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Issue(s): Rate Design
Witness: Michael L. Stahlman
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2021-0320
Date Testimony Prepared: February 15, 2022

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRIAL ANALYSIS DIVISION

TARIFF RATE AND DESIGN DEPARTMENT

DIRECT TESTIMONY

OF

MICHAEL L. STAHLMAN

**THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty (Empire)**

CASE NO. GR-2021-0320

*Jefferson City, Missouri
February 2022*

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CASE NO. GR-2021-0320

Q. Please state your name and business address.

A. My name is Michael L. Stahlman, and my business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, Missouri, 65102.

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

A. I am employed by the Missouri Public Service Commission (“Commission”) as a Regulatory Economist in the Tariff/Rate Design Department in the Industrial Analysis Division.

Q. Are you the same Michael L. Stahlman that filed direct testimony in this case on January 24, 2022?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my direct testimony is to discuss Staff’s proposed rate design for The Empire District Gas Company d/b/a Liberty (“Empire”).

Q. Please summarize your testimony.

A. Staff’s overall rate design recommendation is driven by two factors; first, to move towards bill continuity at the usage levels for non-residential customers where a customer would move from one class to another, for instance a customer using 20,000 Ccf.¹ annually

¹ Ccf = one hundred cubic feet of natural gas.

1 would see a much larger bill when moving from the Small Commercial Firm Service – Medium
2 rate class to the Small Commercial Firm Service – Large rate class at the same usage; and
3 secondly, to move the Residential class closer to its Class Cost of Service (“CCOS”) without
4 decreasing any class’s rates while another class is getting an increase in rates.

5 The impact of the first factor resulted in a lower customer charge and higher volumetric
6 rates for all small commercial and small volume classes. The impact of the second factor
7 resulted in the rates of the residential and large volume classes going up and no net increase on
8 the small commercial and small volume classes.

9 Q. What is rate design?

10 A. Rate design is the process of determining how Empire’s non-gas revenue
11 requirement will be allocated among the different customer classes. However, it is important
12 to note that the non-gas revenue requirement affects only a portion of a customer’s bill. The
13 non-gas portion of the bill includes a monthly customer charge and volumetric meter reading
14 rates, also known as a customer charge and a delivery charge per Ccf. The Purchased Gas
15 Adjustment (“PGA”), which can be approximately half of a customer’s bill depending on usage,
16 is subject to provisions in Empire’s PGA tariffs.

17 Rate design is the method used to determine the rates and rate components to be
18 charged to individual classes of customers. The following factors are of particular relevance to
19 Staff’s rate design in this case:

- 20 • Incorporating methods to implement in rates any Commission-ordered overall
21 change in customer class revenue responsibility; and
- 22 • Retaining, to the maximum extent possible, existing rate schedules and rate
23 structures to minimize rate switching, except where Commission guidance or
24 best practice indicates an appropriate departure.

1 Q. How many rate classes does Empire currently have?

2 A. Empire currently has eleven (11) rate schedules that represent eleven rate classes
3 organized into two categories: “General Service” and “Transportation.” The “General Service”
4 classes are: Residential, Small Commercial Firm Service – Small (“SCFS”), Small Commercial
5 Firm Service – Medium (“SCFM”), Small Commercial Firm Service – Large (“SCFL”), Large
6 Volume Firm Gas Service (“LVF”), Large Volume Interruptible Gas Service (“LVI”); with
7 LVF and LVI together referred as “LV”.

8 The “Transportation” classes are: Small Volume Firm Transportation Service – Small
9 (“SVFSTS”), Small Volume Firm Transportation Service – Medium (“SVFTM”), Small Volume
10 Firm Transportation Service – Large (“SVFTL”), Large Volume Firm Transportation Service
11 (“LVFT”), Large Volume Flexible Rate Transportation Service (“LVFRT”); with LVFT and
12 LVFRT together referred as “LVT”.

13 Q. What are the current non-gas rates of these rate classes?

14 A. Please see Table 1 for the General Service classes and Table 2 for the
15 Transportation classes below.

16

Class	Customer Charge (\$/Month)	Energy Charge (\$/Ccf)	Federal Tax Rate Reduction (\$/Ccf)	Demand Charge (\$/Ccf)
Residential	16.50	0.20721	-0.01699	N/A
SCFS	25.00	0.26078	-0.01629	N/A
SCFM	85.00	0.21960	-0.01159	N/A
SCFL	200.00	0.19766	-0.00986	N/A
LVF	400.00	0.02257	-0.00467	0.60000
LVI	400.00	0.02257	-0.00467	0.60000

Direct Testimony of
Michael L. Stahlman

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Table 2: Summary of Empire's Transportation Classes Scheduled Non-Gas Rates

Class	Customer Charge (\$/Month)	Energy Charge (\$/Ccf)	Federal Tax Rate Reduction (\$/Ccf)	Demand Charge (\$/Ccf)	Meter Administration Fee (\$/Meter)	Aggregation Charge (\$/Ccf)	Mandatory Balancing Service (Non-Telemetry, \$/Ccf)	Optional Daily Balancing Service (\$/Ccf) Option 1	Optional Daily Balancing Service (\$/Ccf) Option 2
SVFTS	25.00	0.26078	-0.01992	N/A	11.50	0.00400	0.01500	N/A	N/A
SVFTM	85.00	0.21960	-0.01138	N/A	11.50	0.00400	0.01500	N/A	N/A
SVFTL	200.00	0.19766	-0.00990	N/A	11.50	0.00400	0.01500	N/A	N/A
LVFT	400.00	0.02257	-0.00197	0.60000	N/A	N/A	N/A	0.01000	0.02500
LVFRT	400.00	0.02257 (Max) / 0.00100 (Min)	-0.00197	0.60000 (Max) / 0.00000 (Min)	N/A	N/A	N/A	0.01000	0.02500

The transportation classes also have charges for the Daily Cash-out Charge (Voluntary Telemetry) and Monthly Cash-out Charge defined in Section M of their tariff, and charges for unauthorized receipt and delivery defined in Section O of their tariff.

Q. What is Staff’s first recommendation regarding the current rates?

A. Staff recommends the elimination of the Federal Tax Rate Reduction rates for all classes. These rates were put in place in response to change in federal tax rates which have now been factored into Staff’s Cost of Service (“COS”) study.

Q. What other concerns does Staff have with the current non-residential rate structures?

A. Currently, a customer on the SCFM [SVFTM] rate schedule will have a lower bill at all usage levels than a customer on SCFL [SVFTL] rate schedule. Additionally, a customer on the SCFS [SVFTS] rate schedule, which is defined as individuals whose annual consumption is anticipated to be less than 5,000 Ccf, will have a lower bill than a customer on the SCFM [SVFTM] rate schedules until an approximate annual usage of 18,000 Ccf. An annual consumption of 18,000 Ccf is close to the 20,000 Ccf breakpoint that distinguishes a SCFM [SVFTM] from a SCFL [SVFTL] customer.

Q. Does Staff have any recommendations to address these concerns?

1 A. Yes, Staff would recommend that the rates for the SCFS and SVFSTS class
2 be structured so that a customer using 5,000 Ccf annually, the usage beyond which would
3 typically define a customer as a SCFM or SVFTM customer, would have a similar bill as
4 a customer on the SCFM or SVFTM class using 5,000 Ccf annually. Similarly, Staff
5 recommends that the rates for the SCFM and SVFTM class be structured so that a customer
6 using 200,000 Ccf annually, the usage beyond which would typically define a customer as a
7 SCFL or SVFTL customer, would have a similar bill as a customer on the SCFL or SVFTL class
8 using 200,000 Ccf annually.

9 It may also make sense to merge the SCFM [SVFTM] and SCFL [SVFTL] classes since
10 addressing the bill continuity between the two classes discussed above begins to eliminate the
11 differences between the two classes, but Staff is not recommending merger at this time due to
12 concerns with the rate impact on lower use SCFM [SVFTM] customers.

13 Q. Does Staff's proposed rates fully address the concerns above?

14 A. No. For rate continuity reasons, Staff only adjusted those class's rates to move
15 towards a resolution of those issues. The movement towards this resolution resulted in a reduced
16 customer charge for all small commercial and small volume classes which increased the
17 volumetric charge. Although intuition would suggest that the SCFL [SVFTL] customer charge
18 should have increased to lower the volumetric rate for that class, Staff found that the increased
19 customer charge resulted in a higher bill for a customer using 200,000 Ccf annually, and thus
20 moved further away from goal of a smooth transition from the SCFM [SVFTM] to the
21 SCFL [SVFTL] class.

1 Q. What is Staff’s recommendation for the Residential rate design?

2 A. For the Residential class, Staff recommends maintaining the current rate
3 structure but increasing the customer charge and energy charges by approximately the overall
4 class increase.

5 Q. How did Staff determine the overall class increase for the Residential class?

6 A. Staff developed a ratio for each customer class using the Company’s CCOS²
7 and applied Staff’s COS mid-point revenue requirement to get a starting point for the class
8 increase. Staff then adjusted the Residential class’s increase to move within 5% of the
9 class’s CCOS target. Finally, Staff ensured that no other rate class received a decrease in rates
10 while other rate classes received an increase.

11 Q. What was the resulting rate increases by class?

12 A. Table 3 below shows the overall rate increases, excluding the impact of
13 eliminating the Federal Tax Rate Reduction rates, by customer class.

14

	Residential	SCFS [SVFTS]	SCFM [SVFTM]	SCFL [SVFTL]	LV [LVT]
Increase (%)	6.77%	0.00%	0.00%	0.00%	4.87%

15

16 Q. What is Staff’s recommendation for the Large Volume classes’ rate design?

17 A. For the Large Volume classes, Staff recommends maintaining the current rate
18 structure but increasing the customer charge and energy charges by approximately the overall
19 class increase and maintaining the demand charge at the current rate.

20 Q. Given the considerations above, has Staff approximated new rates for
21 each class?

² Specifically, Line 28 of "Alloc Income Tax" tab; "Revenue Deficiency / (Surplus)"

1 A. Yes. Table 4 below shows the current rates and proposed rates that would reflect
2 Staff's recommendations discussed above.

Table 4: Current Rates and Rate that Reflect Staff's Recommendations

Residential		Current Rates	Approximate Proposed Rates
	Customer Charge (\$/Month)	16.50	17.50
	Usage (\$/Ccf)	0.20721	0.22335
SCFS [SVFTS]			
	Customer Charge (\$/Month)	25.00	22.50
	Usage (\$/Ccf)	0.26078	0.28033
SCFM [SVFTM]			
	Customer Charge (\$/Month)	85	75.00
	Usage (\$/Ccf)	0.2196	0.23109
SCFL [SVFTL]			
	Customer Charge (\$/Month)	200	180.00
	Usage (\$/Ccf)	0.19766	0.20821
LV [LVT]			
	Customer Charge (\$/Month)	400	419.50
	Usage (\$/Ccf)	0.02257	0.02554
	Demand (\$/Ccf)	0.60000	0.60000

3
4 Q. Does Staff recommend the Commission order the rates in Table 4 above?

5 A. No. Staff's specific rate recommendations provided above are highly dependent
6 on the overall revenue requirement and on the mitigation of customer impact. Staff will
7 continue to evaluate the costs and revenues for each rate class, and if there are significant
8 changes in cost drivers across rate classes, Staff will adjust the recommendation accordingly.

9 Q. Does this conclude your testimony?

10 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas)
Company's d/b/a Liberty Request to File Tariffs) Case No. GR-2021-0320
to Change its Rates for Natural Gas Service)

AFFIDAVIT OF MICHAEL L. STAHLMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW MICHAEL L. STAHLMAN and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony of Michael L. Stahlman*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

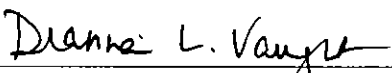


MICHAEL L. STAHLMAN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of February, 2022.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377



Notary Public