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Witness:	John Buchanan
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MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

REBUTTAL TESTIMONY

OF

JOHN BUCHANAN

ON

BEHALF OF

MISSOURI DEPARTMENT OF NATURAL RESOURCES

ENERGY CENTER

Jefferson City, Missouri
September 28, 2009

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I. INTRODUCTION

Q. Please state your name and business address.

A. John 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 August 21, 2009, I filed direct testimony on behalf of the Missouri Department of Natural Resources' Energy Center (EC).

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

A. Like my Direct Testimony, I am testifying on behalf of the EC.

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 Thomas Imhoff 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 to address Staff and OPC issues regarding:

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

(2) Methodologies to support funding necessary to support cost effective energy efficiency programs by MGE; and,

(3) Cost recovery for energy efficiency programs implemented by MGE 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 MGE.

A. Staff supports the continued funding of $705,000 for energy conservation programs and $45,000 for education on energy conservation (Direct Testimony, Thomas Imhoff, September 3, 2009, Exhibit Staff Report, Class-Cost-of-Service and Rate Design, page 16, lines 22-23 and page 17, lines 6-7, Staff Expert – Henry E. Warren). Staff supports the continuation of the (Low-Income) Weatherization Program at an annual funding level of $750,000 (Direct Testimony, Thomas Imhoff, September 3, 2009, Exhibit Staff Report, Class-Cost-of-Service and Rate Design, page 17, lines 8-10, Staff Expert – Henry E. Warren). Further, Staff recommends that "additional (energy efficiency) programs should be developed for the residential customers and the other customer classes" (Direct Testimony, Thomas Imhoff, September 3, 2009, Exhibit Staff Report, Class-Cost-of-Service and Rate Design, page 17, lines 7-8, Staff Expert – Henry E. Warren).

Q. Does Staff recommend funding levels for additional energy efficiency programs for residential customers and the other customer classes?

A. No. Staff recommends "additional (energy efficiency) programs should be developed for the residential customers and the other customer classes" (Direct Testimony, Thomas Imhoff, September 3, 2009, Exhibit Staff Report, Class-Cost-of-Service and Rate Design, page 17, lines 7-8, Staff Expert – Henry E. Warren); however, Staff does not propose the level of funding to support such additional programs (beyond the current slate of energy efficiency programs and the current level of funding of $750,000 per year for energy efficiency; and, $750,000 per year for low-income weatherization) or a funding methodology for any additional energy efficiency programs implemented by MGE.

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

A. OPC witness Ryan Kind "proposes that MGE no longer collect $750,000 per year as an expense that is reflected in its revenue requirement but instead utilize the same deferral accounting (creation of a regulatory asset account) energy efficiency cost recovery mechanism that is used by most other energy utilities regulated by the Commission" (Direct Testimony, Ryan Kind, August 21, 2009, page 5, lines 18-21).

Q. Has the OPC addressed funding recommendations regarding energy efficiency programs for other Missouri regulated natural gas companies?

Yes. Mr. Kind, in Laclede Gas Company's Case No. GR-2007-0208, proposed 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 in Case No. GR-2007-0208.

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, "I relied on the goal that the Commission set for Atmos in its recent case where Atmos was directed to develop and implement a comprehensive set of efficiency programs in exchange for the fixed-variable rate design that the Commission was allowing Atmos to use to recover its revenue requirement. 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, GR-2006-0387, Ryan Kind, May 4, 2007, and page 9, lines 4-19)

Q. Has Staff proposed alternative energy efficiency funding levels for other Missouri regulated natural gas companies?

Yes. In Laclede Gas Company's last rate case, GR-2007-0208, Staff recommended 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 in the subsequent year. If Laclede elected 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, GR-2007-0208, Lesa Jenkins, May 2007, page 9, 17-23 and page 10, lines 1-2).

Q. Is the current level of funding of $750,000 per year by MGE and supported by Staff sufficient to support cost-effective energy efficiency initiatives?

A. No. The EC recommends that the Commission require MGE to commit to adequate funding to implement the energy efficiency programs identified by MGE that are determined to be cost effective. Annual funding levels should begin at 0.5 percent of MGE's annual gross operating revenues (which would be a funding level of approximately $4 million) beginning in calendar year 2010 and increase to 1.0 percent of its annual gross operating revenues (or a funding level of approximately $7 million) by calendar year 2012. In MGE's last rate case GR-2006-0422, the Commission approved the conservation program proposed by Staff and MGE (Report and Order, March 22, 2007, Missouri Public Service Commission, GR-2006-0244, page 17 – 18) at the current funding level of $750,000 per year to support MGE's energy efficiency initiatives and the current funding level of $750,000 per year to support MGE's low-income weatherization program, for a total of $1.5 million per year. This represents just 0.21 percent of MGE's gross annual operating revenue for calendar year 2008 reported at $738,601,373 by MGE (Response to Data Request, DNR-008, Michael Noack, Missouri Gas Company, August 3, 2009).

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

A. No. EC proposes more significant funding for the implementation and management of non-low income energy efficiency programs as a condition of favorable rate design authorized by the Commission. Additional energy efficiency funding will allow the company to provide energy efficiency programs into the future as the U.S. economy recovers and as consumer demand for energy efficiency services and products increase. Sufficient funding levels are necessary to support cost-effective efficiency programs that result in meaningful impacts on energy demand. Additional testimony addressing this issue appears in Section IV. Energy Efficiency Funding Methodology.

IV. ENERGY EFFICIENCY COLLABORATIVE (EEC)

Q. Please summarize Staff's recommendation regarding the Energy Efficiency Collaborative (EEC) established by Case No. GT-2008-0005.

A. Staff recommends that the EEC established by Case No. GT-2009-0005 no longer be in effect as of the date when new rates from this case become effective (Direct Testimony, Thomas Imhoff, September 3, 2009, Exhibit Staff Report, Class-Cost-of-Service and Rate Design, page 16, lines 20-22, Staff Expert – Henry E. Warren).

Q. Please summarize OPC's recommendation regarding the Energy Efficiency Collaborative (EEC) established by Case No. GT-2008-0005.

A. OPC proposes to continue the MGE EEC created in Case No. GT-2008-0005 so that it continues to function in the same manner until new rates become effective in the next MGE general rate proceeding following the current general rate proceeding. (Direct Testimony, Ryan Kind, August 21, 2009, page 7, lines 9-12)

Q. Should the EEC continue to participate in MGE's energy efficiency initiative?

A. Yes. The Energy Center recommends the Commission approve the continuation of the Energy Efficiency Collaborative (EEC) created by GT-2008-0005 consisting of representatives from MGE, Staff, OPC, the EC and other interested parties that have intervened in this rate case to facilitate energy-efficiency activities undertaken by MGE. However, the Energy Center also recommends that the collaborative should serve in an *advisory* capacity to help guide MGE's energy efficiency planning and implementation process. MGE should determine and implement the most appropriate and cost-effective slate of energy efficiency programs to meet the needs of its customers and share-holders.

IV. ENERGY EFFICIENCY FUNDING METHODOLOGY

Q. Please summarize the Commission's approval of MGE's energy efficiency initiatives in the company's last rate case.

A. In MGE's last rate case, Case No. GR-2006-0422, the Commission's Report and Order addressed energy efficiency funding under **Part 7 Natural Gas Conservation**. The Commission noted that "under the SFV (Straight Fixed Variable) (residential) rate design, MGE's disincentive to promote natural gas conservation is removed. With the disincentive removed, the company is willing to 'offer' conservation programs to better align themselves with the interest of the customer. The company offers $705,000 to be included in rates to go toward a gas water heater rebate program…Additionally, the company is offering $45,000 to be included in rates to educate the public about energy conservation…MGE anticipates lowering its revenue requirement by $1 million under the SFV design and using that money for conservation programs. The Commission shall approve the conservation program proposed by Staff and MGE." (Report and Order, Missouri Public Service Commission, March 22, 2007, **Item 7. Natural Gas Conservation**)

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

A. The Commission's Report and Order in Case No. GR-2006-0387 (Atmos Energy Corporations' last rate case), 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* gross operating revenue that excluded 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 percent of annual gross operating revenues, which was reported at $57.104 million (Atmos Exhibit 105, Staff Accounting Schedules, Schedule 9 – 1), there would have been about $571,000 in annual funding available from Atmos for energy efficiency programs. These funds were not included in rates, and they are not accounted to a regulatory asset account. Essentially, Atmos is committed to an annual funding level linked to its adjusted gross operating revenue, and this approach provides little incentive or opportunity for the company to implement expanded or additional energy efficiency programs that may be designated as cost effective by the Atmos energy efficiency collaborative, which was also established by the Commission in the Atmos rate case. As a member of this collaborative, the Energy Center has noticed that 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 committing annually $100,000 to support low-income weatherization, leaving a balance of just $65,000 for an energy education and appliance rebate program.

Q. Please briefly describe the Commission approved Atmos funding methodology if applied to MGE.

If the Commission applies the same funding methodology to MGE as it authorized for Atmos (based on *adjusted* annual gross operating revenue, which excludes the cost of natural gas, as opposed to annual gross operating revenue that includes the cost of natural gas), the Commission would be establishing a *maximum* funding commitment for MGE of approximately $2.35 million (Staff Accounting Schedules, Direct, August 2009, Schedule 9 – 1, reflecting adjusted operating revenue calculated by Staff at $235,984,842). In effect, the use of a 1 percent maximum funding level using adjusted operating revenue for MGE would result in additional energy efficiency funding of approximately $859,848 per year above the current funding level of $1.5 million per year that supports MGE's current energy efficiency education and rebate program ($750,000 per year) and MGE's low-income weatherization program ($750,000 per year) collected in rates. The $859,848 annual increase is less than the annual cost to perform customer meter reading by MGE ($943,699 for 2008) (Staff Accounting Schedules, Direct, August 2009, Schedule 9 – 3, Line Number 77).

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)

Q. What is your recommendation for an energy efficiency funding methodology for MGE?

In order to achieve a level of funding to fully identify, design and 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 annual gross operating revenues that includes gas costs should be the methodology used to fund MGE 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 MGE 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 annual gross operating revenue or non-gas costs, 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?

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

First, an initial target for annual energy efficiency program expenditures (so long as this level of expenditure is expected to be cost-effective) is necessary to assist MGE 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 offered by MGE.

Next, an initial target level of funding established by the Commission would assure a commitment by MGE to implement cost-effective programs. MGE customers should be assured of an ongoing level of funding by MGE to support energy efficiency programs in future years. This approach provides incentive or opportunities for the company to implement expanded or additional energy efficiency programs in the future.

Lastly, an initial target level of energy efficiency funding authorized by the Commission based on MGE's annual gross operating revenues, and established as a condition for allowing a higher fixed customer charge, would assure that MGE 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.

VI. COST RECOVERY FOR MGE ENERGY EFFICIENCY PROGRAMS

Q. Please describe Staff's proposal to recover or provide funding to support MGE's energy efficiency expenditures?

A. Staff proposes to continue the current SFV residential rate design (Direct Testimony, Thomas Imhoff, September 3, 2009, Exhibit Staff Report, Class-Cost-of-Service and Rate Design, page 1, lines 10-16) that requires MGE to provide continued funding to support residential energy efficiency initiatives.

Q. Please describe OPC's proposal to recover or provide funding to support MGE's energy efficiency.

A. OPC proposes an adjustment of $750,000 (to MGE's revenue requirement) and to use a regulatory asset account with a 10-year amortization period to expend and account for any balance remaining for energy efficiency programs and to account for future MGE energy efficiency expenditures. OPC notes that "Assuming that this regulatory asset account initially has a negative balance of $1.2 million and that MGE's expenditures on residential energy efficiency programs increase to a level of $600,000 per year (from the current level of only about $420,000 per year), then the negative balance will begin to turn positive at the beginning of the third year following the conclusion of the current pending rate case." (Direct Testimony, Ryan Kind, August 21, 2009, page 6, lines 1-15)

Q. Should the Commission require MGE to account for energy efficiency expenditures through the creation of a regulatory asset account?

A. The EC does not oppose the use of a regulatory asset account to account for energy efficiency expenditures. However, the Commission, in MGE's last rate case, GR-2006-0422, approved Staff and MGE proposed energy efficiency programs with the adoption of the SFV rate design for MGE residential customers. Since the Commission has approved energy efficiency initiatives with regard to the SFV residential rate design, the EC recommends the continuation of these energy efficiency programs and the funding process authorized in MGE's last rate case, GR-2006-0422, but adjusted to the target formula approach presented by the EC.

Q. What form of funding should the Commission authorize to support MGE energy efficiency funding?

A. It is recommended that the Commission authorize the continuation of the SFV residential rate design to support MGE's energy efficiency programs at the prescribed initial target funding levels proposed in EC's direct testimony.

Q. Please briefly describe the SFV rate design and energy efficiency initiatives.

A. The Commission addressed several factors related to the SFV rate design in its Report and Order relating to MGE's last rate case, GR-2006-0422 issued March 22, 2007. Among these issues was the disincentive for the company to offer natural gas conservation programs. Specifically, the Commission noted that "Currently, MGE has an incentive to sell more gas to at least recover its cost. The current rate design therefore discourages natural gas conservation efforts on the part of the company. If the SFV design is adopted, the company is committed to offering several natural gas conservation initiatives." (Missouri Public Service Commission Report and Order, GR-2006-0422, March 22, 2007, page 11)

Q. If the Commission rescinds MGE's current SFV residential rate design, will MGE have an incentive to offer energy efficiency initiatives**?**

A. If the Commission rescinds the current SFV, it is highly unlikely that MGE will have an incentive to offer residential energy efficiency initiatives following the conclusion of the pending rate case. The incentive to offer and implement cost-effective energy efficiency programs will most likely be removed since MGE will have no method, with the exception of the regulatory asset account approach, to recover company energy efficiency investments**.** The use of the SFV rate design that includes a commitment to fund energy efficiency programs by MGE as a condition of a favorable rate design creates the initiative for the company to offer energy efficiency programs.

Q. Do nationally recognized organizations recognize and support removing disincentives for utilities to promote energy efficiency?

A. Yes. The National Association of Regulatory Utility Commissioners (NARUC) strongly supports the removal of disincentives for utilities to promote energy efficiency. On July 14, 2004, NARUC adopted a *Resolution on Gas and Electric Energy Efficiency* sponsored by the NARUC Natural Gas Task Force, Committee on Gas, Committee on Consumer Affairs, Committee on Electricity, and Committee on Energy Resources and the Environment, which "encourages State Commissions to review and consider the recommendations contained in the *Joint Statement of the American Gas Association, the Natural Resources Defense Council, and the American Council for an Energy Efficient Economy". (*http://ase.org/imgs/lib/e-FFICIENCY/joint_AGA_NRDC_NARUC_statement.pdf).

On August 2, 2006, the NARUC adopted a resolution, *Resolution Supporting the National Action Plan on Energy Efficiency*, sponsored by the Executive Committee and the Committees on Consumer Affairs, Electricity, Energy Resources and the Environment, and Gas, "endorsing the principal objectives and recommendations of the National Action Plan on Energy Efficiency and commend[ing] to its member commissions a State-specific, and where appropriate, regional review of the elements and potential applicability of the energy efficiency policy recommendations outlined in the Plan, in an effort to identify potential improvements in energy efficiency policy nationwide." (http://www.epa.gov/cleanenergy/documents/napee/napee_report.pdf)

In May 2008, the American Gas Association (AGA) and the Natural Resources Defense Council (NRDC) issued a *Second Joint Statement* endorsed by the Alliance to Save Energy and the American Council for Energy Efficient Economy (http://www.aga.org/NR/rdonlyres/CC8D9622-9E61-47F4-9154-BC46302E41DD/0/0805NRDCAGA2.pdf.)

The *Second Joint Statement* supports three common objectives: 1) removing disincentives for utilities to promote energy efficiency and reduce greenhouse gas emissions, and uniting to achieve increased savings through programs and standards; 2) developing performance-based incentives for utilities to promote energy efficiency and reduced greenhouse gas emissions; and 3) recognizing the potential contributions of efficient natural gas use in promoting reduced greenhouse gas emissions. These actions were formally adopted in Resolution GS-2 [ERE-3] Resolution on Second Joint Statement of the American Gas Association and the Natural Resources Defense Council in Support of Measures to Promote Increased Energy Efficiency and Reduction in Greenhouse Gas Emissions at NARUC's July 23, 2008 Summer Meeting.

Q. Does this conclude your rebuttal testimony?

Yes. Thank you.