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Witness: Joel R. McNutt
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

JOEL R. MCNUTT

**MISSOURI GAS ENERGY (MGE)
a Division of Laclede Gas Company**

CASE NO. GR-2014-0007

*Jefferson City, Missouri
March 2014*

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

In the Matter of Missouri Gas Energy,)
Inc.'s Filing of Revised Tariffs to Increase)
its Annual Revenues for Natural Gas)

File No. GR-2014-0007

AFFIDAVIT OF JOEL R. MCNUTT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Joel R. McNutt, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 6 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



Joel R. McNutt

Subscribed and sworn to before me this 4th day of March, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914



Notary Public

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**MISSOURI GAS ENERGY
a Division of Laclede Gas Company**

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1 **Office of Public Counsel Witness Barbara Meisenheimer**

2 Q. OPC witness Barbara Meisenheimer refers to portions of hearing testimony
3 from MGE's last rate case, GR-2009-0355, when she asserts in her direct testimony in this
4 case that the SFV rate design is unfair and unpopular among MGE customers. How do you
5 respond?

6 A. In Case No. GR-2009-0355 the Commission considered all the evidence
7 brought forward in that rate case. In its Report and Order ("Order") in GR-2009-0355, the
8 Commission unanimously approved the renewal of the SFV rate design that it had approved
9 in the preceding rate case, Case No. GR-2006-0422. In that Order the commission also
10 extended the application of the SFV rate design to MGE's Small General Service ("SGS")
11 customer class.

12 In the context of this case, the Staff agrees with and supports the Commission's
13 previous unanimous findings in its Case No. GR-2009-0355 Order that:

- 14 • SFV rate design best reflects the actual costs customers impose upon MGE's
15 system;
- 16 • SFV rate design reduces spikes in winter bills and moderates bill fluctuations
17 throughout the year;
- 18 • SFV rates represent economically efficient pricing;
- 19 • SFV rate design simplifies customers' bills;
- 20 • SFV rate design stabilizes MGE's revenues; and
- 21 • State energy policy strongly favors revenue decoupling rate designs.

22 Ms. Meisenheimer offers no new evidence or arguments that would support returning
23 to the past volumetric rate design.

1 Q. OPC suggests that the inclusion of a volumetric component in MGE's rate
2 design would be prudent and more beneficial to the customer. Does Staff agree with OPC's
3 position on this matter?

4 A. No. MGE's existing SFV rate design mitigates risk and uncertainty for both,
5 MGE and its customers. OPC's proposed volumetric rate design provides no weather risk
6 protection to either MGE or its customers. In a colder than normal winter, such as this winter,
7 customers would overpay their cost of service. In a warmer than normal winter, like last
8 winter, the Company loses the opportunity to recover its cost of service.

9 A gas utility's cost of service and the storage and distribution costs that are part of the
10 cost of service do not vary with the amount of gas that a Residential or SGS customer buys
11 during any particular month.

12 SFV rates apply cost-causation principles in that each customer pays its actual fixed
13 cost of service because the Company's collection of its cost-of-service is decoupled from the
14 amount of gas it sells to the customer.

15 The past volumetric rate design as proposed by OPC forces residential customers
16 whose usage is greater than the average to pay more than MGE's cost required to serve them.
17 Customers whose usage is less than average would underpay their cost-of-service. Returning
18 to the past practice of linking customers' payment of cost of service to the amount of gas sold
19 creates an inequity between individual customers because each customer would pay a
20 different cost-of-service.

21 The current SFV rate design passes on to customers the true cost of providing natural
22 gas delivery service and it sends the appropriate price signal to current and prospective
23 customers.

1 Q. Should the Commission adopt OPC's recommendation to spread any increase
2 or decrease to current base rate revenue to customer classes in proportion to each class's share
3 of current base rate revenues?

4 A. No. Staff recommends that any increase or decrease to base rate revenues be
5 applied in an equal percentage across all customer classes as set forth and agreed to by
6 Laclede Gas (which now owns MGE) and OPC in paragraph 19 of the Stipulation and
7 Agreement that the Commission approved in case GM-2013-0254.

8 Q. OPC suggests that the SFV rate design discourages the utility from operating
9 efficiently and cost effectively by not encouraging energy conservation through increasing
10 volumetric costs of commodity usage. Does Staff agree with this assertion?

11 A. No. Under OPC's past volumetric rate design, the gas utility has an incentive
12 to sell more gas because increased gas sales increase MGE's revenue. This perverse incentive
13 discourages the Company from supporting energy conservation programs and is poor public
14 policy. The gas utility has the same incentives and opportunities to lower its costs by
15 operating efficiently under its current SFV rate design.

16 Q. Do low income customers sometimes experience high natural gas usage?

17 A. Yes. In cold winters like the one we are experiencing in Missouri, low income
18 customers have high natural gas usage because their homes may have poor insulation in older
19 homes or they may have old inefficient furnaces. These customers may experience high
20 usage in cold winters which would result in high gas bills. OPC's proposed volumetric rate
21 design would result in even higher gas bills than under the current SFV rate design.

22 Q. In her direct testimony, Ms. Meisenheimer refers to an electric rate case (ER-
23 2012-0166) in which the Commission voted in favor of recovering a greater portion of the

1 utility's distribution costs through an increasing volumetric rate instead of a fixed customer
2 charge. Does this electric ruling, as suggested by Ms. Meisenheimer, have any influence or
3 bearing on this case?

4 A. No. The formulation of electric rates is the product of an entirely different set
5 of costs and relevant factors than are found in gas utilities. It is misleading to compare
6 electric rate design to a gas utility rate design.

7 **MGE Witness Steven Lindsey**

8 Q. Does Staff agree with MGE witness Steven Lindsey's suggestion to modify the
9 existing SFV rate design to include "sculpted rates" for the winter and summer seasons?

10 A. No. MGE has proposed sculpting rates for their residential customers by
11 decreasing the current monthly customer charge of \$26.88 in the summer months by seven
12 (\$7) dollars and increasing the customer charge by an equally offsetting amount of seven
13 dollars in the winter months. By doing so, Mr. Lindsey reasoned this seasonal "sculpting"
14 would reduce the number of summer disconnects from what the company has experienced in
15 past years because customers would pay \$7/month less customer charge during summer
16 months. Mr. Lindsey offered no empirical evidence, surveys or studies in support of such
17 seasonal "sculpting" of customer charges.

18 Staff believes that the proposed sculpting does not offer fair and consistent rates for
19 MGE customers throughout the year and may even have the reverse effect of increasing
20 revenues for the company. Staff is concerned that MGE customers would experience "rate
21 shock" from the \$7/month increased customer charge on their monthly winter bill – a time
22 when customers can least afford it because they are buying most of their natural gas.

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1 During the winter months when the “Cold Weather” rule is in effect, customers that
2 refuse or are unable to pay their bill due in part to an increase “sculpted” charge might end up
3 costing MGE more than it would cost them from the anticipated fewer summer disconnects.

4 Staff has requested MGE come forward with additional information that may offer
5 evidentiary support for seasonally “sculpting” its monthly customer charge.

6 The “sculpting rate” approach results in a higher customer service charge in the winter
7 at the very time customers are paying the highest gas bills of the year making it even more
8 difficult for customers to pay their gas bills. In the mid-west, the highest gas usage is during
9 the winter months where MGE wants to charge a higher rate. It would be wrong to add the
10 increased customer charge to already high gas bills.

11 Q. Did the Commission hear testimony from MGE’s customers at the recent local
12 public hearings regarding MGE’s proposed sculpting rates?

13 A. Yes. Many MGE customers that gave testimony opposed this change in how
14 the customer charge would be collected. Customers expressed their views to the Commission
15 that changing to higher seasonal customer charge in the winter months would cause them
16 hardship in paying their utility bills.

17 Q. Does that conclude your rebuttal testimony?

18 A. Yes.