

Exhibit No.: _____
Issue(s): Economic Conditions
Rate Design
Capacity Release/OSS
Low Income Affordability Recommendation
Witness/Type of Exhibit: Meisenheimer/Direct
Sponsoring Party: Public Counsel
Case No.: GR-2014-0007

DIRECT TESTIMONY
OF
BARBARA MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

MISSOURI GAS ENERGY
A DIVISION OF LACLEDE GAS

CASE NO. GR-2014-0007

**

**

Denotes Highly Confidential Information that has been Redacted

February 7, 2014

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

In the Matter of the General Rate Increase)
 Tariffs of Missouri Gas Energy, a)
 Division of Laclede Gas Company)

Case No. GR-2014-0007

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 7th day of February 2014.



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



 Jerene A. Buckman
 Notary Public

My Commission expires August 23, 2017.

DIRECT TESTIMONY
OF
BARBARA MEISENHEIMER
CASE NO. GR-2014-0007
LACLEDE GAS COMPANY
MGE DIVISION

1 | ***I. INTRODUCTION***

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

3 | A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel, P.O. Box
4 | 2230, Jefferson City, Missouri 65102.

5 | **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

6 | A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-
7 | Columbia (UMC) and have completed the comprehensive exams for a Ph.D. in Economics
8 | from the same institution. My two fields of study are Quantitative Economics and Industrial
9 | Organization. My outside field of study is Statistics.

10 | I have been with the Office of the Public Counsel since January 1996. I have testified on
11 | economic issues and policy issues in the areas of telecommunications, gas, electric, water
12 | and sewer. In rate cases my testimony has addressed class cost of service, rate design,
13 | miscellaneous tariff issues, low-income and conservation programs and revenue requirement
14 | issues related to the development of class revenues, billing units, low-income program costs,
15 | incentive programs and fuel cost recovery.

1 Over the past 14 years I have also taught courses for the following institutions: University of
2 Missouri-Columbia, William Woods University, and Lincoln University. I currently teach
3 undergraduate and graduate level economics courses for William Woods University.

4 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION IN LACLEDE GAS COMPANY**
5 **AND MISSOURI GAS ENERGY CASES?**

6 A. Yes. I testified in the following four Laclede Gas Company rate cases; Case No. GR-2002-
7 356, Case No. GR-2005-0284, Case No. GR-2007-0208 and Case No. GR-2010-0171. I
8 also testified in MGE's three most recent general rate cases; Case No. GR-2004-0209, Case
9 No. GR-2006-0422 and Case No. GR-2009-0355.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. My direct testimony addresses three key issues. The first issue is the economic and public
12 policy considerations that Public Counsel encourages the Commission to consider in
13 resolving this case. The second is Public Counsel's rate design recommendations. Public
14 Counsel proposes to spread any increase or decrease to current base rate revenue to classes
15 in proportion to each class's share of current base rate revenues. Public Counsel also
16 proposes to change MGE's Residential and Small General Service rate design. The third
17 area addresses certain tariff issues that do not directly affect revenue requirement. Public
18 Counsel proposes to change MGE's capacity release and off-system sales incentive
19 mechanism. Public Counsel also proposes to initiate a working group to consider the

1 feasibility of implementing a future low-income affordability program for the MGE service
2 area.

3 **Q. WHAT DO YOU BELIEVE SHOULD BE THE COMMISSION'S FOCUS IN RESOLVING THIS CASE?**

4 A. In recent years Missouri's economy has been plagued by slow growth, high unemployment,
5 under-employment and only marginal wage growth. Consumers are finding it increasingly
6 difficult to make ends meet, some to the point of crisis. In this testimony I explain that the
7 Commission can and should treat rate affordability as a key factor in determining the
8 Company's revenue requirement and rates. With respect to revenue requirement, the
9 Commission should closely scrutinize MGE's costs, rate of return, incentive mechanisms
10 and program funding requirements in order to minimize any customer rate increases. With
11 respect to rate design, the Commission should focus on allowing customers greater control
12 over their gas bills.

13 **Q. IN PREPARATION OF YOUR TESTIMONY, WHAT MATERIALS DID YOU REVIEW?**

14 A. I have reviewed economic data obtained from the U.S. Department of Commerce Bureau of
15 Economic Analysis (BEA), the U.S. Department of Labor Bureau of Labor Statistics (BLS),
16 the Missouri Department of Natural Resources, MGE's direct testimony and supporting
17 documentation related to class revenues and billing units, the Staff Cost of Service Report
18 and supporting workpapers and documentation, material from past Missouri Gas Energy
19 and Laclede Gas Company cases, consumer comments to the Missouri Public Service

1 Commission, MGE’s responses to Staff and OPC inquiries and data requests and
2 information related to Laclede Gas Company services and programs.

3 **II. ECONOMIC CONSIDERATIONS**

4 **Q. PLEASE DESCRIBE THE AREAS SERVED BY THE MGE DIVISION OF LACLEDE GAS COMPANY.**

5 A. In Missouri, the MGE Division of Laclede Gas Company serves the City of Kansas City and
6 communities in 30 counties in Western and Central Missouri.



7
8 The service area is diverse in terms of natural gas usage; ranging from more
9 moderate average use in the Southwest corner of the State to higher average use in counties
10 near the Northwest border. The population density ranges from a low below 20 persons per
11 square mile in rural areas to a high of over 5,000 persons per square mile for some zip codes
12 in the Kansas City Metropolitan area.

1 | **Q. PLEASE COMMENT ON THE RECENT ECONOMIC PERFORMANCE AND RATE OF**
2 | **UNEMPLOYMENT IN THE AREAS SERVED BY THE MGE DIVISION OF LACLEDE GAS**
3 | **COMPANY.**

4 | A. The area served by MGE is struggling to recover from the high unemployment and slow
5 | economic growth experienced during the recent recession. For example, the 2012 per capita
6 | real GDP for the Kansas City Metropolitan Statistical Area (KC-MSA), reported by the
7 | BEA, continued to lag below the 2008 level. The level of employment has also been slow
8 | to recover. The table shown below is based on data obtained from the BLS. The data
9 | illustrates the rate of unemployment for MGE service area counties for the years 2007-2012.
10 | For almost all the counties in which MGE serves, the 2012 rate of unemployment continued
11 | to be substantially higher than prior to the recession.

Table 1. MGE Service Area County Unemployment Rates

Area	2007	2008	2009	2010	2011	2012	Increase 2007-2012
Andrew County	3.9%	4.6%	7.8%	7.3%	6.2%	5.0%	22.0%
Barry County	4.8%	5.3%	8.4%	8.4%	7.8%	6.3%	23.8%
Barton County	8.6%	9.0%	10.8%	10.9%	9.6%	8.4%	-2.4%
Buchanan County	4.4%	5.0%	8.6%	8.2%	7.2%	5.6%	21.4%
Carroll County	5.0%	6.8%	10.6%	10.6%	9.9%	8.0%	37.5%
Cass County	4.9%	5.7%	9.7%	9.6%	8.5%	6.8%	27.9%
Cedar County	5.6%	6.3%	9.3%	8.4%	7.9%	6.9%	18.8%
Christian County	3.8%	4.8%	8.4%	8.2%	7.4%	5.8%	34.5%
Clay County	4.3%	5.0%	8.5%	8.5%	7.6%	6.4%	32.8%
Clinton County	5.1%	5.7%	10.0%	10.4%	9.9%	7.8%	34.6%
Cooper County	4.4%	5.5%	9.0%	8.9%	8.5%	6.8%	35.3%
Dade County	5.2%	6.0%	9.0%	9.0%	8.9%	7.2%	27.8%
DeKalb County	5.1%	6.1%	9.6%	8.9%	8.1%	6.2%	17.7%
Greene County	4.0%	4.9%	8.5%	8.1%	7.4%	5.9%	32.2%
Henry County	5.6%	6.5%	9.7%	9.8%	9.1%	7.4%	24.3%
Howard County	4.4%	5.7%	8.6%	7.9%	7.6%	6.1%	27.9%
Jackson County	5.8%	6.7%	10.3%	10.7%	9.5%	7.7%	24.7%
Jasper County	4.5%	5.0%	8.3%	8.2%	7.6%	5.9%	23.7%
Johnson County	4.6%	5.1%	8.6%	8.7%	8.3%	6.9%	33.3%
Lafayette County	5.1%	5.9%	9.9%	10.2%	9.8%	7.4%	31.1%
Lawrence County	4.0%	4.7%	8.4%	8.2%	7.6%	6.0%	33.3%
McDonald County	4.1%	4.7%	7.9%	8.9%	7.8%	6.2%	33.9%
Moniteau County	4.6%	5.3%	8.3%	8.1%	7.5%	6.5%	29.2%
Newton County	4.7%	5.3%	8.2%	8.6%	7.8%	6.2%	24.2%
Pettis County	5.2%	6.0%	8.9%	8.7%	8.1%	6.9%	24.6%
Platte County	3.9%	4.6%	7.8%	7.7%	7.1%	5.6%	30.4%
Ray County	5.3%	6.1%	10.2%	10.7%	9.9%	9.0%	41.1%
Saline County	5.0%	5.5%	7.9%	8.2%	7.6%	6.4%	21.9%
Stone County	6.3%	7.6%	12.3%	12.5%	11.8%	10.4%	39.4%
Vernon County	4.8%	5.4%	7.9%	7.7%	7.1%	5.9%	18.6%

Q. DOES MORE CURRENT DATA RELATED TO EMPLOYMENT SUGGEST THAT THE ECONOMY CONTINUES TO STRUGGLE?

A. Yes. While the unemployment rate for 2013 for the KC-MSA appears to have fallen to a rate level similar to that experienced prior to the recent recession, the unemployment rate does not reflect discouraged workers who are no longer counted in the labor force. Recent

1 employment levels and labor force participation data obtained from the U.S. Bureau of
2 Labor Statistics (BLS) indicates that both employment levels and the level of labor force
3 participation are still lower than the 2007 levels.

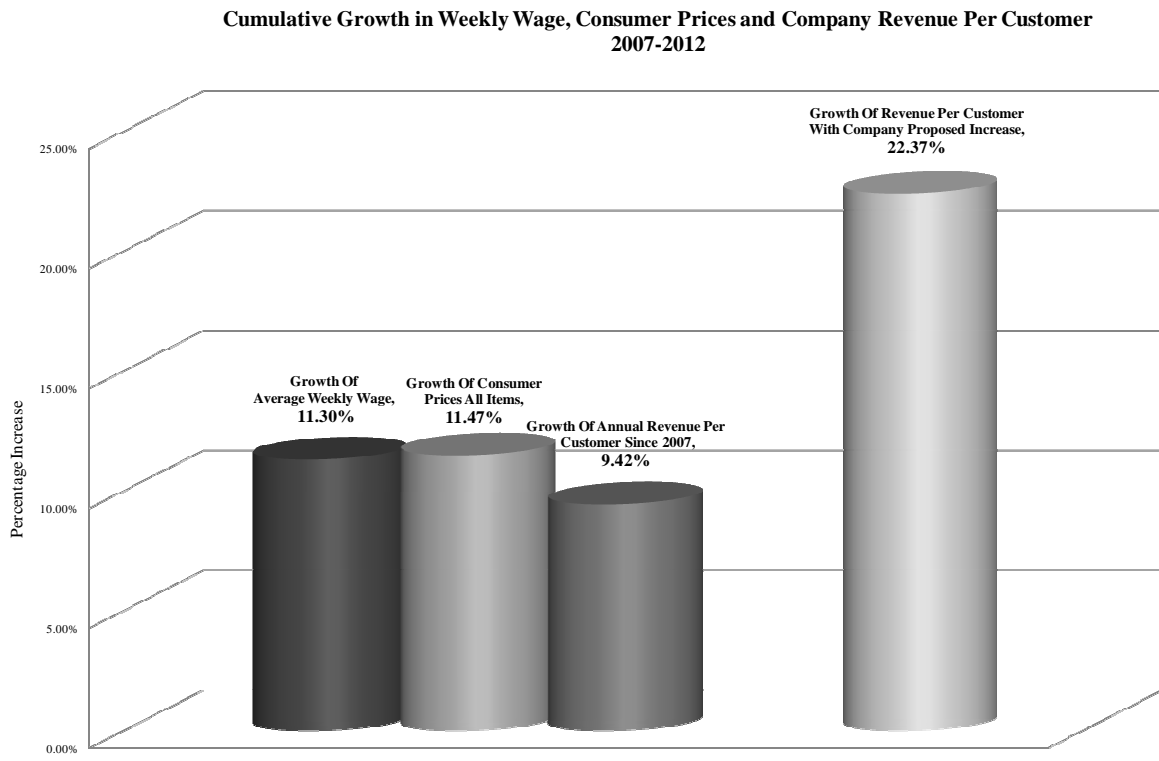
4 **Q. PLEASE COMMENT ON RECENT RATE INCREASES THAT HAVE IMPACTED THE MGE SERVICE**
5 **AREA.**

6 From 2007 through 2012, investor owned utility customers in the MGE service area have
7 been impacted by frequent and substantial rate increases. Ameren increased companywide
8 electric rates four times for a total of over \$600M. Kansas City Power & Light increased
9 companywide electric rates three times for a total of over \$165M. Kansas City Power &
10 Light Greater Missouri Operations increased companywide electric rates three times for a
11 total of over \$179M. Empire District Electric increased companywide electric rates three
12 times for a total of over \$87M. Missouri American Water increased companywide water
13 rates four times for a total of over \$114M.

14 **Q. PLEASE COMMENT ON WAGES AND PRICES IN THE MGE SERVICE AREA.**

15 **A.** Based on data obtained from the U.S. Bureau of Labor Statistics, for the period 2007-2012,
16 wages have grown about the same rate as consumer prices for all goods and services.
17 Wages have grown at a somewhat higher rate than MGE's current operating revenue per
18 customer. However, in this case, under the Company's proposed increase, the rate of wage

1 growth will be only about half the growth of MGE’s operating revenue per customer. The
2 diagram shown below illustrates these comparisons.



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4 **Q. HAVE CONSUMERS EXPRESSED CONCERNS ABOUT THEIR ABILITY TO AFFORD UTILITY**
5 **RATE INCREASES?**

6 **A.** Yes. Customers testifying in the recent public hearings in other cases have regularly voiced
7 frustration and concerns about the burden of additional rate increases. Some customers have
8 testified that they must work extra hours or two jobs just to make ends meet. Some have
9 testified that they must choose between paying utility bills and buying food and medicine.

1 **Q. SHOULD THE COMMISSION CONSIDER THE ECONOMIC CLIMATE AND FACTS SUCH AS**
2 **UNEMPLOYMENT RATES AND PREVIOUS RATE INCREASES WHEN DETERMINING WHAT**
3 **RATES ARE JUST AND REASONABLE?**

4 A. Yes. It is the Commission’s job to set just and reasonable rates. Public Counsel has argued
5 and the Commission has recognized that in addition to cost of service, other relevant factors
6 to consider in setting rates include the value of a service, the affordability of service, rate
7 impacts, and rate continuity.

8 **Q. HOW MIGHT THE COMMISSION DECIDE ISSUES IN A MANNER THAT MINIMIZES THE RATE**
9 **IMPACT ON CONSUMERS?**

10 A. With respect to the rate of return, the Commission is generally presented with a range of
11 returns that are considered reasonable by financial analysts. Setting rates to produce a return
12 at the lower end of the range can provide MGE the opportunity to earn a reasonable return
13 while also minimizing the rate increase imposed on consumers.

14 With respect to incentive compensation, MGE currently receives a percentage of net
15 off-system sales and capacity release revenues as an incentive to conduct such transactions.
16 In the natural gas market, the price differentials which led to opportunities for consumers to
17 benefit from LDCs capacity release and off-system sale activities have diminished. The
18 Commission should consider reducing the incentive compensation mechanisms related to

1 off-system sales and capacity release in order to better reflect the reduced benefit to
2 consumers associated with these activities.

3 With respect to expenditures on a low-income rate affordability program, Public
4 Counsel recommends that a working group explore options and the feasibility for future
5 implementation of a low income program for the MGE service area. Public Counsel does
6 continue to support expenditures on cost effective low-income weatherization and efficiency
7 programs.

8 With respect to rate design, since 2007 for residential customers, and since 2010 for
9 small business customers, MGE has had a rate design that is unfair and unpopular with
10 consumers. This rate design collects all non-gas costs through a customer charge that does
11 not vary with usage and can only be avoided by disconnecting from MGE's system. The
12 Commission should reestablish a volumetric rate component in MGE's Residential and
13 Small General Service rate design.

14 ***II. RESIDENTIAL AND SMALL GENERAL SERVICE RATE DESIGN PROPOSAL***

15 **Q. PLEASE PROVIDE BACKGROUND ON MGE'S CURRENT RESIDENTIAL RATE**
16 **DESIGN.**

17 A. Prior to Case No. GR-2006-0422, MGE recovered a portion of residential non-gas costs in a
18 fixed customer charge and the remainder of costs through a volumetric rate. With the
19 exception of the Laclede Gas Company, this rate design mirrors the rate design used for

1 Missouri's other LDCs. Under this traditional rate design, consumers had the ability to
2 control the non-gas portion of their bill by reducing use, low use customers paid less than
3 high use customers and the Company and customers shared the risk associated with weather.

4 In Case No. GR-2006-0422, the Commission approved MGE's request for an
5 alternative rate design for the Residential customer class. This alternative rate design which
6 recovers all non-gas costs through a flat fixed monthly charge is called a Straight-Fixed
7 Variable (SFV) rate design. In Case No. GR-2009-0355, the Commission approved a SFV
8 rate design for the SGS customer class. Staff and MGE supported the SFV rate design
9 arguing that recovery of all non-gas costs through a flat fixed monthly charge would
10 "decouple" usage and revenue removing disincentives for MGE to promote conservation.
11 In contrast to traditional rate design, the SFV rate design requires customers to pay the same
12 rate regardless of the customer's usage, low use customers pay as much as high use
13 customers and MGE's weather related risk is shifted to customers. Currently, the monthly
14 SFV rate is \$26.88 for the Residential class and \$39.26 for the Small General Service Class.

15 Public Counsel has opposed this type of rate design in every rate case in which a
16 natural gas company proposed it. We have opposed it as an unreasonable method of
17 allocating and collecting costs, as contrary to the goal of energy conservation, and as a
18 barrier to customers' being able to reduce their bills by reducing usage.

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

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

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

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

17 11. Regardless of their details, the Commission is not bound to set the
18 customer charges based solely on the details of the cost of service studies. The
19 Commission must also consider the public policy implications of changing the

1 existing customer charges. There are strong public policy considerations in
2 favor of not increasing the customer charges.

3 12. Recently, in File Number EO-2012-0142, the Commission approved
4 Ameren Missouri's first energy efficiency plan under the Missouri Energy
5 Efficiency Investment Act. (MEEIA). Shifting customer costs from variable
6 volumetric rates, which a customer can reduce through energy efficiency
7 efforts, to fixed customer charges, that cannot be reduced through energy
8 efficiency efforts, will tend to reduce a customer's incentive to save electricity.

9 13. Admittedly, the effect on payback periods associated with energy
10 efficiency efforts would be small, but increasing customer charges at this time
11 would send exactly to [sic] wrong message to customers that both the
12 company and the Commission are encouraging to increase efforts to conserve
13 electricity.

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

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

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

14 **Q. DO CONSUMERS CONTINUE TO OPPOSE THE SFV RATE DESIGN?**

15 A. Yes. Consumers commenting in the present case continue to oppose the SFV rate design.
16 The following are examples of how consumers view the high fixed charge.

17 *Comment: I think that increasing the fixed monthly charge does not make economic sense. I*
18 *would recommend eliminating the fixed charges completely. The charges to distribute*
19 *natural gas to a customer should be reflected in the cost per mcf not some fixed rate. I find*
20 *it to be outrageous that my fixed rate charges in the summer greater than my usage of gas. It*
21 *seems to me that the fair way to charge for the distribution of gas is to charge based upon*
22 *usage. Seems like pretty simple economics to me!*

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Comment: Increasing the fixed customer charge would make it more difficult to afford. The residential fixed charge is paid no matter the efficiency of the customer. Taken over one year, the total amount paid in fixed charges would increase from \$327.56 to \$360.92. The 11.5% surge is large, when the Consumer Price Index rose only 1.5% in 2013. I would prefer an increase in the variable charge. That way, those who are on a tight budget could conserve and save money by limiting their energy usage.

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Q. ARE CONSUMERS COMMENTING ON OTHER ASPECTS OF THE PROPOSED RATE DESIGN?

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A. Yes. In this case, consumers also seem overwhelmingly opposed to a seasonal difference in the customer charge. Below are a few examples of customer comments received in this case?

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Comment: Please do not approve the proposed rate increase for MGE or really Laclede Gas. I work really hard to control my variable expenses given my fixed and shrinking income. I currently keep my home at 68 degrees or lower. A doubling base price means I must set it even lower in the coldest months to make up for the increase. This feels like bullying to me, I have no options to go to a competitor for a lower price. I'm all for Laclede introducing themselves in this unpleasant manor but at least give me options. A flat increase in the base punishes the customer who is conservative with gas usage. This will force more people to NOT be able to pay their bill. Maybe this is how you are fixing that problem, passing that on to the little guy that works hard to conserve and pay. Seems like this won't end well.

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Comment: I think that that it is rotten to increase the rates during the coldest months. Lots of people can't pay their bills now.

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Q. IN EXCHANGE FOR THE SFV RATE DESIGN, THE COMMISSION WAS PROMISED SIGNIFICANT EXPENDITURES ON EFFICIENCY PROGRAMS. HOW DO THE EXPENDITURES ON THE CURRENT PROGRAMS COMPARE TO THE LEVELS ENVISIONED WHEN THE SFV RATE DESIGN WAS IMPLEMENTED?

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1 The SFV rate design was granted with the understanding that MGE would
2 eventually achieve a meaningful level of efficiency expenditures in a range of .5%-1.5% of
3 total revenue. Based on my review of MGE's efficiency expenditures, MGE is performing
4 at a relatively low level of expenditures. It is also interesting to note that it appears that a
5 large proportion of the 2012 expenditures were not spent on installing efficiency measures
6 but were instead spent on administration, advertising and marketing.

7 **Q. HOW DO YOU PROPOSE TO CHANGE MGE'S RESIDENTIAL AND SMALL GENERAL**
8 **SERVICE RATE?**

9 A. Public Counsel proposes to reestablish a schedule of rates similar to that which MGE used
10 prior to the SFV rate design. The Residential and Small General Service rate would consist
11 of a monthly customer charge and a uniform per Ccf volumetric charge that would apply to
12 all volumes sold.

13 **Q. WHAT LEVEL OF CUSTOMER CHARGES DO YOU PROPOSE?**

14 A. The customer charges would be set at a level consistent with other Missouri LDCs customer
15 charges for residential and the smallest commercial firm service class. This would result in a
16 Residential customer charge of \$16.50 and a SGS customer charge of \$25.50.

17 **Q. HOW DO THESE CUSTOMER CHARGES COMPARE TO THE CUSTOMER CHARGES OF OTHER**
18 **NON-LACLEDE LOCAL GAS DISTRIBUTION COMPANIES OPERATING IN MISSOURI?**

1 A. As illustrated below, a Residential customer charge of \$16.50 would be among the highest
 2 for all LDCs operating in the State. A SGS customer charge of \$25.50 would be nearer the
 3 average for Missouri’s LDCs.

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 5 Table 2. Missouri LDC Customer Charges

Summit Natural Gas	MGU Northern	General Service	\$ 15.00	Commercial Service	\$ 24.53
	MGU Southern		\$ 15.00		\$ 30.00
	Lake of the Ozarks		\$ 15.00		\$ 30.00
		Residential		General Service	
	Southern Missouri Natural Gas		\$ 10.00		\$ 15.00
		Residential		General Service	
Union Electric Company			\$ 15.00		\$ 28.83
Liberty Utilities	Northeast	Residential	\$ 22.68	Small General Service	\$ 22.68
	Southeast		\$ 13.75		\$ 13.75
	West		\$ 20.17		\$ 20.17
		Residential		Small Commercial	
The Empire District Gas Company			\$ 16.50		\$ 25.00

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 7 **Q. WHAT PROPORTION OF CLASS REVENUE WOULD A RESIDENTIAL CUSTOMER CHARGE OF**
 8 **\$16.50 AND A SGS CUSTOMER CHARGE OF \$25.50 RECOVER?**

9 A. I estimate that the Residential customer charge of \$16.50 will recover about 60% of
 10 Residential base rate revenues. The SGS customer charge of \$25.50 will recover about 63%
 11 of SGS base rate revenues. These percentages were developed on a revenue neutral basis,

1 using Staff's estimated class base rate revenues and with Staff's estimate of ISRS revenues
2 distributed to classes on the basis of the class share of current base rate revenues.

3 **Q. PLEASE DESCRIBE HOW TO DETERMINE THE RESIDENTIAL AND SGS VOLUMETRIC RATE**
4 **ASSOCIATED WITH THE PROPOSED CUSTOMER CHARGES.**

5 A To determine a volumetric rate associated with the proposed customer charge, I divided the
6 difference between class revenue requirement and the class revenue generated by the
7 customer charge by an estimate of class volumes. The resulting volumetric rate per Ccf is
8 \$0.1649 for Residential service and \$0.1341 per Ccf for SGS service.

9 **Q. PLEASE DESCRIBE THE SOURCE OF THE VOLUMETRIC BILLING UNITS USED IN YOUR**
10 **CALCULATION.**

11 A. Prior to implementation of the SFV rate design, the Staff and Company prepared schedules
12 of weather normalized volumetric usage by customer class. In past cases I have relied on
13 Staff's expertise in developing weather normalized volumetric billing units. However, in
14 this case, the Staff did not develop weather normalized volumes for the Residential or SGS
15 class. Instead, I used average per bill volumes **

16 ** If the Staff
17 develops volumetric billing units for the Residential and SGS classes, I would certainly
18 consider using those billing units to develop volumetric rates.

19 **II. OTHER ISSUES**

1 **Q. PLEASE DISCUSS PUBLIC COUNSEL’S PROPOSAL TO CHANGE MGE’S CAPACITY RELEASE**
2 **AND OFF-SYSTEM SALES INCENTIVE MECHANISM.**

3 A. Currently, MGE receives a share of the net value of capacity release and off-system sales
4 revenues. MGE receives incentive compensation according to a tiered structure; 15% of the
5 first \$1,200,000 of net capacity release and off-system sales revenues; 20% of the next
6 \$1,200,000; 25% of the next \$1,200,000; and 30% of any amounts above \$3,600,000. The
7 customer portion of the net value of capacity release and off-system sales revenues flows
8 back to firm sales customers as an offset to PGA rates. It is important to note that the
9 Company’s incentive compensation reflects only upside opportunity in that the Company is
10 rewarded for achievement with profit that is not treated as an offset to revenue requirement.
11 Similarly, the Company’s ability to collect its revenue requirement is not affected by failing
12 to achieve a particular level of capacity release and off-system sales.

13 The current sharing mechanism rewards MGE from the first dollar generated from
14 these activities. Public Counsel believes that since the Company recovers all the cost of
15 conducting these activities in rates and since the gas commodity costs were already paid by
16 customers, a reasonable level of these activities should occur without incentive
17 compensation. In addition, the benefit to consumers of these transactions has fallen
18 substantially in recent years. For example, the customer share of net off-system sales and
19 capacity release revenues has fallen from **

20 ** Public Counsel

1 proposes to change the sharing tiers and to eliminate associating incentive compensation
2 with activity in the first tier.

3 **Q. WHAT STRUCTURE DO YOU PROPOSE?**

4 A. **

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8 MGE would receive incentive compensation according to the structure; 0% of the
9 first \$1,500,000 of net capacity release and off-system sales revenues; 15% of the next
10 \$1,500,000; 20% of the next \$1,500,000; and 25% of any amounts above \$4,500,000.

11 **Q. DO YOU BELIEVE THAT THIS PROPOSAL ALIGNS AND REASONABLY BALANCES THE**
12 **INTERESTS OF THE COMPANY AND ITS CUSTOMERS?**

13 A. Yes, I do. As I explained, this mechanism provides MGE an opportunity to earn profit in
14 excess of its recovery of expenses and a fair rate of return on investment. The Company
15 will continue to have an incentive to generate capacity release and off-system sales
16 revenues. Consumers have an opportunity to retain a larger share of these revenues which
17 in turn works to offset natural gas costs.

18 **Q. DO YOU SUPPORT IMPLEMENTING ANY INCREASE OR DECREASE IN REVENUE REQUIREMENT AS**
19 **AN EQUAL PERCENTAGE CHANGE TO THE CUSTOMER CLASSES' CURRENT BASE RATES?**

1 A. Yes. The equal percentage increase or decrease should be determined based on current base
2 rate revenue excluding ISRS.

3 **Q. DOES PUBLIC COUNSEL SUPPORT IMPLEMENTING A LOW-INCOME AFFORDABILITY**
4 **PROGRAM AT THIS TIME?**

5 A. No. Based on my review of the performance of the current Laclede program and my
6 experience with past MGE programs, I can't support new customer funding for a program at
7 this time. I do believe there would be value in initiating a working group to consider the
8 feasibility of implementing a future low-income affordability program for the MGE service
9 area.

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

11 A. Yes.