City of Jefferson, Missouri, and I am employed by the Missouri Department of Natural Resources as Senior Planner, Missouri Energy Center, Office of the Director.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of the Missouri Department of Natural Resources – Missouri Energy Center consisting of 12 pages all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge.

John A. Buchanan
John A. Buchanan

Subscribed and sworn to before me this 22nd day of June, 2007

Kay A Johannpeter
Notary Public

My commission expires:

KAY A. JOHANNPETER
Notary Public - Notary Seal
STATE OF MISSOURI
Moniteau County
My Commission Expires: Aug. 4, 2007

KAY A. JOHANNPETER
NOTARY
NOTARY PUBLIC SEAL
STATE OF MISSOURI