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Witness: Michael L. Stahlman
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

TARIFF / RATE DESIGN UNIT

SURREBUTTAL TESTIMONY

OF

MICHAEL L. STAHLMAN

SPIRE MISSOURI, INC., d/b/a SPIRE

LACLEDE GAS COMPANY and MISSOURI GAS ENERGY
GENERAL RATE CASE

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Jefferson City, Missouri
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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, Tariff and Rate Design Unit, Operational Analysis Department for Commission Staff.

Q. Are you the same Michael L. Stahlman that supported sections in Staff's Class Cost of Service/Rate Design Report and filed rebuttal testimony in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to respond to the rebuttal testimonies of LAC/MGE witness Timothy S. Lyons, and Division of Energy's witness Martin R. Hyman concerning the proposed rate stabilization mechanism. Specifically, I explain that the revenue stabilization mechanism proposed by LAC and MGE is inconsistent with the statute cited as authorizing the mechanisms, identify the policy reasons for why the revenue stabilization mechanisms should be rejected, and provide analysis that demonstrates this mechanism is not needed.

Q. Mr. Lyons states that LAC and MGE would only consider a simplified rate design[1], low income and energy efficiency programs,[2] and a single volumetric rate[3] in the context of a revenue stabilization mechanism. Is it necessary that the Commission approve a revenue stabilization type mechanism in order to approve a simplified rate design including a customer charge and single volumetric rate and low income and energy efficiency programs?

A. No. MGE already has a simplified rate design with a single volumetric rate and has low income and energy efficiency programs without a revenue stabilization mechanism.

Q. Mr. Lyons discusses a "misalignment problem" in his rebuttal testimony on page 8, lines 5-9. Please summarize what Mr. Lyons means by the term "misalignment problem".

A. When setting rates for a rate case, Staff determines a level of normal usage in therms or hundred cubic feet ("Ccf") in order to set a volumetric rate component (e.g. price per therm or Ccf). However, the amount of gas consumed in any given year is likely to be different that the normal usage set in a rate case. This difference is what Mr. Lyons means by the term "misalignment problem."

Q. Does the "misalignment problem" discussed by Mr. Lyons exist for all utilities?

A. Yes if the utility is not decoupled and has a volumetric rate component. This problem also becomes larger to the extent a rate design focuses on reducing the customer charge.

[1] Rebuttal Testimony of Timothy S. Lyons, p. 4, ll. 16-17.
[2] Rebuttal Testimony of Timothy S. Lyons, p. 6, ll. 10-15.
[3] Rebuttal Testimony of Timothy S. Lyons, p. 6, ll. 16-18.

Q. Does Mr. Lyons provide any analysis that quantifies the impact of the "misalignment problem" on company earnings?

A. No. Mr. Lyons does not discuss or provide any analysis on the impact of the "misalignment problem."

Q. Mr. Hyman states "the [revenue stabilization mechanism] avoids the need to use a weather mitigation rate design or a straight-fixed variable rate design."[4] Does Mr. Hyman provide analysis that demonstrates that LAC and MGE's proposed revenue stabilization mechanism avoids the need to use a weather mitigated rate design or a straight–fixed variable rate design?

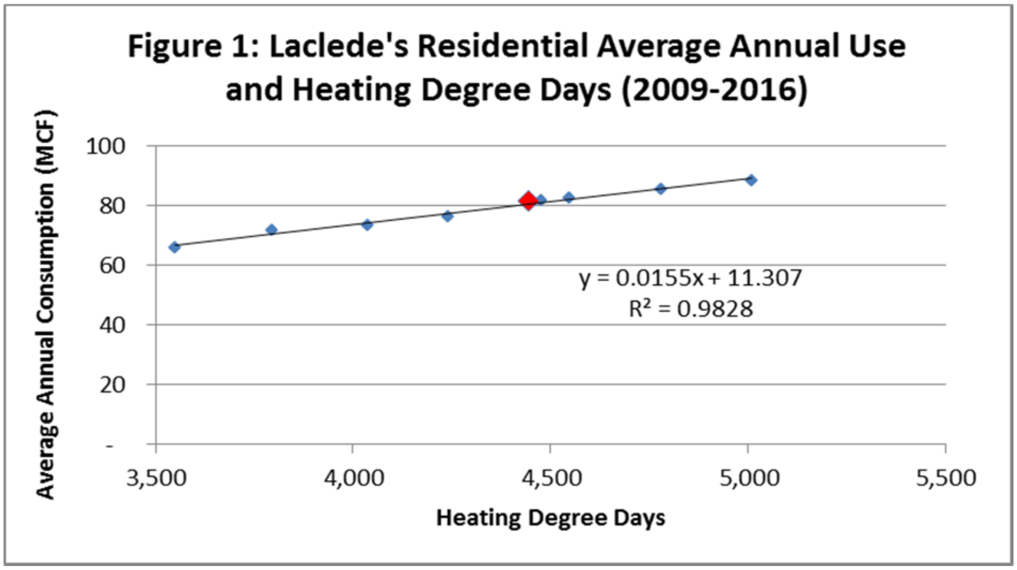
A. No. Mr. Hyman provides no analysis of the mechanical application of LAC and MGE's proposed revenue stabilization mechanism. In fact, Mr. Hyman doesn't even mention that MGE's current rate design is without a revenue stabilization mechanism and is neither weather mitigated nor a straight-fixed variable. MGE currently has an energy efficiency program, too. Additionally, Mr. Hyman advocates for a lower customer charge than Staff's proposed customer charges, albeit without any cost analysis.

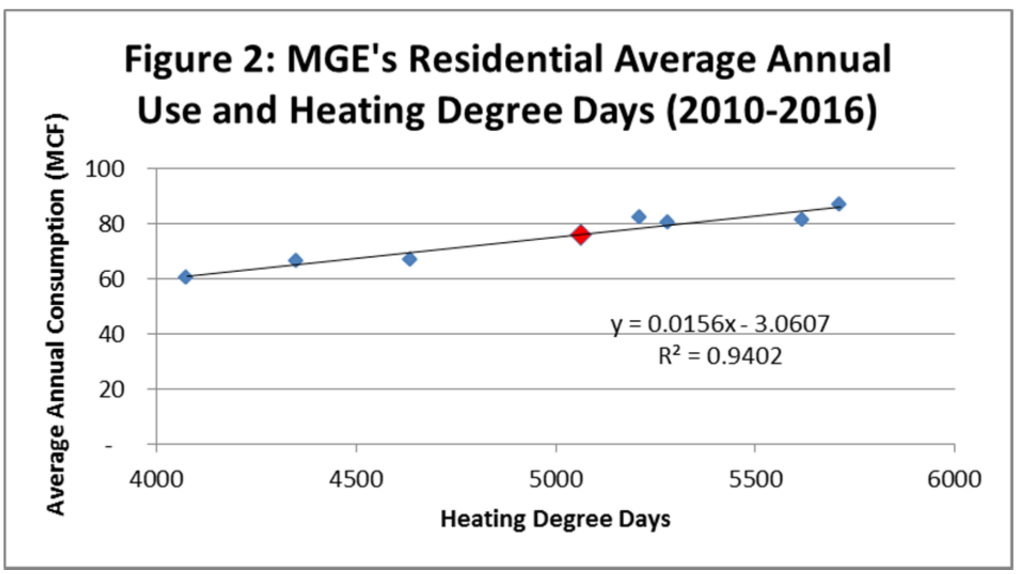
Q. Has Staff analyzed the impact of weather on average use?

A. Yes. Figures 1 and 2 below compare LAC and MGE's average annual residential usage, from data contained in their annual reports, to the heating degree days of the respective year. The larger red point is Staff's weather-normalized usage and normal heating degree days ("HDD") as filed in this case for the respective company. The thirty-year climatic normal for the test year, provided by Staff witness Dr. Won, is 4,444 for the St. Louis region and 5,063 for Kansas City. As can be seen in Figure 1, half of the years in the St. Louis

[4] Rebuttal Testimony (Rate Design) of Martin R. Hyman, p. 3, ll. 14-15.

region were warmer than normal, and half were cooler than normal. Likewise, three of the seven years were warmer than normal in the Kansas City region. In fact, the simple average of heating degree days for the most recent four years is 4,406 for St. Louis and 5,081 for Kansas City–remarkably close to their respective thirty-year climatic normals.





Based on the information above, the solution to the "misalignment problem" is to use Staff's climatic normal and weather normalization. Annual natural gas usage is approximately 95% correlated with annual HDD. Staff witnesses Byron Murray and Michelle Bocklage, as part of their weather normalization, correlated monthly natural gas usage with HDD during the test year at approximately 98%. Therefore nearly all variation in usage, be it on a monthly or annual basis, is directly correlated with HDD. In addition, Staff's determination of normal annual natural gas usage and normal weather is in the middle of, and pretty close to, a simple trend analysis of the reported annual residential natural gas usage from the companies' annual reports and the corresponding HDD for the last seven or eight years. There are no forecasts of next month's weather or the total HDD over the next winter months; therefore, it's impossible to set rates to future usage. However, we expect weather over a few winter periods to trend towards Staff's climatic normals. As mentioned above, the simple average of HDD for the last four years in St. Louis and Kansas City is remarkably close to their thirty-year climatic normals. Therefore, the solution to the "misalignment problem" is to use Staff's climatic normal and weather normalization; although there may be a variance from that average in a given year, usage tends towards the mean. This is a problem that corrects itself. Additionally, Staff's Class Cost of Service analysis demonstrates that a higher customer charge than proposed by the Division of Energy is warranted; an artificially low customer charge would decrease customer bill stability by focusing more recovery from the summer months to the relatively more volatile winter months.

Q. Do you agree with Mr. Lyons that the proposed revenue stabilization mechanism is a decoupling mechanism that would correct the "misalignment problem"?

A. Yes, a decoupling mechanism would correct for revenue recovery misalignments. However, what is being proposed is a full decoupling mechanism, plus an opportunity for additional recovery, for the residential and small general service classes; the statute only authorizes a partial decoupling. Mr. Hyman is incorrect to state, "the RSM would partially 'decouple' sales volumes of natural gas from the revenues earned by the Companies"[5] unless he is referring to Companies application only to the residential and small general service customers only.

Q. Under LAC and MGE's proposed revenue stabilization mechanism is it possible for the Companies to over or under recover revenue?

A. Yes. As stated in my rebuttal testimony, since LAC and MGE's proposed mechanism deems an average usage per customer for the residential and small general service classes, any new customers that use less than the average would allow LAC and MGE to recover the difference between the lower use and average use from other customers, without a decrease in Company revenues established in the test year.

Additionally, a customer class can actually experience a decrease in the number of customers in the class while simultaneously experiencing an increase in average usage per customer. For example, if several below average customers leave the system the average usage per customer in the class then increases, causing LAC and MGE to flow back to customers the revenue difference between the higher average usage and lower average usage set in the test year, without an increase in Company revenues established in the test year.

Q. Do you agree with Mr. Hyman that, "The [revenue stabilization mechanism] is authorized by Section 386.266.3, RSMo."[6]?

A. No. As discussed above and in my rebuttal testimony, the statute only allows for "periodic rate adjustments outside of general rate proceedings to reflect the nongas revenue effects of increases or decreases in residential and commercial customer usage due to

[5] Rebuttal Testimony (Rate Design) of Martin R. Hyman, p. 3, ll. 1-3.
[6] Rebuttal Testimony (Rate Design) of Martin R. Hyman, p. 3, ll. 10-11.

variations in either weather, conservation, or both."[7] The proposed revenue stabilization mechanism will make rate adjustments for all variations in average usage per customer.

Q. Do you agree that the proposed revenue stabilization mechanism "stabilizes customer bills"[8]?

A. No. The proposed revenue stabilization mechanism only works in hindsight; before a rate adjustment is made, first an abnormal weather event must occur, then customers are billed for usage during that event, and finally, the company must make the determination on whether the rates should be adjusted, then file and receive approval for that adjustment. Therefore, it's likely that a customer won't see an adjustment in billed rates until several billing cycles after the fact.

Additionally, this lag can cause increased instability. As stated in my rebuttal testimony, a relatively warm period could result in the Revenue Stabilization Mechanism starting at a higher rate which could compound the problem of high customer bills if the subsequent period is abnormally cold. This mechanism does not allow for a proper price signal to be developed and sent to the customers in a timely fashion.

Q. Does Mr. Hyman provide any evidence for his assertion that the revenue stabilization mechanism 'would not represent any more of a disruption to customers' understanding of their bills in comparison to the current Laclede rate design?"[9]

A. No. Although he discusses a review of customer complaints and inquiries, he does not provide information on how customers would react to a new, separate line item on a customer's bill.

[7] RSMo §386.266.3
[8] Rebuttal Testimony of Timothy S. Lyons, p. 10, ll. 9-11.
[9] Rebuttal Testimony (Rate Design) of Martin R. Hyman, p.4, ll. 13-14.

Q. Do you agree that the proposed revenue stabilization mechanism "[p]rovides LAC and MGE with a more stable stream of revenues"[10]?

A. Because of the factors that can artificially change average usage per customer, it is unclear what impact the Company's proposed revenue stabilization mechanism will have on a stable stream of revenues. Additionally, a customer's usage is very seasonal where over 90% of the customers have less than 20 therms of usage in the summer months. Moreover, a customer may use about the same amounts of gas each year. Therefore, it is unclear what is meant by "stable stream of revenues." Additionally, as previously discussed, a more stable stream of revenues could be obtained by setting a proper customer charge based on cost analysis rather than setting an artificially low customer charge.

Q. Do you agree that the proposed revenue stabilization mechanism "[e]liminates LAC's and MGE's financial disincentive to promote energy efficiency"[11]?

A. It may mitigate some disincentive, but it should be noted that LAC and MGE have inherent incentives to invest in energy efficiency; a customer that purchases a new gas energy efficient furnace is likely to be a customer for the lifespan of that new furnace and reduces the risk the customer will switch to an electric furnace. Likewise, a customer that installs a new energy efficient water heater is less likely to shutoff service during the summer months.

Q. Do you agree that the proposed revenue stabilization mechanism "[h]elps ensure fixed cost recovery while preventing over-recoveries."[12]

A. No. As stated above, because this mechanism sets the average usage of a customer in the residential and small general service classes, for any new customers whose

[10] Rebuttal Testimony of Timothy S. Lyons, p. 10, l. 12.
[11] Rebuttal Testimony of Timothy S. Lyons, p. 10, ll. 15-16.
[12] Rebuttal Testimony of Timothy S. Lyons, p. 10, l. 17.

usage is less than the average, a mechanism would allow LAC and MGE the opportunity for additional recovery for any difference between the lower usage and average usage from other customers.

Additionally, as noted in my rebuttal testimony, several large customers that are more typical of large general service customers are currently in the small general service class. Should those customers move to the large general service class after this rate case, the overall average usage of the small general service class would decrease, thus providing LAC and MGE with additional compensation with <u>*no*</u> change in actual *total* usage?

Q. What are your conclusions?

A. LAC and MGE's proposed revenue stabilization mechanisms do not conform with the statute. In addition, Staff's analysis shows the solution to the "misalignment problem" is to use Staff's climatic normals and weather normalization. Neither Mr. Hyman nor Mr. Lyons has provided any analysis that would demonstrate the need for a revenue stabilization mechanism.

Staff's analysis also shows that around 95% of the change in residential customer usage is due to weather. Therefore, if the Commission decides to implement a form of decoupling, Staff recommends the Commission limit the mechanism to weather only as discussed in Staff's rebuttal testimony.

Q. Should the Commission approve a revenue stabilization limited to the residential customers and weather adjustments only, are there recommendations to its structure?

A. Yes. Staff identified two weather normalization adjustment tariff sheets in rebuttal. Although Staff does not recommend any weather normalization adjustment rider, if one was in place, Staff's preference is for a rider similar to the Virginia rider in that it is an annual adjustment rather than a monthly adjustment. This avoids complications in different billing cycles and provides more stability in a customer's rates. Unlike that tariff sheet, Staff recommends using the slopes and determinates from the most recent rate case rather than a new determination every 36 months.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Request to Increase Its Revenues for Gas Service	)))	Case No. GR-2017-0215
In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase Its Revenues for Gas Service	)))	Case No. GR-2017-0216

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 Surrebuttal Testimony; 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 20th day of November, 2017.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin
Notary Public