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Red-Tag Repair Program; Energy
Efficiency Programs; Decoupling;
District Consolidation; Residential
Rate Design
Witness: Martin R. Hyman
Sponsoring Party: Missouri Department of Economic
Development – Division of Energy
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Case No.: GR-2018-0013

MISSOURI PUBLIC SERVICE COMMISSION

**LIBERTY UTILITIES (MIDSTATES NATURAL GAS CORP.)
d/b/a LIBERTY UTILITIES**

CASE NO. GR-2018-0013

SURREBUTTAL TESTIMONY

OF

MARTIN R. HYMAN

ON

BEHALF OF

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DIVISION OF ENERGY

Jefferson City, Missouri

May 9, 2018

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

In the Matter of Liberty Utilities (Midstates)
Natural Gas) Corp. d/b/a Liberty Utilities')
Tariff Revisions Designed to Implement a) **File No. GR-2018-0013**
General Rate Increase for Natural Gas)
Service in the Missouri Service Areas of the)
Company)

AFFIDAVIT OF MARTIN HYMAN

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

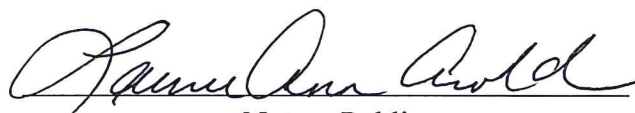
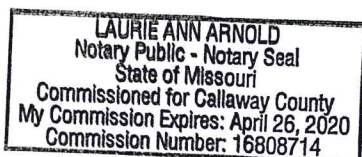
Martin R. Hyman, of lawful age, being duly sworn on his oath, deposes and states:

1. My name is Martin R. Hyman. I work in the City of Jefferson, Missouri, and I am employed by the Missouri Department of Economic Development as a Planner III, Division of Energy.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of the Missouri Department of Economic Development – Division of Energy.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge.



Martin R. Hyman

Subscribed and sworn to before me this 7th day of May, 2018.



Notary Public

My commission expires: 4/26/20

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Martin R. Hyman. My business address is 301 West High Street, Suite 720,
4 PO Box 1766, Jefferson City, Missouri 65102.

5 **Q. By whom and in what capacity are you employed?**

6 A. I am employed by the Missouri Department of Economic Development – Division of
7 Energy (“DE”) as a Planner III.

8 **Q. Have you previously filed testimony before the Missouri Public Service Commission**
9 **(“Commission”) in this case?**

10 A. Yes. I filed Direct Testimony on low-income energy assistance, a Red-Tag Repair
11 Program, and energy efficiency program funding, as well as Rebuttal Testimony on Liberty
12 Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities’ (“Liberty” or “Company”)
13 proposed Volume Balancing Adjustment (“VBA”) Rider, district consolidation, and
14 residential rate design.

15 **II. PURPOSE AND SUMMARY OF TESTIMONY**

16 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

17 A. The purpose of my testimony is to provide DE’s responses to the Rebuttal Testimonies of
18 Company and Commission Staff (“Staff”) witnesses on the following topics:

- 19
- 20 • **Low-Income Energy Affordability Program:** Company witness Mr. Nathaniel
W. Hackney and Staff witnesses Ms. Dana R. Parish and Mr. Michael L. Stahlman;
 - 21 • **Red-Tag Repair Program and Energy Efficiency Programs:** Company witness
22 Mr. Hackney and Staff witness Mr. Brad J. Fortson; and,

- 1 • **Decoupling, District Consolidation, and Residential Rate Design:** Staff witness
2 Mr. Stahlman and Company witnesses Ms. Jill Schwartz and Mr. Timothy S.
3 Lyons.¹

4 DE appreciates the Company's and Staff's willingness to consider some of DE's
5 recommendations regarding low-income and energy efficiency programs, although certain
6 differences between DE and these parties remain. DE continues to not oppose a decoupling
7 mechanism if appropriate customer-benefitting programs and rate designs are adopted, but
8 opposes district consolidation in the context of this case because of differences in cost and
9 customer usage characteristics between districts. Furthermore, DE does not recommend
10 increasing residential customer charges because of the corresponding detriment to
11 efficiency-inducing price signals, but supports implementing inclining block rates for
12 residential customers during both the summer and winter under appropriate circumstances
13 in order to encourage more efficient consumption. DE recommends that changes to
14 residential rate designs be considered in the context of other potential outcomes to this
15 case, such as district consolidation and revenue requirement increases.

16 **III. LOW-INCOME, RED-TAG, AND ENERGY EFFICIENCY PROGRAMS**

17 **Q. What did you recommend as to a Low-Income Energy Affordability Program?**

18 A. I recommended the creation of a Low-Income Energy Affordability Program with
19 parameters similar to those recently approved for Spire Missouri, Inc.'s service areas,²
20 initially funded at \$72,600 per year; I also recommend that spending under the program

¹ I respond in my testimony to his rate design-related Rebuttal Testimony.

² DE is open to considering alternative higher bill credits for the Company's northeastern region because of the greater potential need due to climatological conditions.

1 should be deferred for potential future recovery, and unused budget amounts should be
2 rolled forward to future years or reallocated to low-income weatherization, as determined
3 by a stakeholder collaborative.³

4 **Q. What does DE recommend as to a Red-Tag Repair Program?**

5 A. DE recommends that Liberty implement a Red-Tag Repair Program similar to that recently
6 approved for Spire Missouri, Inc.'s service territories, funded at \$33,000 per year.⁴

7 **Q. What were DE's recommendations as to energy efficiency program funding?**

8 A. In my Direct Testimony, I recommended that the Company strive to expend all of its annual
9 energy efficiency budgets; that the Company target a spending level of 0.5 percent of its
10 annual gross operating revenues, excluding the budget for weatherization; and, that DE
11 would not oppose a decoupling mechanism if the Company targets a spending level of 0.75
12 percent of its annual gross operating revenues, excluding the budget for weatherization,
13 and meets other reasonable conditions recommended in this proceeding.⁵

14 **A. LOW-INCOME ENERGY AFFORDABILITY PROGRAM**

15 **Q. Are Staff and the Company supportive of implementing a Low-Income Energy**
16 **Affordability Program?**

17 A. Yes,⁶ with some differences in terms of recommended program parameters.

³ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Direct Testimony of Martin R. Hyman on Behalf of Missouri Department of Economic Development – Division of Energy, March 2, 2018, pages 5-6, lines 10-16 and 1-5.

⁴ *Ibid*, pages 7-8, lines 12-17 and 1-9.

⁵ *Ibid*, pages 10-13, lines 11-19, 1-10, 1-14, and 1-8.

⁶ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Rebuttal Testimony of Dana R. Parish on Behalf of Commission Staff Division, April 13, 2018, page 4, lines 7-9; Missouri Public Service Commission Case No.

1 **Q. What are some of Staff’s and the Company’s recommendations?**

2 A. Ms. Parish states, “Staff recommends that Liberty Midstates - MO tailor a low-income
3 energy assistance program to address the needs of its customers. In addition, a stakeholder
4 collaborative is recommended to develop the program details and evaluate its success.”⁷ In
5 addition, Mr. Stahlman recommends the use of the customer charge to determine bill
6 credits during the summer.⁸ Mr. Hackney indicates that the Company would like to
7 evaluate eligibility criteria, application and reapplication procedures, and potentially a
8 different budget, and that, “... the Company believes that it can take significant time to
9 raise awareness of a new program.”⁹ In addition, Mr. Hackney suggests including the Low-
10 Income Energy Affordability Program in the Company’s energy efficiency program
11 budget.¹⁰

12 **Q. Is DE open to alternative program parameters?**

13 A. Yes, generally, so long as the alternatives promote bill affordability for low-income
14 customers and help in maintaining their connection to the natural gas system. However,
15 DE recommends implementing the Low-Income Energy Affordability Program as soon as
16 this rate case concludes and compliance tariffs are approved, with any discussions of
17 alternative program designs taking place in the context of a stakeholder collaborative.

GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities’ Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Rebuttal Testimony of Nathaniel W. Hackney on Behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities, April 13, 2018, page 4, lines 16-21.

⁷ GR-2018-0013, Parish Rebuttal, page 4, lines 8-10.

⁸ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities’ Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Rebuttal Testimony of Michael L. Stahlman on Behalf of Commission Staff Division, April 13, 2018, page 10, lines 9-15.

⁹ GR-2018-0013, Hackney Rebuttal, pages 4-5, lines 22-23 and 1-15.

¹⁰ *Ibid*, page 10, lines 5-13.

1 While it is important to correctly determine program parameters through stakeholder
2 consultation, the Commission can still order a reasonable starting basis for the program in
3 order to provide timely relief to customers in need.

4 **Q. Does DE agree with Mr. Stahlman’s recommended summer bill credit?**

5 A. Potentially. However, my understanding is that Mr. Stahlman’s recommendation is
6 predicated on raising the residential customer charge, which would adversely impact those
7 low-income customers with relatively low usage who do not receive a bill credit. The
8 Commission should also note that tying the summer bill credit to the customer charge could
9 affect the number of customers supported by the program. A higher customer charge would
10 lead to a higher bill credit and result in fewer customers receiving aid, as opposed to a
11 lower customer charge and the same program budget. Consequently, I do not agree with
12 Mr. Stahlman’s assertion that linking the summer bill credit to the customer charge,
13 “... would be in-line with ... concerns of [northeastern Missouri] having ‘potential greater
14 need due to climatological conditions’” (citation omitted);¹¹ northeastern Missourians’
15 potentially greater need should be addressed through a higher additional winter bill credit
16 to better align assistance with when bills are highest.

17 **Q. Would DE support including the Low-Income Energy Affordability Program in the**
18 **Company’s energy efficiency budget?**

19 A. No. A Low-Income Energy Affordability Program can be linked to energy efficiency
20 efforts by encouraging participants to apply for low-income weatherization and energy
21 efficiency programs; however, low-income billing assistance programs provide bill credits,

¹¹ GR-2018-0013, Stahlman Rebuttal, page 10, lines 14-15.

1 not measures that help customers use energy more efficiently. By contrast, energy
2 efficiency programs for low-income customers help “stretch” the value of assistance funds
3 by reducing the level of assistance needed for individual customers.

4 **B. RED-TAG REPAIR PROGRAM**

5 **Q. What is Staff’s response to DE’s recommended Red-Tag Repair Program?**

6 A. Mr. Fortson states that, “Staff would support a Red Tag Program similar to Spire
7 Missouri’s like Mr. Hyman recommends for Liberty Midstates - MO if Liberty Midstates
8 - MO determines it wants to pursue a Red Tag Program.”¹² Staff also recommends, “... a
9 tiered incentive that would allow for a greater incentive for more efficient [permanent space
10 heating equipment] and other gas appliance and piping measures,” supporting the program
11 using current energy efficiency funding, and determining a number of program details
12 through Liberty’s Energy Efficiency Advisory Group (“EEAG”).¹³

13 **Q. What does Liberty state in response to your program proposal?**

14 A. Mr. Hackney indicates general support for the concept,¹⁴ but states that, “... [Liberty]
15 would like to work in conjunction with the EEAG to design a program and budget to reflect
16 the needs of our customers.”¹⁵ He also suggests including the Red-Tag Repair Program in
17 the Company’s energy efficiency program budget.¹⁶

¹² Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities’ Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Rebuttal Testimony of Brad J. Fortson on Behalf of Commission Staff Division, April 13, 2018, page 3, lines 7-10.

¹³ *Ibid*, lines 11-19.

¹⁴ GR-2018-0013, Hackney Rebuttal, page 6, lines 6-9.

¹⁵ *Ibid*, page 7, lines 10-12.

¹⁶ *Ibid*, page 10, lines 5-13.

1 **Q. How do you respond to these recommendations?**

2 A. DE does not support including the Red-Tag Repair Program in the Company's energy
3 efficiency program budget. A Red-Tag Repair Program should be designed to have
4 characteristics that support energy efficiency (i.e., by supporting the replacement of
5 eligible equipment with more efficient models), but such a program is also focused on
6 maintaining customers' natural gas service. The program is more similar to the
7 weatherization program in terms of improving health, comfort, and safety and should not
8 be subjected to cost-effectiveness testing. Red-Tag Repair Program funding should
9 therefore be treated separately from the Company's energy efficiency program budget.

10 While DE agrees that the EEAG can assess refinements to the initial program design, DE
11 recommends that, as with the Low-Income Energy Affordability Program, the Commission
12 order the Red-Tag Repair Program to start as soon as feasible after the conclusion of this
13 rate case. Customers in need of assistance for health and safety-related appliance
14 replacements or repairs should not have to wait on stakeholders to craft a perfect program
15 when a workable solution is available.

16 DE is open to Staff's suggestion regarding tiered incentives, but would need to see
17 additional details before offering a conclusion.

18 **C. ENERGY EFFICIENCY PROGRAMS**

19 **Q. Is the Company receptive to the potential expansion of its energy efficiency**
20 **programs?**

21 A. Yes, generally. Mr. Hackney states that, "Provided that the Commission approves a
22 decoupling mechanism for Liberty Utilities, as described by Company witnesses Tim
23 Lyons and Robert Hevert, or as authorized by the Commission in the recent Spire cases,

1 the Company agrees to consider a target budget level for its energy efficiency programs
2 based on 0.75% of its operating revenue.”¹⁷ However, he later states:

3 ... provided that the Commission approves a decoupling mechanism for Liberty
4 Utilities, as described in direct testimony by Company witnesses Tim Lyons and
5 Robert Hevert, or as authorized by the Commission in the recent Spire cases, **the**
6 **Company agrees to use a portion of its energy efficiency budget to complete a**
7 **detailed analysis of all of these programs and funding targets, to provide**
8 **recommended changes** to the Company’s energy efficiency programs and
9 portfolio **by no later than the next general rate case.** (Emphases added.)¹⁸

10 Mr. Hackney also expresses concern with the ability to increase program spending to my
11 recommended levels and indicates that Liberty would need time to adjust its portfolio to
12 meet these targets.¹⁹

13 **Q. Should the Commission wait until the Company’s next rate case to approve increased**
14 **energy efficiency program funding?**

15 A. No. While a “ramp-up” of program spending is reasonable while the Company adjusts its
16 program portfolio, this ramp-up should occur in the program years immediately following
17 the current rate case. The Company should consult with its EEAG to identify additional
18 savings opportunities, such as program co-delivery with other utilities and Building
19 Operator Certification training;²⁰ Liberty can also improve upon existing programs and
20 increase spending on them, such as by giving out additional high efficiency natural gas

¹⁷ *Ibid*, page 9, lines 4-7.

¹⁸ *Ibid*, page 11, lines 12-18.

¹⁹ *Ibid*, pages 8-9, lines 8-22 and 1-4.

²⁰ GR-2018-0013, Hyman Direct, page 10, lines 13-15.

1 water heating and space heating rebates.²¹ If the Company receives a decoupling
2 mechanism as an outcome of this rate case – providing an enhanced ability for Liberty to
3 recover revenue irrespective of weather-related usage changes – then it is even more
4 important to increase the level of efficiency program spending to ensure that customers
5 have adequate opportunities to increase their control over their bills by providing customers
6 with additional programs and that these customers will receive the benefits associated with
7 utilizing such programs.

8 **Q. Liberty also suggests increasing the budget for low-income weatherization as a part**
9 **of an overall increase to energy efficiency program spending.²² Would DE support**
10 **such a proposal?**

11 A. DE’s recommendation is to increase energy efficiency program spending separately from
12 the budget for low-income weatherization. While low-income weatherization certainly
13 targets measures that improve energy efficiency, there are also other goals for the low-
14 income weatherization program, such as improving residents’ comfort, health, and safety.
15 Given these considerations, low-income weatherization is more than a traditional energy
16 efficiency program, and its budget should not be limited by, or, in turn, limit spending on
17 a broad portfolio of energy efficiency programs. Increasing the weatherization budget
18 could also pose a challenge from the cost-effectiveness perspective; while weatherization
19 administered pursuant to federal requirements already requires some cost-testing, DE is
20 concerned that additional funding as part of an expanded energy efficiency portfolio would

²¹ See: Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities. 2016. “Energy Conservation and Efficiency Program Annual Report.” Page 5.

²² GR-2018-0013, Hackney Direct, page 9, lines 16-20.

1 lead to overly restrictive cost-testing that is inappropriate in the context of a low-income
2 program designed to achieve multiple goals.

3 **Q. Does Staff support an increase to energy efficiency program funding?**

4 A. No. Mr. Fortson recommends no changes to Liberty’s target funding and claims that,
5 “Liberty Midstates - MO’s current annual non-weatherization portion of the energy
6 efficiency program budget has continued to be unspent since the current funding structure
7 was approved in GR-2010-0192.”²³ However, this claim is inaccurate – while Liberty did
8 not fully expend its most recent program year budget for non-weatherization energy
9 efficiency programs of \$183,787, it did spend \$91,040 of this funding.²⁴ Setting aside this
10 discrepancy, Staff’s recommendation would result in the continuation of program budgets
11 from prior years (per current practice),²⁵ regardless of changes in Liberty’s gross operating
12 revenues, customer need, or market conditions. The *status quo* is not beneficial for
13 customers that want to save energy, but who need support to do so.

14 **IV. RATE DESIGN**

15 **Q. What are DE’s recommendations as to rate design?**

16 A. DE is not opposed to the use of a decoupling mechanism provided that: 1) Liberty increases
17 energy efficiency spending per the recommendation in my Direct Testimony in order to
18 provide customers with more opportunities to control their bills, and 2) the Commission
19 accepts the other rate design recommendations provided in my Rebuttal Testimony.
20 Customer education would also be needed to address the reasons for implementing a

²³ GR-2018-0013, Fortson Rebuttal, page 4, lines 13-22.

²⁴ Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities. 2016. “Energy Conservation and Efficiency Program Annual Report.” Page 5.

²⁵ *Ibid*, page 2.

1 decoupling mechanism. DE takes no position on the exact form of a decoupling mechanism
2 so long as it is structured to comply with Section 386.266.3, RSMo. and provides any
3 decoupling bill adjustment resulting from higher than expected revenues on a per-customer
4 basis.²⁶ However, DE does not support district consolidation in this case because of
5 differences between districts in cost of service and customer usage characteristics, as well
6 as the potential effects of combining consolidation with a potential revenue requirement
7 increase and possible rate design changes.²⁷ Additionally, DE supports maintaining
8 residential customer charges at current levels in this case because customer charge
9 increases would weaken the efficiency inducing price signal sent by rates and adversely
10 affect lower use and lower income customers.²⁸ Finally, DE recommends implementing
11 summer inclining block rates for residential customers as well as residential inclining block
12 rates in the winter, per the guidelines provided in my Rebuttal Testimony and following
13 the consideration of the bill impacts due to any ordered district consolidation or revenue
14 requirement increase.²⁹

²⁶ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Rebuttal Testimony of Martin R. Hyman on Behalf of Missouri Department of Economic Development – Division of Energy, April 13, 2018, page 7, lines 2-7.

²⁷ *Ibid*, pages 10-11, lines 15-17 and 1-8.

²⁸ *Ibid*, page 15, lines 9-12.

²⁹ *Ibid*, pages 17-21, lines 10-18, 1-18, 1-18, 1-23, and 1-4.

1 **A. DECOUPLING**

2 **Q. What is your response to the Weather Normalization Adjustment Mechanism**
3 **(“WNAR”) alternatives offered by Staff³⁰ and the Company?^{31, 32}**

4 A. As with my response to the Company’s initial VBA Rider proposal, DE recommends that
5 any credits to customers be provided as a fixed adjustment in order to avoid encouraging
6 additional natural gas usage with a lower volumetric rate.

7 Also, I would note that Staff’s proposal would apply only to the residential class, while the
8 Company’s proposal would apply to the Small General Service class as well. At this time,
9 DE does not support the application of a decoupling mechanism to the Small General
10 Service class because of the differences in usage characteristics between customers and the
11 potential impacts on small businesses.

12 **Q. What do you mean with regards to the differences in usage characteristics between**
13 **Small General Service Customers?**

14 A. As shown in Mr. Lyons’s Direct Testimony, Small General Service customer usage varies
15 widely on an annual basis, even within the same district. For example, approximately half
16 of customer bills in the SEMO district reach a cumulative total of up to 600 CCF per year,
17 while approximately 90 percent of customer bills in that district reach a cumulative total of

³⁰ GR-2018-0013, Stahlman Rebuttal, Schedule MLS-r1.

³¹ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities’ Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Rebuttal Testimony of Timothy S. Lyons (ScottMadden, Inc) on Behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities, April 13, 2018, Schedule TSL-R2.

³² The Company’s initially proposed VBA Rider is a form of full decoupling, while Staff’s proposal is a type of limited decoupling. See Regulatory Assistance Project, 2016, *Revenue Regulation and Decoupling: A Guide to Theory and Application*, <http://www.raonline.org/wp-content/uploads/2016/11/rap-revenue-regulation-decoupling-guide-second-printing-2016-november.pdf>, pages 11-13.

1 up to 2,250 CCF per year.³³ This range of usage levels suggests customers with very
2 different usage characteristics who would, in turn, be affected in very different ways by a
3 decoupling adjustment. Small businesses would likely find it more difficult to cope with
4 any decoupling-related adjustments to bills, particularly if they use a significant amount of
5 natural gas.

6 **Q. Are there any other considerations of which the Commission should be aware**
7 **regarding Staff's and the Company's proposed WNAR alternatives?**

8 A. Yes. Staff's WNAR proposal would use different inputs and result in different rate
9 adjustments for the Company's Northeastern, Southeastern, and Western Missouri districts
10 ("NEMO," "SEMO," and "WEMO," respectively). This would seem to contradict Staff's
11 recommended consolidation of volumetric rates across districts,³⁴ and, if anything,
12 reinforces DE's position that district consolidation is not appropriate in this case. In
13 contrast, the Company's proposed WNAR tariff does not indicate different adjustments by
14 rate district, although Mr. Lyons provides an example of a WNAR adjustment using only
15 the NEMO district.³⁵

³³ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Direct Testimony of Timothy S. Lyons (ScottMadden, Inc) on Behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities, September 29, 2017, Schedule TSL-12, page 5.

³⁴ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Staff Report – Class Cost of Service, March 16, 2018, page 5, lines 15-16.

³⁵ GR-2018-0013, Lyons Rebuttal, pages 26-28, lines 13-14, 1-11, and 1-3.

1 **Q. What is DE’s recommendation as to the application of a decoupling mechanism to**
2 **individual districts?**

3 A. Consistent with DE’s position on maintaining Liberty’s current three rate districts, DE
4 recommends a separate decoupling adjustment for each district in the event that the
5 Commission approves a decoupling mechanism. This recommendation follows from the
6 fact that customers in these districts have different costs of service and different usage
7 characteristics, and from concerns that bill impacts from a uniform decoupling adjustment
8 could have more adverse consequences on customers in some districts than others.

9 **B. DISTRICT CONSOLIDATION AND RESIDENTIAL RATE DESIGN**

10 **Q. In his discussion of Staff’s approach to rate design, Mr. Stahlman states that, “...
11 Staff’s rate design generally attempted to spread the rate increase evenly across three
12 representative levels of usage with a slightly higher increase on customers with higher
13 usage.”³⁶ Do you agree with his statement?**

14 A. No. Looking at Table 1 in Mr. Stahlman’s Rebuttal Testimony, it is clear that Staff’s
15 proposal results in lower – even negative – bill impacts for residential customers with
16 higher usage in the NEMO district.³⁷ Such a rate design would encourage wasteful
17 consumption and adversely impact low-use and low-income customers.

18 **Q. Has the Company presented an alternative district consolidation option in Rebuttal
19 Testimony?**

20 A. Yes. The Company presents an approach that mirrors Staff’s volumetric rate consolidation,
21 Staff’s consolidation of NEMO and WEMO customer charges, and Staff’s proposed

³⁶ GR-2018-0013, Stahlman Rebuttal, page 8, lines 13-15.

³⁷ *Ibid*, lines 16-17.

1 intraclass revenue shifts and revenue increase allocations, but which uses the Company’s
 2 revenue requirement recommendation. Liberty also recommends a three-step phase-in of
 3 higher customer charges for SEMO customers to achieve full district consolidation by its
 4 next rate case, with corresponding decreases to volumetric rates for all districts. The
 5 Company notes the negative reaction to its full district consolidation proposal by customers
 6 attending local public hearings in its SEMO district.³⁸ The Company’s alternative proposal
 7 is shown below for residential customers in Table 1, reproduced from Figure 2 in Mr.
 8 Lyons’s Rebuttal Testimony; Mr. Lyons refers to Liberty’s latest proposal as “Staff
 9 Adjusted” in the figure.³⁹

10 **Table 1. Comparison of Staff’s and Liberty’s residential rate design proposals.**

Residential Charges	Current	Staff Proposed	* Staff Adjusted	Company Proposed
Customer Charges				
NEMO	\$ 20.00	\$ 22.00	\$ 27.50	\$ 22.50
SEMO	\$ 13.75	\$ 16.00	\$ 20.00	\$ 22.50
WEMO	\$ 20.00	\$ 22.00	\$ 27.50	\$ 22.50
Volumetric Charges				
NEMO	\$ 0.27690	\$ 0.22828	\$ 0.28536	\$ 0.29446
SEMO	\$ 0.18370	\$ 0.22828	\$ 0.28536	\$ 0.29446
WEMO	\$ 0.19206	\$ 0.22828	\$ 0.28536	\$ 0.29446

* Reflects Staff's rate design adjusted to reflect the Company's proposed revenue requirement

11 **Q. Does DE support this alternative proposal?**

12 A. No, for several reasons. As shown in Table 2 below (reproduced from Figure 3 in Mr.
 13 Lyons’s Rebuttal Testimony),⁴⁰ the “Staff Adjusted” proposal would lead to higher

³⁸ Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities’ Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Rebuttal Testimony of Jill Schwartz on Behalf of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities, April 13, 2018, pages 3-4, lines 10-23 and 1-23, pages 5-6, lines 18-23 and 1-4, page 6, lines 12-19, and pages 13-15, lines 21-23, 1-22, and 1-14 ; GR-2018-0013, Lyons Rebuttal, pages 7-11, lines 8-22, 1-14, 1-12, 1-12, and 1-10.

³⁹ GR-2018-0013, Lyons Rebuttal, page 10, lines 1-2.

⁴⁰ *Ibid*, lines 4-5.

customer charges than those proposed by Staff for the NEMO and WEMO districts (and, eventually, for the SEMO district). If the Commission approves a decoupling mechanism, then such excessively high customer charges are unnecessary from a revenue recovery perspective, would weaken volumetric price signals that encourage efficient consumption, and, on average, adversely impact low-income and low-use customers. In the NEMO district, higher usage customers would actually experience smaller percentage bill impacts than lower usage customers. These negative effects would only worsen with the gradual increase of customer charges in the SEMO district and the accompanying revenue-neutral decreases to volumetric charges in all districts.

Table 2. Comparison of bill impacts from Staff’s and Liberty’s residential rate design proposals.

Bill Impact Analysis: Residential Service		Partial Consolidation at Company Revenue Requirement					Full Consolidation at Company Revenue Requirement				
		Low 20	Low 35	Med 50	Med 65	High 150	Low 20	Low 35	Med 50	Med 65	High 150
NEMO	Existing	\$ 27.03	\$ 31.18	\$ 35.34	\$ 39.49	\$ 63.03	\$ 27.03	\$ 31.18	\$ 35.34	\$ 39.49	\$ 63.03
SEMO	Existing	17.47	20.23	22.99	25.74	41.36	17.47	20.23	22.99	25.74	41.36
WEMO	Existing	24.63	27.51	30.39	33.27	49.60	24.63	27.51	30.39	33.27	49.60
NEMO	Proposed	\$ 33.21	\$ 37.49	\$ 41.77	\$ 46.05	\$ 70.30	\$ 28.39	\$ 32.81	\$ 37.22	\$ 41.64	\$ 66.67
SEMO	Proposed	25.71	29.99	34.27	38.55	62.80	28.39	32.81	37.22	41.64	66.67
WEMO	Proposed	33.21	37.49	41.77	46.05	70.30	28.39	32.81	37.22	41.64	66.67
NEMO	Diff.	\$ 6.18	\$ 6.31	\$ 6.43	\$ 6.56	\$ 7.28	\$ 1.36	\$ 1.62	\$ 1.89	\$ 2.15	\$ 3.64
SEMO	Diff.	8.23	9.76	11.28	12.81	21.45	10.92	12.58	14.24	15.90	25.31
WEMO	Diff.	8.58	9.98	11.38	12.77	20.71	3.76	5.29	6.83	8.37	17.07
NEMO	% Diff.	22.9%	20.2%	18.2%	16.6%	11.5%	5.0%	5.2%	5.3%	5.4%	5.8%
SEMO	% Diff.	47.1%	48.2%	49.1%	49.8%	51.9%	62.5%	62.2%	61.9%	61.8%	61.2%
WEMO	% Diff.	34.8%	36.3%	37.4%	38.4%	41.7%	15.3%	19.2%	22.5%	25.1%	34.4%

Q. Is it appropriate to consider customers’ perceptions of rates in determining reasonable rate designs?

A. Yes, and DE appreciates that the Company listened to the views expressed by customers in its SEMO district at the local public hearings and comments submitted through the Commission’s Electronic Filing and Information System (“EFIS”). Of the sixty (60) comments submitted through EFIS as of mid-day on May 7, 2018, at least fifty (50) of

1 those comments were from customers in the SEMO district.⁴¹ Of the sixteen (16)
2 comments made during the local public hearings, fifteen (15) of those comments were
3 made by customers in the SEMO district.⁴² SEMO customers overwhelmingly commented
4 on their inability to afford the proposed increase,⁴³ on the high poverty ranking of SEMO
5 counties,⁴⁴ and the unfairness of the increase in light of the cost differences between
6 districts,⁴⁵ among other concerns.

7 **Q. How does the Company react to Staff's proposed alternative residential summer**
8 **inclining block rate?**

9 A. Liberty indicates that it is concerned with the potential impact of an inclining block rate on
10 its revenue recovery, the possible signal that might be sent to higher load factor customers,
11 and the complexity of such a rate design as it relates to billing, customer comprehension,
12 and communication. The Company recommends that the EEAG examine a possible
13 inclining block rate in the WEMO district, targeted for implementation in the next rate
14 case.⁴⁶

⁴¹ See EFIS Public Comments, Case No. GR-2018-0013.

⁴² Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Transcript, Vol. 4, Local Public Hearing, Butler, Missouri, March 21, 2018; Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Transcript, Vol. 5, Local Public Hearing, Sikeston, Missouri, March 26, 2018; Missouri Public Service Commission Case No. GR-2018-0013, *In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company*, Transcript, Vol. 6, Local Public Hearing, Jackson, Missouri, March 26, 2018.

⁴³ *Ibid.*

⁴⁴ GR-2018-0013, Transcript, Vol. 5, page 13, lines 10-12 – a commissioner from Dunklin County commented that Dunklin and Pemiscot Counties in the SEMO district are among the top three poorest counties in Missouri.

⁴⁵ *Ibid.*, pages 11-12, lines 10-25 and 1.

⁴⁶ GR-2018-0013, Schwartz Rebuttal, pages 15-16, lines 20-23 and 1-13; GR-2018-0013, Lyons Rebuttal, pages 6-7, lines 11-22 and 1-2.

1 **Q. What is DE’s response to the Company’s concern about revenue recovery volatility?**

2 A. As Mr. Lyons notes, “... such revenue volatility could be addressed through the proposed
3 Rider VBA or WNAR”⁴⁷ Therefore, if a decoupling mechanism is implemented in this
4 case, there should be fewer adverse impacts on the Company’s revenue recovery due to
5 inclining block rates.

6 **Q. Please respond to the Company’s critique regarding higher load factor customers.**

7 A. A residential inclining block rate only applied during the summer months could create a
8 lower load factor by discouraging greater system utilization during otherwise low-usage
9 months. However, implementing an inclining block rate during the winter months could
10 counteract this issue by reducing peak demands. This would also reduce the amount of
11 future investment in plant needed to meet residential customer demands, thereby
12 benefitting all residential customers. As with other energy efficiency measures and
13 programs, appropriately designed inclining block rates would also improve affordability
14 for customers that use less natural gas and would improve energy security by reducing out-
15 of-state natural gas imports.

16 **Q. Would DE support delaying the implementation of a residential inclining block rate
17 until the next rate case, and only implementing a residential inclining block rate in
18 the WEMO district during the summer?**

19 A. Depending on the Commission’s orders regarding revenue requirement and district
20 consolidation, both a summer and winter inclining block rate should be evaluated by the
21 parties for implementation in this rate case for all districts, based on the general criteria

⁴⁷ GR-2018-0013, Lyons Rebuttal, page 6, lines 17-19.

1 provided in my Rebuttal Testimony. Evaluations of a residential inclining block rate design
2 should include comparisons of bill impacts under varying revenue requirement, district
3 consolidation, and customer charge scenarios.

4 Limiting the implementation of inclining block rates to the summer months and to the
5 WEMO district would be less likely to capture the most savings, since the NEMO district
6 tends to have a greater peak in January usage.⁴⁸ Although it is important to mitigate bill
7 impacts on higher usage customers, parties should use the data available in this case to
8 design a broader implementation solution for inclining block rates. This can be
9 accomplished by using my recommended rate blocks and by limiting bill impacts to five
10 percent on a revenue-neutral basis on customers at the 95th percentile of usage.⁴⁹
11 Additionally, as discussed above, implementing an inclining block rate in the winter can
12 alleviate the Company's concerns about reduced load factors.

13 **V. CONCLUSIONS**

14 **Q. Please summarize your conclusions and the positions of DE.**

15 A. DE still recommends increasing the budget for the Company's energy efficiency programs
16 and implementing separate Red-Tag Repair and Low-Income Energy Affordability
17 Programs. Additionally, DE continues to not oppose a decoupling mechanism under certain
18 conditions, but opposes district consolidation in the context of this case. DE does not
19 recommend increasing residential customer charges, but supports implementing inclining
20 block rates for residential customers during the summer and winter under appropriate
21 circumstances.

⁴⁸ GR-2018-0013, Hyman Rebuttal, page 22, lines 7-11.

⁴⁹ *Ibid*, pages 20-21, lines 3-23 and 1-4.

1 **Q. Does this conclude your Surrebuttal Testimony in this case?**

2 A. Yes.