

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

In the Matter of Missouri Gas Energy And )	
Its Tariff Filing To Implement a General )	<b>Case No. GR-2009-0355</b>
Rate Increase for Natural Gas Service )	

**STAFF’S RESPONSE TO FURTHER EVIDENCE CONCERNING RATE  
DESIGN PREPARED BY MICHAEL R. NOACK AS REQUIRED BY  
PRESIDING OFFICER**

COMES NOW the Staff of the Missouri Public Service Commission (Staff), and for its verified Response to *Further Evidence Concerning Rate Design Prepared By Michael R. Noack As Required By Presiding Officer* states as follows:

1. Because of a request from Commissioner Davis, Mr. Michael R. Noack, Director of Pricing and Regulatory Affairs at Missouri Gas Energy (MGE or Company), filed on November 9, 2009, a document entitled *Further Evidence Concerning Rate Design Prepared By Michael R. Noack As Required By Presiding Officer*.

2. Staff believes that the rate design outlined in Mr. Noack’s November 9, 2009 filing is opaque, complex, and will be extremely difficult to explain to Residential customers. Furthermore, the volumetric component of this rate design exposes both Customers and Company to weather-related risk. In light of this, the Staff renews its recommendation that the Commission retain the incumbent Straight Fixed Variable (SFV) rate design for the current Residential customers and implement the SFV rate design for the new SGS class of business customers.

3. In support of its response, the Staff summarizes the following benefits of the Company's current SFV Residential non-gas rate design. The benefits of the SFV rate design are supported by the evidence on the record in this case and in the previous MGE rate case, GR-2006-0422.

4. The SFV rate design collects the Company's fixed non-gas delivery costs in a single, uniform monthly charge levied on each customer. Under SFV, each individual customer pays a variable volumetric charge linked directly to amount of usage and the cost of the gas commodity. SFV rate design eliminates the risk of the Company over collecting non-gas costs from its customers in colder than normal winters.

5. The SFV rate design more properly matches cost recovery with the nature of the costs being recovered. The costs of providing non-gas delivery service to its Residential customers are primarily fixed, and to predicate a portion of non-gas cost recovery on a volumetric basis exposes the Company to unnecessary risk. A portion of the risk is related to the uncontrollable variable of weather, and there has been no evidence presented that exposure to weather risk would increase the incentive for MGE to operate efficiently.

6. An SFV rate design provides protection for Residential customers vis-à-vis weather risk. A volumetric rate design makes the Customer's bill near totally dependent on the vagaries of the weather as to how much the customer pays in winter months. Moreover, Public Counsel would require Customers to pay nearly all their non-gas delivery costs during the winter months when Customers use most of their gas.

7. An SFV rate design provides greater bill stability and predictability for MGE's Residential customers because the non-gas portion of their bill is known. Furthermore, while a customer with zero usage in any month of the test year paid \$11 more under the current fixed

SFV rate<sup>1</sup> than under the equivalent volumetric rate, a space-heating customer could have paid hundreds of dollars more in a cold month.

8. The SFV fairly collects the cost-of-service from MGE's Residential customers. While it is obvious that the cost to serve an individual Residential customer will differ among the customers in that class, these cost differences are caused by customer characteristics other than usage, such as distance from the transmission pipeline, or frequency of customer contact. It would be extremely complex to reflect all of those cost characteristics for each Residential customer, so historically the Commission has set rates that collect the average cost-of-service from a customer with average usage. This is *exactly* what a SFV rate does.<sup>2</sup>

9. An SFV rate design is easier for the customer to understand because the gas bill has only two parts: the fixed delivery charge and the cost of the gas used. Services such as local telephone, trash, or basic cable TV are priced in a similar manner. Since the Company's adoption of a SFV rate design over two years ago, there has been no evidence of a flood of negative public outcry or complaints. MGE has almost 500,000 Residential customers, and the number of complaints that targeted the SFV rate design was very small when looked at on a percentage basis. It appears that a vast majority of complaints or comments were due to the prospect of a revenue increase, rather than the SFV rate design. Staff believes that customers have become accustomed to the SFV rate design. Going back to a volumetric rate design would create confusion among customers.

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<sup>1</sup> During the test year, the SFV charge was set at \$24.62. Under a 'traditional' rate design, the fixed customer charge would have been \$13.65, and all customers would pay this, even those with no usage.  $\$24.62 - \$13.65 = \$10.97$ .

<sup>2</sup> This is the *third* rate case in which the issue of SFV has been argued before the Commission. A volumetric pricing method would be fair if it could be shown that the usage characteristics of most Residential households is a significant factor in the difference in the cost of providing service to them. Staff points out that so far, no party has produced a *single* study, either performed by them or by another entity, to lend any support to this claim. Given that

10. SFV provides the correct price signal to prospective Residential customers so that they can make informed energy choices.

11. SFV provides the correct price signal to current Residential customers because it clearly illustrates the savings that are actually achieved when the customer conserves gas usage. Since approximately 70% of each customer's bill is directly tied to the amount of gas the customer uses, customers have a meaningful incentive to lower their gas usage.

12. The SFV allows the Company to be an active participant in customer conservation efforts because the Company's non-gas revenues are independent of the volume of gas it sells. MGE is providing, and may continue to provide, both education and customer incentives for conservation without risking the financial health of the Company. These programs are growing in acceptance and usage among MGE's customers. This success is expected to continue growing.

WHEREFORE, the Staff respectfully submits its verified Response to MGE's November 9, 2009 filing entitled *Further Evidence Concerning Rate Design Prepared By Michael R. Noack As Required By Presiding Officer*.

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the existence of such a study would bolster the defense of a volumetric rate design, it would be reasonable to conclude that these studies do not exist.

Respectfully submitted,

**/s/Robert S. Berlin**

Robert S. Berlin

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### **Certificate of Service**


I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 1st day of December 2009.

**/s/ Robert S. Berlin**

**VERIFICATION OF ANNE E. ROSS**

STATE OF MISSOURI     )  
                                  ) ss  
COUNTY OF COLE        )

Comes now Anne E. Ross, employee of the Staff of the Missouri Public Service Commission, being of lawful age and after being duly sworn, states that the affiant has read the foregoing pleading styled "In the Matter of Missouri Gas Energy and Its Tariff Filing to Implement a General Rate Increase for Natural Gas Service" and that the facts therein are true and correct

  
Anne E. Ross

Subscribed and sworn to before me this 13<sup>th</sup> day of December, 2009.



SUSAN L. SUNDERMEYER  
My Commission Expires  
September 21, 2010  
Callaway County  
Commission #06942086

  
Notary Public