

Exhibit No.:

Issue(s):

Energy Efficiency Programs
SFV Rate Design

Witness/Type of Exhibit:

Kind/Direct Testimony

Sponsoring Party:

Public Counsel

Case No.:

GR-2009-0355

REBUTTAL TESTIMONY

OF

RYAN KIND

Submitted on Behalf of the Office of the Public Counsel

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

September 28, 2009

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

In the Matter of Missouri Gas Energy's)
Tariff Sheets Designed to Increase Rates)
for Gas Service in the Company's)
Missouri Service Area.)

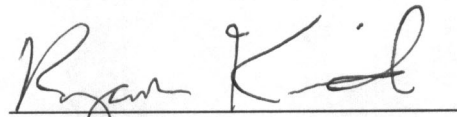
Case No. GR-2009-0355

AFFIDAVIT OF RYAN KIND

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ryan Kind, of lawful age and being first duly sworn, deposes and states:

1. My name is Ryan Kind. 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.

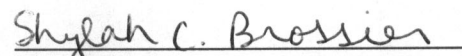


Ryan Kind

Subscribed and sworn to me this 28th day of September 2009.



SHYLAH C. BROSSIER
My Commission Expires
June 8, 2013
Cole County
Commission #09812742



Shylah C. Brossier
Notary Public

My Commission expires June 8, 2013.

REBUTTAL TESTIMONY

OF

RYAN KIND

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

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

2 A. Ryan Kind, Chief Energy Economist, Office of the Public Counsel, P.O. Box 2230,
3 Jefferson City, Missouri 65102.

4 **Q. ARE YOU THE SAME RYAN KIND THAT HAS PREVIOUSLY FILED DIRECT TESTIMONY**
5 **IN THIS CASE?**

6 A. Yes.

7 **Q. WHAT CONCERNS DOES PUBLIC COUNSEL HAVE WITH MGE'S PROPOSAL TO EXPAND**
8 **ITS ENERGY EFFICIENCY PROGRAMS TO INCLUDE ITS SMALL GENERAL SERVICE (SGS)**
9 **CUSTOMERS?**

10 A. OPC's two main concerns are that: (1) MGE has not provided any descriptions of the
11 proposed new energy efficiency programs for SGS customers and (2) MGE has explicitly
12 linked its willingness to expand its energy efficiency efforts to the SGS rate class with
13 receiving Commission approval of its proposed straight fixed variable (SFV) rate design
14 for the SGS rate class.

15 **Q. DOES MGE WITNESS DAVID HENDERSHOT'S DIRECT TESTIMONY DESCRIBE THE SGS**
16 **ENERGY EFFICIENCY PROGRAMS THAT THE COMPANY PROPOSES TO OFFER?**

1 A. No. At line 14 on page 2 of his direct testimony, Mr. Hendershot states that “the [energy
2 efficiency] program would be expanded to include Small General Service customers.”

3 This statement is followed by the following question:

4 Please explain the conditions under which MGE would be willing to
5 undertake **the expanded energy efficiency initiatives you will describe.**
6 [Emphasis added]

7 However, in the remainder of Mr. Hendershot’s testimony, he fails to provide any
8 descriptions whatsoever of what the expanded energy efficiency programs for SGS
9 customers would consist of. Nor does Mr. Hendershot provide any tariffs for energy
10 efficiency programs that would be offered as part of the “expanded energy efficiency
11 initiatives.” The failure of Mr. Hendershot’s testimony to provide any details about
12 energy efficiency programs is troubling because MGE has no prior experience in
13 delivering energy efficiency programs to its SGS customers and because MGE has
14 experienced a great amount of difficulty in designing and delivering energy efficiency
15 programs to its residential customers over the last couple of years.

16 **Q. WAS THE MGE ENERGY EFFICIENCY COLLABORATIVE (EEC) HELPFUL IN FILLING THE**
17 **GAPS IN MGE’S EXPERIENCE IN SCREENING, DESIGNING AND IMPLEMENTING MGE’S**
18 **RESIDENTIAL PROGRAMS?**

19 A. Yes. This collaborative has been crucial in facilitating the limited success that MGE has
20 had in screening, designing, and delivering the Company’s residential energy efficiency
21 programs. MGE is now offering a fairly broad portfolio of residential energy efficiency
22 programs that includes water heating, furnace and thermostat rebates, and a Home
23 Performance with Energy Star program that is jointly delivered with KCPL. Based on
24 my experience participating in the EEC as OPC’s representative, I believe that MGE
25 would have a much smaller offering of residential energy efficiency programs without the
26 support and guidance that it has received from EEC collaborative members.

1 **Q. SINCE MR. HENDERSHOT’S TESTIMONY LACKED ANY DETAILS ON THE NEW ENERGY**
2 **EFFICIENCY INITIATIVES FOR SGS CUSTOMERS, DID HE NOTE THE DESIRABILITY OF**
3 **HAVING THE EEC EXTEND ITS EFFORTS TO SCREENING, DESIGNING AND**
4 **IMPLEMENTING NEW ENERGY EFFICIENCY PROGRAMS FOR SGS CUSTOMERS?**

5 A. No. Since Mr. Hendershot did propose extending the EEC beyond the end of the current
6 rate case, I assume that MGE is proposing that it would attempt to screen, design, and
7 implement energy efficiency programs for the SGS class without the much needed
8 assistance from the EEC.

9 **Q. HAVE YOU REVIEWED ANY ADDITIONAL INFORMATION ABOUT THE STATUS OF**
10 **MGE’S DEVELOPMENT OF SPECIFIC PROPOSALS FOR ENERGY EFFICIENCY PROGRAMS**
11 **THAT WOULD BE OFFERED TO THE COMPANY’S SGS CUSTOMERS?**

12 A. Yes. Missouri Department of Natural Resources (DNR) DR No. 0010 stated:

13 Regarding Direct Testimony of David Hendershot, please provide any
14 information to include but not limited to program description, program
15 design and proposed annual budget for the Energy Efficiency Initiative
16 for Small General Service Customers.

17 MGE’s response included the statement that “a program design has not been developed.”

18 **Q. PLEASE PROCEED TO DISCUSS THE SECOND CONCERN YOU CITED ABOVE THAT “MGE**
19 **HAS EXPLICITLY LINKED ITS WILLINGNESS TO EXPAND ITS ENERGY EFFICIENCY**
20 **EFFORTS TO THE SGS RATE CLASS WITH RECEIVING COMMISSION APPROVAL OF ITS**
21 **PROPOSED STRAIGHT FIXED VARIABLE (SFV) RATE DESIGN FOR THE SGS RATE**
22 **CLASS.” WHY DO YOU CONCLUDE THAT MGE HAS LINKED ITS WILLINGNESS TO**
23 **EXPAND ITS ENERGY EFFICIENCY EFFORTS TO THE SGS RATE CLASS WITH RECEIVING**
24 **COMMISSION APPROVAL OF ITS PROPOSED SFV RATE DESIGN FOR THE SGS RATE**
25 **CLASS?**

1 A. In his direct testimony, MGE witness David Hendershot states at line 19 on page 2 that:

2 MGE would be willing to expand these natural gas energy efficiency
3 initiatives to include its SGS customers if the Commission 1) adopts a
4 small general service rate design that leaves MGE financially indifferent
5 to volumes consumed by small general service customers.

6 Mr. Hendershot further states at line 1 on page 3 of his testimony that “MGE witness
7 Feingold explains why the first condition is reasonable...”

8 **Q. HOW DOES MGE WITNESS RUSSELL FEINGOLD ATTEMPT TO SHOW THAT**
9 **COMMISSION APPROVAL OF SFV RATE DESIGN FOR THE SGS CLASS IS A**
10 **REASONABLE PRE-CONDITION FOR MGE’S OFFERING OF ENERGY EFFICIENCY**
11 **PROGRAMS TO ITS SGS CUSTOMERS?**

12 A. In his direct testimony, MGE witness Feingold states at line 4 on page 16 that:

13 Under its proposed SFV rate design, the Company will be able to
14 promote energy efficiency and conservation programs for its smaller
15 commercial customers served under the new SGS rate class without the
16 continual real threat of margin revenue losses due to declining gas sales
17 per customer. It is therefore entirely reasonable for the Company to
18 condition its willingness to undertake the expanded natural gas
19 conservation initiatives described by MGE witness David Hendershot in
20 his direct testimony on the Commission’s adoption of the SFV rate
21 design proposed by MGE for its new SGS rate class.

22 **Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL OPPOSES COMMISSION APPROVAL OF A**
23 **SFV TYPE OF RATE DESIGN FOR THE SGS CLASS AS A PRE-CONDITION FOR**
24 **OFFERING ENERGY EFFICIENCY PROGRAMS TO MGE’S SGS CUSTOMERS?**

25 A. MGE’s attempt to link continuation and expansion of the SFV rate design the
26 Commission approved in the Company’s last rate case (Case No. GR-2006-0422) to its
27 willingness to offer SGS energy efficiency programs reaches way beyond what is
28 necessary to hold MGE harmless from the SGS usage reductions that would result from
29 energy efficiency programs that benefit SGS customers. Public Counsel acknowledges

1 that a gas local distribution company (LDC) can experience adverse impacts on its
2 earnings in between rate cases due to usage reductions from its energy efficiency
3 programs that are unlikely to be offset by regulatory lag due to recent trends in the level
4 of annual usage per residential gas LDC customer. However, attempting to address this
5 problem with SFV rate design is like trying to use a sledge hammer to sink a roofing nail.

6 Unfortunately, in addition to the much broader than needed impacts on utility earnings
7 stability caused by the SFV rate design, this rate design actually works against the energy
8 policy rationale (encouragement of more efficient and less wasteful use of energy by SGS
9 natural gas customers) that MGE asserts it is willing to pursue only if the Commission
10 approves the SFV rate design for the SGS rate class.

11 **Q. PLEASE EXPLAIN WHY OPC BELIEVES THAT THE SFV RATE DESIGN IS NOT**
12 **CONSISTENT WITH AN ENERGY POLICY OF ENCOURAGING MORE EFFICIENT AND LESS**
13 **WASTEFUL USE OF ENERGY BY SGS NATURAL GAS CUSTOMERS.**

14 A. SFV rate design is contrary to economic efficiency because it will diminish the efficiency
15 of utility pricing by removing the price signal associated with higher levels of usage.
16 This occurs when: (1) the volumetric margin (base rate) charge is replaced with an
17 entirely fixed margin charge (i.e. when all margin revenues for a customer class are
18 recovered solely through a fixed monthly customer charge) or (2) for small utility
19 customers when the rate applied to a customer is not related to the individual customer's
20 usage characteristics in prior periods and when a customer's usage characteristics in the
21 current period (e.g. the level of demand) can not impact the fixed rate that will be applied
22 to the customer in a future period.

23 **Q. HOW DO EFFICIENT PRICE SIGNALS INCREASE THE WELL BEING OF SOCIETY?**

1 A. When price signals represent the long-run marginal cost of producing a good or service,
2 the social welfare is enhanced in a couple of ways. First, when an individual consumer
3 chooses the quantity of a product or service that they want to consume based on the long-
4 run marginal cost to society of producing a particular good or service, then the consumer
5 will make choices about how to allocate their income and wealth among consumption
6 options where prices reflect the true cost to society of producing the good or service.
7 This means that certain goods and services will not be over-consumed because they are
8 underpriced relative to their long-run marginal cost and others will not be under-
9 consumed because they are overpriced.

10 The other way that efficient pricing leads to increased social welfare is the impact that
11 consumer choices have on the procurement and pricing for the inputs necessary to
12 produce the consumer products and services. If customer consumption patterns are
13 distorted by price signals that do not represent long-run marginal costs, then the demand
14 for, and pricing of, the inputs required to produce the goods and services consumed as a
15 result of distorted price signals will differ from the input prices that would have occurred
16 under efficient pricing of the product or service. These distorted input price signals will
17 lead to a sub-optimal allocation of society's resources for the provision of these inputs.

18 **Q. DOES INEFFICIENT PRICING OF THE MARGIN PORTION OF AN LDC'S CHARGES**
19 **MATTER AS LONG AS THE GAS COMMODITY COSTS THAT ARE PASSED ON TO**
20 **CONSUMERS THROUGH THE PGA HAVE EFFICIENT PRICING AND REFLECT THE**
21 **MARGINAL COSTS OF INCREMENTAL AMOUNTS OF NATURAL GAS CONSUMPTION?**

22 A. Yes. So long as a substantial portion of the pricing for natural gas is inefficient, the
23 utility service will not be priced efficiently and the level of social welfare will be reduced
24 accordingly.

1 **Q. IS THE SFV RATE DESIGN CONSISTENT WITH MISSOURI'S ENERGY POLICY**
2 **OBJECTIVES?**

3 A. No. Missouri's energy policy goals for the pricing of utility services were addressed by
4 the Missouri Energy Task Force in the Action Plan that it created in 2006. Action item
5 number 6 (to ensure the affordability of both natural gas and electricity) on page 18 of the
6 Missouri Energy Task Force Action Plan stated that "the PSC should consider rate
7 designs that reward customers for conservation efforts." The SFV rate design proposed
8 for MGE's SGS customers is not consistent with this action item since SFV will decrease
9 the magnitude of rewards that accrue to MGE's customers when they attempt to conserve
10 energy by reducing their usage of natural gas.

11 **Q. IS THE SFV RATE DESIGN CONSISTENT WITH PRIOR ELECTRIC UTILITY DECISIONS**
12 **THAT THE COMMISSION HAS MADE WHERE THE LESSONING OR REMOVAL OF PRICE**
13 **SIGNALS WAS CONSIDERED IN LIGHT OF BROADER ENERGY POLICY CONSIDERATIONS?**

14 A. No. If the Commission were to approve the SFV rate design for MGE's SGS customers,
15 I believe that the Commission would be stepping back from its acknowledgement, in
16 Case No. EO-2007-0395, of the importance of proper utility service pricing in light of
17 emerging nation energy policy considerations to encourage the efficient and prudent use
18 of our energy resources. In Case No. EO-2007-0395, Aquila was seeking approval to
19 expand a fixed billing option to all of its residential electric customers in Missouri. In the
20 Report and Order in this case, the Commission described its decision to deny Aquila's
21 request in the following manner:

22 Based on the facts as it has found them, and its conclusions of law, the
23 Commission finds that Aquila's proposed expansion and extension of its
24 fixed bill pilot program **would not give proper pricing signals to**
25 **customers and would therefore encourage the wasteful use of**
26 **electricity. This may result in unnecessary increases in Aquila's**
27 **residential load, causing harm to Aquila's customers as well as to the**
28 **public.** As a result, the proposed program is not just and reasonable and

on that basis, the Commission will reject Aquila's tariff that would implement the expansion and extension of its fixed bill pilot program.
[Emphasis added]

The "unnecessary increases in Aquila's residential load" referenced in the Commissions load would also be expected to occur for MGE's customers as utility service is priced inefficiently by eliminating the volumetric rate that is now paid by customers who would be served under MGE's proposed SGS SFV pricing proposal.

Q. YOU STATED EARLIER IN THIS TESTIMONY THAT "PUBLIC COUNSEL ACKNOWLEDGES THAT A GAS LOCAL DISTRIBUTION COMPANY (LDC) CAN EXPERIENCE ADVERSE IMPACTS ON ITS EARNINGS IN BETWEEN RATE CASES DUE TO USAGE REDUCTIONS FROM ITS ENERGY EFFICIENCY PROGRAMS THAT ARE UNLIKELY TO BE OFFSET BY REGULATORY LAG DUE TO RECENT TRENDS IN THE LEVEL OF ANNUAL USAGE PER RESIDENTIAL GAS LDC CUSTOMER." DOES PUBLIC COUNSEL HAVE AN ALTERNATE PROPOSAL THAT WOULD REMOVE THE DISINCENTIVE FOR MGE TO OFFER ENERGY EFFICIENCY PROGRAMS TO ITS SGS CUSTOMERS?

A. Yes. The Commission should approve a mechanism (the lost margin revenue recovery mechanism or LMRRM) for MGE to recover the margin rate revenues that MGE does not receive as a result of the usage reductions that are directly attributable to MGE's SGS energy efficiency programs. The amount of annual usage reductions that are directly attributable to MGE's energy efficiency programs should be estimated by an independent Demand Side Management (DSM) evaluator who determines the amount of verifiable natural gas usage reductions that have occurred for MGE's SGS energy efficiency program participants based on industry best practices for quantifying such usage reductions. If the LMRRM is approved by the Commission, then MGE would be allowed to book the amount of verified margin rate revenue reductions (usage

1 reductions times the applicable volumetric rate) directly attributable to its SGS
2 programs to a regulatory asset account for recovery in a future rate case. This
3 same mechanism could be used for the verified lost revenues associated with
4 MGE's residential energy efficiency programs.

5 **Q. WHAT IS YOUR RESPONSE TO THE ANNUAL ENERGY EFFICIENCY FUNDING AMOUNTS**
6 **THAT ARE RECOMMENDED IN THE DIRECT TESTIMONY OF MISSOURI DEPARTMENT**
7 **OF NATURAL RESOURCES (DNR) WITNESS JOHN BUCHANAN?**

8 A. On page nine of his direct testimony, DNR witness John Buchanan recommends that the
9 annual funding for MGE's energy efficiency programs be increased from the current
10 level of \$750,000 per year to \$4,000,000 in 2010 and \$7,000,000 in 2012. These
11 proposed funding levels would increase the amount of annual funding to more than 10
12 times the current rate of spending for MGE's energy efficiency programs. Before Public
13 Counsel could take such a proposal seriously, we would need to see a detailed proposal
14 for cost effective programs that would utilize this level of spending. We also would not
15 be supportive of this magnitude of spending without (1) Commission approval of
16 extending the current EEC process and (2) a commitment by DNR to dedicate more
17 resources to the EEC process so it can be more actively and effectively involved in all
18 aspects of the EEC. For example, OPC has observed DNR committing a much greater
19 amount of resources (including the acquisition of assistance from outside consultants) to
20 the development of cost effective energy efficiency programs for Missouri's regulated
21 electric utilities.

22 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 A. Yes.