Exhibit No.:
Issue: Rate Design
Witness: Michael T. Cline
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GR-99-315

Laclede Gas Company

CASE NO. GR-99-315

SURREBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

August 1999

SURREBUTTAL TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and business address.

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. Are you the same Michael T. Cline who previously filed direct and rebuttal testimony on behalf of Laclede Gas Company ("Company") in this proceeding?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Daniel Beck, appearing on behalf of the Missouri Public Service Commission Staff ("Staff") and Ryan Kind, appearing on behalf of the Office of the Public Counsel ("OPC"). My response addresses the criticisms of Mr. Beck and Mr. Kind pertaining to the Company's proposal in this proceeding to revise the design of the Company's General Service ("GS") rate schedule. In addition, since Mr. Beck discusses alternatives for the Commission's consideration should it be inclined to address the objectives of the Company's rate design proposal, I will respond to such alternatives and present the Commission with the Company's specific alternative proposals.

RESPONSE TO SPECIFIC CRITICISMS OF THE COMPANY'S PROPOSAL

Q. Before addressing each of the parties' criticisms, please briefly recap the Company's proposal.

A. Pursuant to such proposal, the Company would establish a demand or capacity charge and significantly lower its commodity charges in order to provide for a better matching of the fixed costs incurred by the Company to the recovery of such costs.

Q. On page 5 of his testimony, Mr. Beck states that the Company's rate design proposal would have a major effect on the current rate structure. He also states that the amount of revenue related to customer usage would be significantly altered by the Company's proposal. Do you agree?

A. I only agree that the GS rate structure would be different from what it is today. However, even though the structure of the rate has changed, the effect on customers is relatively small.

Q. What do you mean?

A. As I discussed in my direct testimony, under the Company's proposal, even if the weather is as much as 10% warmer or colder than normal, the typical customer's bill would only increase or decrease by $6 annually, or approximately 1%, compared to normal weather.

Q. On pages 5 and 6 of his rebuttal testimony, Mr. Beck states that smaller customers are "generally less aware about energy costs and that the financial incentive to

conserve is more easily understood under the Company's existing rate design." Do you agree?

A. No. It is unfair to generalize that size of customers is somehow related to their knowledge of or interest in energy costs, and probably many residential and small business customers would be offended by such a generalization. The concept of a capacity charge is not a particularly complex one and should be easily understood by most customers. Under the existing rate structure, most customers today understand that the more gas they use during a cold period, the higher their gas bills will be. The same relationship would hold true under the Company's proposed rate design. The only difference is the way in which the Company bills the customers for such increased usage. Whereas under existing rates the customer's bill consists of a customer charge and a charge for gas used, under the Company's proposal, in addition to the foregoing charges, the Company would assess the customer a fixed charge, which would vary by season, for the maximum amount of capacity the customer requires. Nevertheless, because of the corresponding reduction in the charge for gas used, the customer's <u>total</u> bill would be approximately the same on both an annual basis and even within seasons because of the innovative seasonal differential of the Company's proposed demand charge.

Q. Even though most customers should be able to grasp the proposed rate design and should not be materially affected

by it, does the Company plan to educate customers about such rate design should the Commission accept it?

A. Yes. The Company has prepared a sample bill insert that explains the new rate structure to customers in a simple and straight-forward manner. Upon approval by the Commission of the proposed rate design, the Company is prepared to incorporate any helpful suggestions of the Staff, OPC and the Commission, and distribute such bill insert to all of its existing and new General Service customers. A copy of the Company's proposed bill insert is attached as Schedule No. 1 to this testimony.

Q. On pages 6 and 7 of his rebuttal testimony, Mr. Beck objects to the Company's proposal to automatically adjust the capacity charge each year to account for the change in demand determinants from the previous year. Is there a way this concern of the Staff's can be addressed?

A. Yes. Alternatively, the Company would agree to update a customer's demand therms only at the time of each successive rate case. With a greater assurance of demand therms from year to year, it would be unnecessary for the Company to automatically adjust the capacity rate each year.

Q. Mr. Beck states that the Commission could reduce weather related revenue by collecting additional revenue through the customer charge. He then observes on page 8 of his rebuttal testimony that the Company has the highest

customer charge of any Missouri gas company. Please comment.

A. I would note that Mr. Beck draws no conclusion from his observation. However, the Company's customer charge is only part of the story. Based on the total rates charged by these other gas companies, the Company's rates are among the lowest overall. Since it is the total bill that matters most to customers, it would be unfair to discuss the customer charge in isolation of the total bill.

Q. On page 5-7 of his rebuttal testimony, Mr. Kind suggests that the Company's proposed capacity charge might not, in some circumstances, properly reflect a customer's actual contribution to peak conditions. Instead, he suggests that a remote metering system capable of providing the Company with actual daily usage would be required to properly implement the Company's proposal. Do you agree?

A. Definitely not. As I stated in my direct testimony, the Company's proposal of determining peak daily demands by dividing a customer's peak monthly consumption by the number of days in the billing month is very similar to the manner in which demand therms have been traditionally computed for the Company's Large Volume Service ("LV") customers. I am not aware of any rate proceeding in which LV customers have challenged the validity of such computation.

Q. What are the specific circumstances that Mr. Kind alleges would cause a customer's actual contribution to peak

demand to not be accurately reflected under the Company's proposal?

A. Mr. Kind mentioned several factors including: "the efficiency of [customers'] spacing heating equipment, the amount of gas usage that customers have for non-spaceheating uses relative to space heating uses and the load factor of the gas that is consumed for non-spaceheating uses, the number of occupants in a household and the amount of time spent at home during the different parts of the day by each occupant, whether gas or electricity is the primary heat source, and whether the customer uses a set-back (programmable) thermostat."

Q. How does the Company's proposal take account of these circumstances?

A. The Company proposes to determine demand therms for each customer by dividing each customer's peak monthly consumption by the number of days in such month. So long as the circumstances listed by Mr. Kind do not change during the month, I fail to see how the Company's demand therm calculation, when such calculation is performed uniformly for all customers, would result in a material over or under statement of a customer's demand cost responsibility relative to another customer.

Q. But don't these factors affect a customer's usage on a peak day?

A. Of course they do. However, the Company's objective in implementing its proposed rate structure with a capacity

charge is not to measure with precision the peak daily usage of an individual customer but to charge a customer for its appropriate share of demand cost responsibility. Nearly all of the factors cited by Mr. Kind have no baring on such. Because they pertain to customer characteristics that affect a customer's usage on each day of the month, and not just on a peak day, in most cases, they do not necessitate an actual measurement of usage on a peak day in order for each customer to be billed its appropriate share of demand costs.

Q. Wouldn't some of these factors be relevant for purposes of measuring peak <u>hourly</u> consumption, thereby necessitating the use of more elaborate metering rather than relying on the Company's proposed use of peak monthly consumption?

A. I would agree that the Company's proposal may not reflect some of the above factors if the objective was to measure peak <u>hourly</u> demand as is the case with electric rate design. However, these factors are totally irrelevant in the determination of peak <u>daily</u> demand for purposes of gas rate design. Thus, the Company's proposed use of peak monthly consumption is reasonable.

Q. Two of the factors mentioned by Mr. Kind, "the amount of gas usage that customers have for non-spaceheating uses relative to space heating uses" and "whether gas or electricity is the primary heat source," both pertain to the relationship of customers' heating to non-heating consumption. Could this relationship be more accurately

reflected through the use of an actual peak day rather than a peak month?

A. Possibly. However, it is important to note that less than 3% of General Service customers use gas solely for non-heating uses, and most heating customers also have some non-heating load. Thus, since the vast majority of customers use gas for both heating and non-heating purposes, the Company's use of a peak month is reasonable for purposes of establishing demand cost responsibility among customers.

Q. On pages 7 and 8 of his rebuttal testimony, Mr. Kind suggests that the Company's demand charge proposal will dilute price signals to customers. Do you agree?

A. Absolutely not. Instead, price signals will only take a different form because even though the Company's commodity charge would be lower, the proposed capacity charge would still discourage peak period usage. At the same time, however, the lower commodity charge would encourage off-peak consumption. Based on my understanding of the rate design objectives which Mr. Kind and others in his office have previously espoused, I am surprised that he opposes this kind of rate structure.

Q. Has Public Counsel advocated principles in other proceedings that would support adoption of the Company's proposal?

A. Yes. In the recent proceeding involving Laclede's Gas Supply Incentive Plan, another economist in Mr. Kind's

office, Ms. Meisenheimer, testified that stability in a customer's bill was one of the most important considerations for customers. Certainly, by recovering more fixed costs on a fixed basis, the Company's proposal moves in that very direction.

Q. On pages 7 and 8 of his rebuttal testimony, Mr. Kind contends that the Company's demand related costs are too high. Do you agree?

A. No, I do not. Without explanation, Mr. Kind alleges that the Company improperly classified certain costs as demand-related such as meter and regulator expense, uncollectible expense and A&G expense. However, these costs are ideally suited for capacity charge recovery since they are generally fixed costs that are not affected by how much gas a customer uses. Furthermore, I am suspicious of Mr. Kind's quantification of demand-related costs since in his table comparing his results to the Company's results he understates by $20 million the Company's quantification of such costs.

Q. On page 10 of his rebuttal testimony, Mr. Kind quotes a statement made by a consultant appearing on behalf of the Company in a totally unrelated proceeding that appears to contradict the position of the Company in this proceeding. Please comment.

A. Mr. Kind conveniently failed to include all of the comments of the Company's consultant in that regard.

Specifically, the following testimony was ignored by Mr. Kind:

> Q. Isn't it possible, however, to determine demand costs responsibilities for residential customers in other ways?
> A. That's correct. We've done -- we've provided methodology in this case, as has Mr. Kovach, for doing -- coming up with demand costs, and there are other ways to do it.
> Q. So just because you don't have a demand meter that measures that doesn't mean you can't assign demand costs within the residential class?
> A. That's correct.

POSSIBLE ALTERNATIVES TO THE COMPANY'S PROPOSAL

Q. On page 8 of his rebuttal testimony Mr. Beck recommends a means by which the Commission could lessen the impact on customers should it decide to adopt the rate structure proposed by the Company. Please describe Mr. Beck's recommendation.

A. According to Mr. Beck, full implementation of the Company's rate design proposal would result in the recovery of 40% of the Company's non-gas costs through a demand or capacity charge. To lessen the impact of the Company's proposal he recommends the recovery of either 10% or 20% of non-gas revenues through a capacity charge. Thus, Mr. Beck, subject to the Commission's agreement from a policy perspective, appears to recommend implementation of up to 50% of the Company's rate design proposal in this proceeding.

Q. What is your reaction to Mr. Beck's proposal?

A. Because the overall impact on customers is so small, as I described above, I disagree that any mitigation of rate

impacts is necessary. Nevertheless, the Company is prepared to accept Staff's suggestion that half of the Company's GS demand-related costs be recovered through a capacity charge since the resulting rates would represent an important first step toward the proper recovery of such costs.

Q. Have you designed rates that would conform to the Staff's suggestions?

A. Yes. Such rates are attached as Schedule 2 to my testimony.

Q. What impact would these rates have on the typical residential heating customer?

A. Since these rates reflect one-half of the change proposed by the Company, the impact of these rates is also reduced by 50%. Thus, in a 10% warmer or colder than normal year, the typical customer's bill would increase or decrease by less than $3 annually, or approximately .4%.

Q. Did Mr. Beck suggest any other alternative to the Company's rate design proposal?

A. Yes. He suggested that the Company could revise its GS block rate structure.

Q. What would such a revision entail?

A. A rate block is a range of consumption within which a particular commodity charge applies. For example, there are two rate blocks in the existing GS rate schedule. Within each summer and winter season, one rate applies to

the first 65 therms of gas used per month and a lower rate applies to all consumption over 65 therms.

Q. How would you revise the GS block rate structure so that recovery of fixed costs better reflects the manner in which those costs are incurred?

A. I would revise the existing rate blocks so that the first block would be for consumption between 0 and 100 therms per month and the second block would be for all gas consumed over 100 therms. I would then target recovery of more fixed costs in the first usage block. Such revised structure would only apply to residential customers.

Q. How did you select these rate blocks?

A. In most winter months, a typical residential heating customer uses at least 100 therms a month, regardless of weather. The amount of usage in excess of 100 therms, however, will largely depend on how warm or cold the weather is. Accordingly, by targeting recovery of most of the Company's fixed costs in the first usage block (through implementation of a higher rate in the first block) such fixed costs will be recovered regardless of weather conditions. At the same time, by targeting recovery of only a small portion of the Company's fixed costs in the second block (through implementation of a lower rate in such block) such a rate structure also largely ensures that the Company will not overrecover its fixed costs in the event usage increases because temperatures are colder than normal.

Q. How did you determine the specific rates to use in conjunction with your revised rate blocks?

A. I solved for those rates which would produce the same effect on the Company's recovery of fixed costs from residential customers as the alternative capacity charge proposal I described above.

Q. You stated that your revised block rate proposal would only apply to residential customers. Please explain.

A. For the residential customers who comprise nearly 94% of the customers billed under the GS rate schedule and who are relatively homogeneous in relation to commercial and industrial customers, revised blocking is an acceptable alternative to the Company's demand charge proposal. However, due to the divergent usage characteristics of commercial and industrial ("C&I") customers billed under this same rate schedule, it is extremely difficult to design appropriate rate blocks and charges.

Q. What do you recommend?

A. To provide for a better matching of fixed costs recovery to fixed costs incurred for C&I GS customers, the Company's proposed demand charges appear to be the best solution. Such an approach would avoid the potentially significant revenue shifts that could occur among C&I customers as a result of a revised block rate structure, while at the same time giving the Company some experience with demand charges in the GS class. Since some of these C&I customers are smaller customers that have

characteristics similar to residential customers, such an approach could be useful in gauging the potential acceptance of capacity charges by the residential class should such a rate structure be deemed appropriate in the future.

Q. Does this conclude your testimony?

A. Yes, it does.

YOU have a SAY in how much you pay!

Your monthly natural gas bill is the total of three separate but related components, two of which are directly impacted by your individual usage patterns. You pay for the energy you use, and how much you use during peak periods impacts your future bills based on the demand you place on the capacity of the natural gas distribution system.

Natural gas is the cleanest and most cost-efficient form of heating energy. But it is no simple matter to acquire supplies from producers and gas marketers; arrange for its transportation to St. Louis from the producing fields in Louisiana, Texas, Oklahoma, and elsewhere; and then distribute it to your home through our local distribution system. All this we do safely, reliably and at an economical cost so that you have the energy you need when you want it.

Laclede Gas

Schedule No. 1
Page 1 of 2

YOU pay 1 bill for all these services, but that bill is actually made up of three separate charges

CUSTOMER CHARGE

This is the fixed charge you pay each month to remain connected to the gas distribution system. It covers the basic, minimum costs necessary for Laclede to provide you with natural gas service, regardless of how much you use.

CAPACITY CHARGE

This covers the fixed costs Laclede incurs to ensure there is enough distribution capacity to serve you when the weather is coldest and the demand on our system is greatest. Laclede must stand ready for these "peak" periods, and the cost of doing so does not change even if the weather happens to be warm. However, this is a charge over which you have some control because it is based on your highest monthly usage during the last 12 months. Unlike the "customer charge", which is the same for all customers, the "capacity charge" reflects your individual usage during peak periods. Dialing down your thermostat or installing higher-efficiency heating equipment will save you money.

COMMODITY CHARGE

You have significant control over this charge because it is the cost of the natural gas you actually use. Nearly two-thirds of your bill reflects wholesale gas costs — which is the cost of the natural gas we purchase and have transported to St. Louis to supply the needs of our customers. Most of that cost is the wellhead price of natural gas as established in a competitive marketplace. You are billed at our cost. Increases and decreases are factored into semi-annual adjustments (in November and April) to stabilize the price you pay for natural gas throughout the winter and summer periods. (A single, unscheduled adjustment may be made during the winter if significant changes in gas costs occur — either up or down.)

The chart illustrates a typical residential customer's average monthly gas bill (excluding taxes) of $61 divided into three segments: a customer charge of $12.50, a capacity charge of $9.66 and a commodity charge of $38.83.

Schedule No. 1
Page 2 of 2

LACLEDE GAS COMPANY
GENERAL SERVICE RATE DESIGN
CAPACITY AND NON-GAS COMMODITY CHARGES
(Based on full rate increase requested in Case No. GR-99-315)

	Capacity Charge	Block 1 Charge*	Block 2 Charge*
Company Position As Filed			
Winter	$2.42900	$0.06600	$0.03988
Summer	$0.40870	$0.04901	$0.02291
50% of Company Position			
Winter	$1.21250	$0.12002	$0.09390
Summer	$0.20430	$0.09520	$0.06910

* Excludes gas cost.

Schedule No. 2

LACLEDE GAS COMPANY
RESIDENTIAL GENERAL SERVICE RATE DESIGN
REVISED BLOCKING
(Based on full rate increase requested in Case No. GR-99-315)

	Block 1 Charge* (0-100 Therms)	**Block 2 Charge* (Over 100 Therms)**
Winter	$0.20801	$0.06300
Summer	$0.18732	$0.06300

* Excludes gas cost.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules	)))	Case No. GR-99-315

A F F I D A V I T

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager of Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, consisting of pages 1 to 14, and Schedule Nos. 1 through 3, inclusive.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded and the information contained in the attached schedules are true and correct to the best of my knowledge and belief.

Michael T. Cline

Michael T. Cline

Subscribed and sworn to before me this 19th day of August, 1999.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: July 2, 2001