

Exhibit No.:

Issues: Rate Design

Witness: Anne Ross

Sponsoring Party: MO PSC Staff

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Case No.: GR-2006-0422

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

ANNE ROSS

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Jefferson City, Missouri

November 2006

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

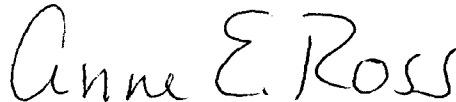
In the matter of Missouri Gas Energy's)
Tariff Sheets Designed to Increase Rates)
for Gas Service in the Company's)
Missouri Service Area)

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 Rebuttal Testimony in question and answer form, consisting of 5 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal 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

Subscribed and sworn to before me this 20th day of November, 2006.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public

My commission expires 9-21-10

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OF
ANNE ROSS
MISSOURI GAS ENERGY
CASE NO. GR-2006-0422

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Anne Ross

1 Q. Why does the Staff believe that this form of rate design is appropriate for
2 MGE's Residential customers?

3 A. As discussed in my Direct testimony, there are numerous reasons that Staff
4 believes that the SFV rate mechanism is beneficial to both Residential customers and MGE's
5 shareholders. I would like to reiterate two of the reasons that Staff finds most compelling.

6 First, the cost to serve Residential customers does not vary with customer usage.
7 There are several reasons for this. Residential customers' usage falls within a relatively
8 narrow band, and there is no significant difference between a low- and high-usage household;
9 therefore, both can be served by the same-sized equipment, regardless of end use. In
10 addition, expenses associated with billing, customer service, and administrative overhead do
11 not vary among Residential customers based on usage. Furthermore, since a household using
12 natural gas only for cooking at present might choose to convert to a natural gas furnace at
13 some point in the future, it would be short-sighted to attempt to make just enough plant
14 investment to cover the household's current intended end use. Collecting costs using a
15 volumetric component results in low-usage customers paying less than the cost required to
16 serve them, with the higher usage-customers (typically households using gas for space- and
17 water-heating) paying more than their fair share of the cost. In other words, the customers
18 who use gas for essential heating needs are subsidizing many customers who use gas for
19 other, less critical reasons. A SFV rate structure recognizes that the cost to serve any
20 Residential customer will be the same regardless of usage, and its uniform charge puts an end
21 to that long-running subsidy.

22 A second reason that Staff supports a change to a SFV rate structure is that MGE's
23 current rate structure – a customer charge and volumetric rate - creates a zero-sum game for

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1 its ratepayers and customers. Every unit of gas delivered to customers will increase MGE's
2 revenue. This is desirable from the point of view of MGE's shareholders, but not to the
3 customers paying the bills. Conversely, any action that MGE takes to assist its customers
4 with conservation measures benefits that group by lowering their bills, but is detrimental to
5 MGE's shareholders. No matter what MGE promotes – increased OR decreased usage of
6 natural gas – *somebody loses*. The SFV rate mechanism removes that conflict between
7 customers and shareholders. Once the utility's cost recovery no longer hinges on the amount
8 of gas that customers use, the utility can use its substantial resources – expert knowledge,
9 information about its customers' energy usage, relationships with the customers and
10 community, and funds – to help its customers reduce their energy usage. Given the current
11 level of gas prices, reductions in usage quickly translate to lower, more affordable, natural
12 gas bills. *Everybody wins*.

13 Q. What are your comments regarding MGE's alternate rate design proposal to
14 increase the Residential customer charge to \$15.50, with the remainder of the class revenues
15 recovered on a volumetric basis? (Feingold Direct, p. 43, lines 3-10)

16 A. While this would be a step in the right direction, the larger users in the
17 Residential class would continue to subsidize the smaller users, and the Company's
18 customers and shareholders would still have diametrically opposed interests; therefore, Staff
19 does not support this rate proposal.

20 **OPC WITNESS BARBARA A. MEISENHEIMER**

21 Q. What is your understanding of Ms. Meisenheimer's Residential rate design
22 proposal? (Meisenheimer Direct, p. 3, line 14 – p. 5, line 19)

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1 A. Ms. Meisenheimer is proposing that the Company's current Residential rate
2 structure be maintained, with any increase going into the volumetric rate paid by Residential
3 customers.

4 Q. Do you have any comments on this proposal?

5 A. Yes. Ms. Meisenheimer's proposal will only worsen the intra-class subsidy
6 that I discussed in the previous section on MGE witness Russell A. Feingold's proposal. By
7 raising the volumetric rate, customers who depend on natural gas for their space-heating
8 needs will have winter bills that are higher and more volatile than the bills they currently
9 receive. The artificially low customer charge will send an incorrect price signal to small-use
10 customers, and could lead to more small customers requesting natural gas service. Since the
11 lower-use customers do not fully pay for their cost-of-service, this would also increase the
12 subsidy paid by the higher-use customers. While I realize that it must be difficult to balance
13 the interests of the many Residential users, this proposal clearly hurts the customers who are
14 already struggling most with sharply increased natural gas prices and bills.

15 Q. What is Staff's position on this proposal?

16 A. Staff strongly opposes this proposal, due to the detrimental impact it will have
17 on the very customers who are currently having trouble paying high winter heating bills.
18 OPC witness Meisenheimer's proposal will harm Residential customers who depend on
19 natural gas heating for their families' health and well-being, and should be rejected.

**COMPANY WITNESS MICHAEL R. NOACK – INCREASE IN LOW-INCOME
WEATHERIZATION FUNDING**

Q. What is your recommendation regarding MGE's proposal to increase the funding of the Company's low-income weatherization program from \$500,000 to \$600,000. (Noack pp. 22-23 and Schedule H-24)?

A. I agree with Mr. Noack that funding weatherization of low-income customer's homes has a number of benefits to the MGE ratepayers, and that additional funding would provide the service to more low-income customers. Staff also recommends that MGE participate in the evaluation of low-income weatherization which is to be conducted by Kansas City Power & Light Company (KCPL) pursuant to the Stipulation and Agreement in Case Nos. EW-2004-0596 and EO-2005-0329. Many of the electricity customers in the KCPL Missouri service area are also MGE customers. Consequently, for these shared customers, it would be cost effective and efficient for the impact of weatherization to be evaluated simultaneously on natural gas and electricity use. The previous evaluation of the MGE weatherization program in Kansas City was conducted in 1997 using data from the 1996-1997 heating season, so a current evaluation would be justified and useful. Staff supports MGE's proposal to increase the low-income weatherization funding by \$100,000, and proposes that an additional \$20,000 be allocated to evaluate the program's effectiveness in reducing low-income customers' natural gas usage and bills. I would add that KCPL has agreed in principle to MGE's participation in the evaluation.

Q. Does this conclude your rebuttal testimony?

A. Yes.