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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

ANNE ROSS

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

**Jefferson City, Missouri
December 2006**

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

In the matter of Missouri Gas Energy's)
Tariff Sheets Designed to Increase Rates)
for Gas Service in the Company's)
Missouri Service Area)

Case No. GR-2006-0422

AFFIDAVIT OF ANNE E ROSS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Anne E. Ross, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 11 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Anne E. Ross

Anne E. Ross

Subscribed and sworn to before me this 8th day of December, 2006.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942088

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

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OF

ANNE ROSS

MISSOURI GAS ENERGY

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Q. Are you the same Anne Ross who previously filed testimony in this case?

A. Yes.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal testimony?

A. I will respond to the points contained in the rebuttal testimony of Office of Public Counsel (OPC) witness Barbara Meisenheimer regarding the Staff's Residential and Small General Service rate design proposal. I will also comment on the natural gas conservation initiative proposal of Missouri Gas Energy (MGE) witness David C. Hendershot.

REBUTTAL TO OPC WITNESS BARBARA A. MEISENHEIMER

Q. What were Ms. Meisenheimer's concern regarding the Staff's proposed rate design?

A. Ms. Meisenheimer believes that the Staff's proposed Delivery Charge rate design proposal:

1. will harm lower use customers as compared to the rate design proposed by OPC in this case (Meisenheimer Rebuttal, p. 6, line 1 - p. 8, line 12);
2. provides little incentive for company to encourage customer conservation (Meisenheimer Rebuttal, p. 14, line 2 – p. 15, line 13);

- 1 3. guarantees that MGE will earn its Commission-ordered revenue requirement
2 (Meisenheimer Rebuttal, p. 15, line 14 – p. 18, line 18);
3 4. is not reasonable or fair from an economic and policy perspective, and is
4 different from the way these costs have been recovered in the past
5 (Meisenheimer Rebuttal, p. 18, line 19 – p. ??); and
6 5. is different from any weather or conservation mitigation adjustment used in
7 other states (Meisenheimer Rebuttal, p. 26, line 18 – p. 23, line 10).

8 **IMPACT ON LOW-USE CUSTOMERS**

9 Q. What is Ms. Meisenheimer's concern regarding the Delivery Charge
10 mechanism and low-use customers?

11 A. Ms. Meisenheimer is concerned that the change to a fixed delivery charge rate
12 design will substantially increase the non-gas rates for the small users in the Residential class.

13 Q. Does OPC perform any analysis to substantiate this charge?

14 A. Yes. To support her position that this change will be detrimental to low-use
15 customers, Ms. Meisenheimer presents an analysis in which she determines the amount that
16 customers of selected usage levels would pay under the current rate structure vs. what these
17 customers would pay under a Delivery Charge rate design. She calculates the resulting
18 percentage change from current non-gas revenues. (Meisenheimer, Rebuttal, p. 6, Table 1)
19 Using the results from this analysis, she claims that the lowest use customers would pay up to
20 43% more under the Staff's proposed Delivery Charge mechanism.

21 Q. Do you have any comments about Ms. Meisenheimer's analysis?

22 A. Yes. Ms. Meisenheimer is correct that lower-use Residential customers will
23 see an increase in the non-gas portion of their bill. She is also correct that customers using

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1 more than the average amount upon which rates were set in this case will see a decrease in the
2 non-gas portion of their bill.

3 Q. If a customer uses less than the Residential normalized average usage upon
4 which rates were set in this rate case, what effect will adopting the Staff's proposed rate
5 structure have on the customer's annual bill?

6 A. It will increase the customer's bill by a few dollars during the summer months.
7 There will also be an increase in the winter months; the magnitude of this will depend on the
8 customer's end-use.

9 Q. What effect will the Staff's Residential rate design proposal have on a
10 household using more than the normalized average annual usage?

11 A. The customer's bill will likely increase by a few dollars during the summer
12 months, although this will depend on the customer's end use. Typically in the summer, both
13 the high use and low use households use the same amount. However, for the high use
14 customer, the decrease in the winter months will be greater than the summer increase, so the
15 high use customer will see a lower bill on an annual basis. This effect is opposite that of
16 OPC's rate proposal, which would provide *no* increase during the summer months, but would
17 lead to a larger increase (compared to the Staff or Company proposal) in the winter months.

18 Q. Ms. Meisenheimer classifies customers as high use and low use. What type of
19 equipment (end use) might a low or high user have in their household?

20 A. Since Ms. Meisenheimer didn't quantify her classifications of customers as
21 "low users" or "high users," I assume that she means below average and above average Ccf
22 usage. In my direct rate-design testimony, I calculated this average annual usage at 853 Ccfs

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per Residential household. The table below shows the annual average or typical Ccfs associated with various Residential end uses:

<u>END USE</u>	<u>CCF (ANNUAL CONSUMPTION)</u>
Space-heating (Primary fuel) ¹	640 Ccf
Water-Heating (4 persons) ²	288 Ccf
Gas Fireplace ³	84 Ccf
Stove (Cooking – 4 people) ⁴	24 Ccf

Note that these are estimated figures, and will be affected by usage, efficiency, age of equipment, weather, and other factors.

Q. Can you draw any conclusions from these tables?

A. Yes, I can. The low-usage customers on MGE's system are most likely customers using the MGE distribution system to power such equipment as gas fireplace logs, a gas stove and/or or a gas water-heater. The customers most likely to use more natural gas than the average are those heating their homes with natural gas, many of whom also use this fuel for water-heating.

Q. Will the utility's cost to serve a household using a natural gas fireplace for ambiance be less than the cost to serve a household using natural gas for space and water-heating?

A. No. As I explained in my previous testimony (Ross, Direct, p. 9, line 20 – p. 12, line 2, and Ross, Rebuttal, p. 2, lines 1–21), the same plant investment must be made for both users, and there will be no difference in billing, meter-reading, and other expenses.

¹ Table CE2-10c. Space-Heating Energy Consumption in U.S. Households by Midwest Census Region, 2001 – West North Central region

² Fuel Comparisons, South Jersey Gas, www.sjindustries.com

³ ibid

⁴ ibid

1 Q. Under the OPC rate design, will the revenues received to recover these fixed
2 costs from a household using a natural gas fireplace for ambiance be less than the revenues
3 received from a household using natural gas for space- and water-heating?

4 A. Yes, especially in the winter months.

5 Q. What is your conclusion?

6 A. The OPC rate design forces the households that depend on natural gas for their
7 essential space and water-heating needs to subsidize those households using much less natural
8 gas, typically for non-essential purposes. The subsidy is greatest in the winter heating
9 months, when the space-heating customers' gas use is highest, as are gas prices. This cost
10 differential is not cost-justified, and the effect on many space-heating households of this
11 subsidy is both harmful and unfair.

12 Q. OPC criticizes Mr. Feingold's calculation of percentage change in gas bills
13 because he has considered the change on a total bill basis (Meisenheimer, Rebuttal, p. 7, lines
14 9-13. What is your comment on this criticism?

15 A. Since Ms. Meisenheimer is discussing her concern regarding customer impact
16 issues in the section in which she levels this criticism, I believe that the appropriate measure
17 to use would be the customer's total bill, which includes gas costs.

18 **PROVIDES LITTLE INCENTIVE FOR THE LDC TO PROMOTE CUSTOMER**
19 **CONSERVATION**

20 Q. You previously said that some customers had already conserved as much as
21 possible using the current information and resources available to them. How can Staff's
22 proposed rate design increase the informational and other resources to assist a Residential
23 customer who wishes to adopt conservation measures?

1 A. If the Commission adopts Staff's proposed rate design, MGE has agreed to
2 pursue efficiency/conservation educational activities, and has proposed a water-heater rebate
3 program. Both of these programs, along with MGE's low-income weatherization program
4 will assist customers at all income levels in lowering their natural gas bills. I will discuss this
5 further in a following section of this testimony.

6 **GUARANTEES COMPANY REVENUE REQUIREMENT**

7 Q. What are your comments regarding OPC Witness Meisenheimer's assertions
8 that Staff's rate design will guarantee the company's revenue requirement?

9 A. While the Staff's rate design does reduce the Company's weather risk, the
10 Company still faces other business risks; in addition, the Company has other classes of
11 customers who show some weather-sensitivity. Risk, and the appropriate return is discussed
12 by Staff witness David Murray.

13 **MECHANISM IS DIFFERENT FROM THE WAY IN WHICH COSTS HAVE**
14 **TRADITIONALLY BEEN RECOVERED FROM RESIDENTIAL CUSTOMERS**

15 Q. What are your comments on OPC's position that a large portion of the utility's
16 non-gas costs should be collected on a volumetric basis?

17 A. I am encouraged that Ms. Meisenheimer believes that "recovery of fixed costs
18 through fixed rates is a recovery method of choice" but am unclear on why she believes that it
19 is only a method of choice for "firms with sufficient market power to impose flat fees or
20 enough regulatory support to impose them." She provides no explanation for and support of
21 this statement.

1 Q. What are your comments on Ms. Meisenheimer's statement that "Rate designs
2 that consist of a customer charge and volumetric charge are supportable based on recognizing
3 that the value of service is both in having access to gas as well as in using gas" (sic)?

4 A. I agree, and believe that this supports Staff's Delivery charge rate design. In
5 this rate structure, the customer pays for both having access to gas (in the Delivery charge),
6 and for using gas (through the Purchased Gas Adjustment.)

7 **MECHANISM IS DIFFERENT FROM THOSE IN OTHER STATES**

8 Q. OPC Witness Meisenheimer faults Staff's rate design because it differs from
9 that used in other states. How do you respond to this charge?

10 A. Ms. Meisenheimer could make that criticism about many of the weather
11 mitigation rate designs that are currently in place throughout the United States. Various states
12 are trying various mechanisms designed to collect the cost of serving a customer. Staff's rate
13 design attempts to avoid complicated schemes that result in phantom rates or volumes. I
14 believe that this rate design is a simple, understandable, appropriate recovery mechanism that
15 de-couples the cost of serving the customer from the customer's energy consumption.

16 Q. Do you have any final comments in support of the Staff's proposed Delivery
17 Charge rate design for the Residential class?

18 A. Yes, I do. I want to point out that this is an excellent opportunity for this
19 Commission to do a great deal of good for a great number of people. As the Commission is
20 aware, the level of LIHEAP funds hasn't been increasing, and while our Commission has
21 been active in raising the Legislature's awareness of this issue, it remains to be seen whether
22 funds will be appropriated for Missouri's Utilicare fund for future winters. There are some
23 other utility, community, church and private funds available to help customers pay their utility

1 bills, but these funds don't take up all the slack. Even after adding up these available
2 resources, the need far outstrips the money Missouri has to meet that need; furthermore, that
3 same need will be there next year, and the next, and the next, because we haven't done
4 anything to change the situation. Paying a customers' bill or relaxing the standards for
5 reconnection in the winter helps during a crisis, but as a long-term solution, it is inadequate.
6 For many MGE customers, conservation and efficiency are the measures that will make a
7 permanent difference in their quality of life.

8 It is going to take all of the stakeholders working together to provide the most
9 efficient, effective use of the monetary and other resources that we do have. I believe that the
10 LDCs have the most to offer due to their knowledge, their customer information database, and
11 the relationships that they have with their customers and communities. However, there is one
12 very real problem, and it is caused by the current rate design. As long as fixed costs are
13 collected on a volumetric basis, compelling an LDC to actively promote conservation means
14 that the Commission is compelling them to act contrary to their shareholders' interests.

15 We have an opportunity in Missouri to align the interests of shareholders and
16 customers, and I believe that we should make the most of it, and immediately begin helping
17 our higher-use customers reduce their energy usage, and their energy bills.

18 In this case, the Commission has before it two very different proposals on how
19 Residential customer rates should be designed:

20 Choice 1: The Commission rules in favor of the OPC proposal of status quo – a
21 customer charge that only recovers a portion of the cost to delivery gas and a volumetric
22 charge that recovers more than the cost of gas. The households that depend on natural gas for
23 their space-heating needs will continue to subsidize the households who use their gas service

1 only for cooking or using their gas fireplaces. Frequent rate cases will continue to be the
2 norm. Parties will argue about the proper weather stations to use, and whether ten-year
3 weather normals are better than thirty- year weather normals to use when calculating Heating
4 Degree Days, and so on. Companies will be resistant regarding requests to expand their
5 weatherization or conservation activities, as these actions have an adverse effect on their
6 shareholders. In the meantime, our Missouri rate-payers will continue to suffer unnecessarily
7 in cold winters and our utilities will continue to undercollect their cost-of service in warm
8 winters because of our failure to take a fresh look at natural gas LDC rate design.

9 Choice 2: The Commission adopts the Staff's Delivery Charge proposal. Some
10 customers' bills will increase by a few dollars, and some will decrease. As a condition of
11 receiving a limited guarantee of revenue stability, the LDC should make strong and specific
12 commitments regarding conservation and efficiency actions that will encourage and assist
13 their customers in making this type of investment. The customer will be a full partner in the
14 process, rather than a passive recipient of aid. Not only will consumers be educated about
15 conservation and efficiency, but also about the nature and cost of the natural gas service they
16 receive from the LDC, and they will be able to make informed decisions when spending their
17 energy dollars. The Company will not have to file frequent rate cases asking for increased
18 rates or other mechanisms with which to recover non-gas costs. Everybody wins.

19 **MGE GAS CONSERVATION INITIATIVE**

20 Q. In MGE witness David C. Hendershot's rebuttal testimony, he proposed two
21 energy efficiency/conservation programs for MGE customers. What is your understanding of
22 MGE's proposal?

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1 A. The first MGE proposal is a \$45,000 educational program. This money will be
2 used to pay for educational activities consisting of an on-line energy audit program, as well as
3 other educational activities designed to increase customers' knowledge of energy efficiency
4 techniques and benefits.

5 The second MGE proposal is \$705,000 earmarked for a water-heater rebate program.

6 Q. Do you have any comments about MGE's proposed educational program?

7 A. Yes. It's my understanding that education is an important and valuable tool in
8 assisting Residential customers with managing their energy costs, and the *Home Energy*
9 *Saver* program discussed by Mr. Hendershot sounds very interesting, as does their willingness
10 to explore a partnership with Kansas City Power and Light in the use of that utility's energy
11 analysis tools. Staff supports this initiative. Staff also supports MGE's proposal to become
12 an ENERGY STAR partner.

13 Q. Do you have any comments about MGE's proposed water-heating rebate
14 program?

15 A. Yes. Staff believes that this is an excellent first step for MGE. Water heating
16 is a significant part of a household's energy usage, and helping customers with the purchase
17 of an energy efficient model would help many households. I would suggest that the program
18 be structured so that a household could use the rebate as a 'down-payment' on a qualifying
19 water-heater; I believe that this assistance with the up-front costs of this investment would be
20 valuable to households at moderate and lower income levels.

21 Q. Are you concerned about the Company's proposal to provide a rebate to
22 customers who are switching from natural gas to electric?

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1 A. No. In other Missouri programs, the only criteria is that the participant be a
2 current customer of the utility, and this would not change with MGE proposal.

3 Q. Do you have any final comments regarding MGE's Conservation Initiative?

4 A. Yes. Staff looks forward to working with the Company and other stakeholders
5 on these programs, and we are pleased to see this Company propose this type of program.

6 Q. Does this conclude your testimony?

7 A. Yes
8