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LACLEDE GAS COMPANY
MISSOURI GAS ENERGY

GR-2017-0215
GR-2017-0216

DIRECT TESTIMONY

OF

SCOTT A. WEITZEL

APRIL 2017

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DIRECT TESTIMONY OF SCOTT A. WEITZEL

Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Scott A. Weitzel and my business address is 700 Market Street, St. Louis, Missouri 63101.

Q. WHAT IS YOUR PRESENT POSITION?

A. I am Manager of Tariffs and Rate Administration for Laclede Gas Company ("Laclede" or "Company").

Q. **PLEASE STATE HOW LONG YOU HAVE HELD YOUR POSITION AND BRIEFLY DESCRIBE YOUR RESPONSIBILITIES.**

A. I have been in my present position since August 2016, when I joined Laclede. In this position, I am responsible for administration of rates, rules and regulations of Laclede, including its operating units, Laclede Gas ("LAC") and Missouri Gas Energy ("MGE"), as filed with the Missouri Public Service Commission.

Q. PLEASE BRIEFLY DESCRIBE YOUR PREVIOUS PROFESSIONAL EXPERIENCE PRIOR TO JOINING LACLEDE.

A. Upon graduation from college, I was employed by CenterPoint Energy as a Gas Marketing Rep/Analyst where I handled billing, nominations, hedge settlement, and account management for commercial, industrial and municipal gas customers. I then spent 9 years working for Ameren Missouri in various roles relating to its gas supply operations. This work included scheduling gas, peak day planning, capacity and storage planning, gas supply procurement, capacity releases, hedging, responding to data requests, PGA analysis, and review of competitor's tariffs and cases. I then went to work for Ameren Illinois in gas business development where I focused on extending natural gas to communities that were not currently supplied with natural gas and on acquiring gas utilities and municipalities.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from University of Missouri in Columbia in 2003 with a Bachelor of Science in Human Environmental Sciences, with a major in Consumer Affairs and a minor in Leadership and Public Service. I received a Masters of Business Administration from Webster University in 2007.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?

A. No.

PURPOSE OF TESTIMONY

Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY**?

A. The purpose of my testimony is to sponsor and explain the various modifications the Company is proposing to make in this proceeding to the tariffs of LAC and MGE, many of which are designed to provide benefits to our customers and provide consistency to our operations. These include 1) modifications to the general rules and regulations governing the provision of utility service, 2) changes to various rate schedules, including the Purchased Gas Adjustment ("PGA")/Actual Cost Adjustment ("ACA") tariff provisions, as well as 3) changes we are proposing to consolidate and simplify LAC's and MGE's various customer classes and their corresponding schedules.

Q. ARE OTHER COMPANY WITNESSES ALSO ADDRESSING THESE ISSUES?

A. Yes. Laclede witness Lobser also discusses in his direct testimony some of the more significant policy considerations underlying these proposed changes.

<u>MODIFICATIONS TO GENERAL RULES AND REGULATIONS</u>

Q. WHY IS THE COMPANY PROPOSING TO MAKE CHANGES TO THE GENERAL RULES AND REGULATIONS GOVERNING HOW LAC AND MGE PROVIDE UTILITY SERVICE?

A. We are proposing modifications to the general rules and regulations ("Rules") governing the provision of utility service for two reasons. One is to bring greater consistency to the regulatory and operational practices of LAC and MGE now that they are operating under the same company by essentially adopting the same Rules for both. The other is to make changes we believe will enhance the quality of service provided to all customers. Company witness Lobser addresses in some detail the benefits of achieving greater consistency in the regulatory and operational practices of the two operating units. Accordingly, my testimony will focus more on the specific changes being made to accomplish this goal and on the rationale for those changes that are being proposed to enhance existing practices.

Q. HOW IS THE COMPANY PROPOSING TO COMBINE THE RULES APPLICABLE TO MGE AND LAC?

A. As Laclede witness Lobser explained in his direct testimony, there has already been some progress in bringing greater consistency to MGE and LAC Rules by virtue of the Commission's approval of conforming changes to those Rules in

2015 in the areas of budget billing, main extensions and how bills are estimated. We are proposing to build on that progress in this proceeding by proposing a single set of Rules for both operating units that reflect what we believe are the best provisions each has to offer – an assessment that is based on our own experience as well as views that have previously been expressed by other stakeholders.

Q. WHY IS HAVING THE SAME SET OF RULES GOVERNING THE COMPANY'S TWO OPERATING UNITS DESIRABLE?

A. For several reasons. First, adopting a single set of Rules makes sense from a consistency standpoint since a majority of the provisions are basically a restatement of the Commission's Chapter 13 rules. Accordingly, many provisions are already essentially the same for both operating units. Second, customers who move from one operating unit's service territory to the other's, will not experience any material change in the basic terms that govern the provision of utility service to them. Third, both the employees of the Company who are responsible for ensuring compliance with the Rules, as well as regulatory personnel who monitor such compliance, will now have the benefit of undertaking those duties based on a uniform, consistent set of requirements. This should ensure a more effective and more efficient process for achieving compliance.

Q. CAN YOU PROVIDE SOME EXAMPLES OF HOW PROVISIONS HAVE BEEN SELECTED FOR INCLUSION IN A SINGLE SET OF RULES BASED ON SUCH CONSIDERATIONS?

A. Yes. We have adopted the definitions from LAC's tariffs, for example, of what constitutes a "Residential Customer" because it would permit implementation of the Company's proposal to bill landlords in MGE's service territory at the Residential rate, rather than the higher General Service charge, when their rental unit is temporarily vacant. (*See* Proposed Tariff Sheet R-3-b). This change not only accommodates concerns that have been previously raised by other stakeholders but also brings MGE in line with LAC's practice in this area. Another example would be the insertion of bill pro-ration language that would be equally applicable to both operating units and that would satisfy Staff's concerns in a recent complaint proceeding that the Company's tariffs explicitly address its ability to prorate billing periods that are both shorter and longer than the normal 26 to 35 day billing window. (*See* Proposed Tariff Sheets R-3 (definition of Billing Period) and R-6) Combining the Rules into a single set would also make available to the customers of both operating units the same kind of special customer programs, such as the low-income energy affordability program, that is currently offered only by one of them – in this case LAC.

Q. IN ADDITION TO RECOMMENDING A SINGLE SET OF RULES FOR BOTH LAC AND MGE, YOU ALSO MENTIONED THE COMPANY WAS PROPOSING CERTAIN CHANGES. CAN YOU PLEASE IDENTIFY AND EXPLAIN THESE PROPOSED RULE CHANGES?

A. The primary Rule changes being proposed by the Company include:

(a) modifications designed to assist its most vulnerable customers in maintaining or restoring utility service though changes in the scope and applicability of its Red-Tag and Low-Income Energy Affordability Programs;

(b) modifications to its main extension policies, as well as the inclusion of economic development and special contract provisions for both operating units; all of which are aimed at maintaining or attracting customers on terms that benefit all customers by permitting fixed costs to be spread over more volumes;

(c) the shifting of certain provisions between the rate schedule and Rules sections of LAC's and MGE's tariffs. Laclede witness Lobser also addresses a number of these items in his direct testimony; and

(d) modifications to rate classes and billing units to better align LAC and MGE.

MODIFICATIONS TO CUSTOMER PROGRAMS

Changes to Red-Tag Program

Q. WHAT MODIFICATION IS THE COMPANY PROPOSING TO ITS RED-TAG PROGRAM?

A. Under the "Red-Tag Repair" program, both LAC and MGE provide assistance to their low income customers so that they can make repairs to their heating equipment and piping when such equipment has been "red-tagged" and taken out of service because of a defect. Because the defect poses a safety threat to the customer or others if left unrepaired, the program not only helps customers to maintain or restore utility service, but has a critical safety objective as well. As currently structured, however, the amount of assistance that can be provided is relatively modest, with a maximum assistance amount of $450, which has proven to be too little to achieve the program's purpose.

Q. WHAT IS THE COMPANY PROPOSING TO DO WITH THE RED TAG PROGRAM GOING FORWARD?

A. We are proposing to increase the maximum amount that can be spent on such repairs to a level that would help the customer to repair or replace a gas appliance. This would be effectuated by increasing the maximum assistance amount for a single customer from the current $450 to $1,000, with a maximum of $700 going towards necessary work on a furnace, and the current level of $450 being available to help pay for repairs or replacement of other "red-tagged" appliances or piping and venting issues. We are also proposing to make such assistance available to renters upon approval of landlord (See Tariff Sheet R-44-a).

Q. WHY HAS THE COMPANY CONCLUDED THAT SUCH AN INCREASE IS APPROPRIATE?

A. We have encountered numerous circumstances where service could not be restored to a customer because the cost of repairs significantly exceeded the current maximum allowance or because they simply couldn't be made at all, with the only feasible option being to replace the appliance. We have also collaborated with personnel from the Community Action Agencies who deal on a daily basis with customers struggling to maintain utility service. They have told us that increasing the maximum allowance for the Red-Tag Program would be one of the most effective and helpful steps we could take to assist their clients. This is also a matter of safety. Without core appliances like a furnace or hot water heater, customers may resort to potentially hazardous actions, such as reconnecting the red-tag device, using their stove for space heat, or placing multiple electric space heaters throughout the home – all of which can be very dangerous, if not deadly. Finally, we believe such an approach is consistent with assisting customers to become more efficient in their use of energy, as these alternatives are very inefficient substitutes, in addition to being dangerous.

Q. HOW WOULD THE COMPANY PROPOSE TO FUND THIS INCREASE IN THE MAXIMUM EXPENDITURE FOR THE RED-TAG PROGRAM?

A. Funds expended under this program are currently deferred into a regulatory asset account for future recovery. We would like to start a dialogue with other stakeholders to consider the possibility of funding this worthwhile program through current rates.

<u>Changes to Low-Income Affordability Program</u>

Q. WHAT CHANGE IS THE COMPANY PROPOSING TO MAKE WITH REGARD TO LAC'S LOW INCOME ENERGY AFFORDABILITY PROGRAM?

A. First, we are proposing to offer the program in MGE's as well as LAC's service territory. As Laclede witness Lobser explains in his direct testimony, there really is no justification to offer such a program to only a portion of the Company's eligible customers. Second, we are proposing to modify the program in a way that will hopefully make it easier for eligible customers to participate successfully in the program and for our community action agency partners to help customers achieve that goal.

Q. PLEASE EXPLAIN HOW THE COMPANY IS SEEKING TO MAKE THE PROGRAM MORE WORKABLE FOR ELIGIBLE CUSTOMERS AND THE COMMUNITY ACTION AGENCIES THAT HELP ADMINISTER THE PROGRAM.

A. First, we are proposing to modify the program to eliminate the tiered credits that are made available to customers depending on their income in favor of a credit to the fixed monthly charge applicable to eligible customers. This is similar to the primary feature of the low-income program recently approved by the Commission for the Empire District Electric Company. It is also a change that will greatly simplify the program and make it easier to administer. The arrearage repayment feature of the program would remain unchanged.

Q. WOULD THE CREDIT TO THE FIXED MONTHLY CHARGE BE THE SAME THROUGHOUT THE YEAR?

A. Yes. The credit to the fixed monthly charge would be the same throughout the year. This structure is designed to help customers maintain service throughout the year by reducing the cost of service during non-winter periods. Historically, customers participating in the low-income affordability program have tended to fall out of the program when the winter heating season is over since they have other, more immediate demands on their resources. By reducing what the customer must pay during the non-winter months, such a structure would better allow more customers to maintain their service throughout the year and successfully complete the program.

Q. WOULD MAKING IT EASIER FOR PARTICIPATING CUSTOMERS TO MAINTAIN UTILITY SERVICE THROUGHOUT THE YEAR RESULT IN OTHER BENEFITS TO THEM AND OTHER CUSTOMERS?

A. Yes. For the participating customer, being able to maintain gas service during the non-winter months would represent an important enhancement to the customer's quality of life, especially for those customers who depend on natural gas for water heating, cooking and other essential applications. It would also enable the customer to avoid reconnection and other charges that would otherwise add to what the customer owes when service is restored. Benefits for other customers would include the contribution to fixed costs being made as lower income customers continue to pay their bills.

Q. WHAT CHANGE IS THE COMPANY PROPOSING TO INCREASE THE EFFECTIVENESS AND INVOLVEMENT OF ITS COMMUNITY ACTION AGENCY PARTNERS IN THE PROGRAM?

A. We are proposing to clarify that the amount of funding that can be retained by the Community Action Agency or other social agency partner must be at least 10% of the program's overall funding. In return, we would expect our agency partners to devote more resources and attention to elements of the program that would enhance the ability of eligible customers to successfully participate. This includes a greater emphasis on selecting customers who have demonstrated an effort to pay what they can for utility service in the past, providing financial counseling, and integrating other assistance programs where available. Some level of follow-up with customers who are falling behind on their payments would also be expected.

If these measures can help improve the rate at which customers succeed under the program, we believe it would be worth the additional funding provided to our agency partners. Finally, we are expanding the pool of potential partners to include agencies like Lutheran Services that operate or manage low income housing since they already have relationships with such customers and can potentially take a more comprehensive approach to ensuring the customer's participation is successful. All of these suggested modifications are set forth in Proposed Rule 36 found at tariff sheets R-49-50.

Changes to Main Extension Policies

Q. WHAT MODIFICATIONS IS THE COMPANY PROPOSING TO ITS MAIN EXTENSION POLICIES?

A. As previously mentioned, the Commission approved tariff changes in 2015 permitting MGE and LAC to operate under consistent policies for extending mains and services to new customers. In this proceeding, we are suggesting an additional modification that would permit both operating units to undertake significant projects to extend natural gas service into unserved communities, where it would provide customers with long-term economic, energy efficiency and environmental benefits. Such a program would require any customers connected to the extension to pay for the incremental investment necessary beyond the standard allowance for extending facilities.

Q. WHAT FACTORS MAKE YOU BELIEVE CUSTOMERS IN UNDERSERVED AREAS WOULD BENEFIT OVER THE LONG TERM FROM BEING SERVED WITH NATURAL GAS?

A. They are the same market factors I address later in my testimony relating to the favorable impacts of shale production on the current and long-term price of natural gas. While no one can predict future market prices with absolute precision, the natural gas supply environment is likely to continue to have a favorable impact on natural gas prices for the foreseeable future. Given this relatively low cost environment, customers receiving natural gas service are likely to enjoy savings for years to come compared to the cost of other energy alternatives that may be available to them, even with the incremental cost of the expansion added to their rates. In addition, natural gas provides a very efficient alternative for various energy applications, ranging from space and water heating to clothes drying and cooking. This, in turn, allows customer energy needs to be met in a more energy efficient and environmentally friendly manner.

Q. HOW WOULD THE FINANCING ARRANGEMENT FOR THESE CUSTOMERS WORK?

A. As shown by the language in Proposed Rule 19 (E), on tariff Sheet R-17, any time the Company receives a request for natural gas service in a new area, it would perform an economic analysis to determine what additional costs, beyond the current allowance, it would incur to extend pipeline to the new community. Sometimes that analysis shows an additional customer contribution is required from the home builders, which is a disincentive and reduces options for the customers who will ultimately be paying the bills for utility service and who would benefit from the lower operating cost appliances and gas service. However, to prevent subsidization from other customers, such incremental expansion capital expenditure (capex) and related costs need to be covered by any customer that is connected to this extension, and excluded from general rates while that cost is recovered from the expansion customers. These costs would include depreciation, property taxes and a carrying cost calculated at the Company's weighted cost of capital at the time the arrangement is made.

Q. OVER HOW LONG A PERIOD WOULD THE COMPANY FINANCE THESE ADDITIONAL COSTS?

A. The Company would have the flexibility to finance the additional costs for a period of up to 15 years. The surcharge would be added to any customer's bill off that extension during the financing period and then eliminated once the period was over or the incremental expansion capex had been fully recovered, whichever occurred first.

Q. DOES THE COMPANY HAVE THE CAPABILITY TO BILL DIFFERENT RATES JUST TO SPECIFIC CUSTOMERS ON THIS EXTENSION AND KEEP TRACK OF THE AMOUNTS THAT HAVE BEEN PAID AND THE REMAINING BALANCE?

A. Yes, we are confident we can do that given our experience with other financing arrangements.

Q. IF MORE CUSTOMERS EVENTUALLY CONNECT TO THE NEW SYSTEM THAN HAD BEEN INITIALLY ANTICIPATED, WOULD THEIR CONTRIBUTION BE REFLECTED IN WHAT WAS CHARGED TO OTHER CUSTOMERS WHO WERE PAYING THE FINANCE CHARGE?

A. Yes. Such additional payments would permit the surcharge to be lowered or paid off sooner. Again, the Company would never collect any more than the incremental expansion capex and related costs.

<u>Economic Development/Special Contracts Provisions</u>

Q. WHAT OTHER MODIFICATIONS TO CURRENT TARIFF PROVISIONS OF MGE AND LAC IS THE COMPANY PROPOSING TO MAKE?

A. Building on MGE's current economic development rider ("EDR") and flexible rate contract provisions, we are proposing to have a restructured EDR for both MGE and LAC (*see* Proposed Rule 37 at R-53-55) as well as provisions that would permit either operating unit to enter into special contracts where necessary to retain or attract customers. (see Proposed Rule 38, at R-56-60) The EDR would be more broadly available, and would have specific percentage limitations on the level of discounts that could be offered to customers or potential customers without specific Commission approval, so long as the discount and other parameters of the EDR were met. The provisions authorizing special contracts would be designed to cover those special circumstances where MGE or LAC have to offer greater or different terms to retain or attract a specific customer. These special contracts would need to be submitted to the Commission Staff, with a copy to the Office of the Public Counsel, and would become effective only if neither of the parties or the Commission took action to reject them within 30 days of their submission. Rather than reflect a percentage discount established in advance, the discounts or other financial terms offered in the special contract would need to be justified as necessary to retain or attract the customer's load, and payments by the customer would need to be sufficient to cover all incremental costs incurred to serve the customer and still make some contribution to the Company's fixed costs. Meeting these requirements would ensure that other customers benefit from these transactions. We are also proposing general rates be based on the actual revenues received from customers receiving a discounted rate rather than some imputed level of revenues.

Q. HOW WOULD THE PROPOSED EDR FOR LAC AND MGE WORK?

A. The purpose of the EDR would be to encourage commercial and industrial business development in Missouri and to retain existing customers in jeopardy of leaving the State. Discounts under EDR would be offered in conjunction with local, regional and state development activities where an incentive has been offered and accepted by the customer to locate a new facility, significantly expand existing facilities, or retain existing facilities in the Company's Missouri service territory. It could also be offered to retain a significant customer that has a verified opportunity to leave the service territory for more attractive rates in another jurisdiction outside of Missouri or to a customer that might otherwise go out of business because of the tariffed rate.

Q. WHAT KIND AND SIZE OF CUSTOMER WOULD BE ELIGIBLE FOR THE EDR?

A. The EDR discounts would be available to any existing or potential customer that has or is projected to have (once fully operational) a minimum of 30,000 Dth/yr. in annual usage that could be retained or added as a result of the EDR or the customer with expanded usage of 15,000 Dth/yr. or more. Commercial as well as industrial customers would qualify for the rider as long as the customer or potential customer is not simply shifting commercial or industrial activity from one portion of the Company's service territory to another without any significant increase in load or without documentation that the customer might otherwise leave the state without an EDR discount.

Q. WHAT RATE DISCOUNTS WOULD BE AVAILABLE UNDER THE EDR AND FOR HOW LONG?

A. Under the EDR, eligible customers could receive discounts for a maximum period of 5 years. Over that span, the discounts would be applied to the usage portion of the customer's base rates and could not exceed an annual average of 20%, nor more than 30% in any one year. The Company would have the flexibility within that overall parameter to determine whether the percentage discounts should increase, decline or remain the same each year depending on which discount structure best met the needs of the customer. As long as these conditions were met and the Company demonstrated in a subsequent rate case proceeding that the EDR discounts were offered as part of an overall effort by state and/or local officials to retain or attract business in the State of Missouri, the actual revenues received or to be received from the customer under the EDR discount arrangement would be used in setting rates.

Q. WHEN WOULD THE SPECIAL CONTRACT PROCESS BE USED BY MGE AND LAC?

A. The special contracts process would be used when different terms were needed to retain or attract a customer that could not be satisfied with the terms available under the EDR. It would also be used when the circumstances are unrelated to a pure economic development purpose. For example, MGE or LAC could potentially face the loss of a customer to a bypass arrangement with an interstate pipeline. Another example would be where a large gas process user is looking to locate in the Company's service territory. Because it uses a tremendous volume of gas, the customer might very well demand and warrant a more significant discount than that afforded by the EDR. It might also require a longer-term contractual commitment than the five year contract length provided for in the EDR. Because that greater discount and longer contract term could be given and still generate a significant contribution to the fixed costs that other customers are paying, it would make sense to offer it.

Q. WOULD THERE BE ANY LIMITATIONS ON HOW MUCH OF A DISCOUNT COULD BE GIVEN IN A SPECIAL CONTRACT?

A. Yes. Because it would harm rather than benefit other customers to retain or attract a customer at a rate that did not cover the incremental costs incurred to serve the customer, any special contract would have to have terms that contractually bound the customers to cover these incremental costs, including incremental property taxes, depreciation and carrying costs. The customer would also be required to pay all variable costs and make at least some contribution to fixed costs. These requirements ensure that, at a minimum, current customers would be better off by providing the special contract to the customer.

Q. PLEASE EXPLAIN THE REGULATORY SUBMISSION PROCESS FOR THESE CONTRACTS.

A. At least 30 days prior to the proposed effective date of the contract, the Company would submit the contract to the Commission Staff, with a copy to Office of the Public Counsel, together with the supporting documentation demonstrating the reasonableness and propriety of the terms set forth in the contract. This documentation would include: (a) a narrative description of the reasons why the special contract customer cannot be retained or attracted using the EDR or other existing rate schedules; (b) the nature and cost of the competitive alternatives available to the customer over the same period of time for which the special contract would be in effect; (c) the impact that can be avoided if the customer reduces load or leaves the system, or the incremental cost incurred if the customer is a new load or expands existing load, including a quantification of all specific incremental facilities needed to serve the customer; (d) the profitability of the special contract customer, meaning the difference between the revenues generated from the pricing provisions in the special contract compared to the company's incremental costs; and (e) any other benefits to customers and the community from retaining or attracting the customer. All assumptions underlying these analyses would also be provided.

Q. WHAT WOULD HAPPEN AFTER THE CONTRACT AND THIS INFORMATION IS PROVIDED?

A. Staff and OPC would have an opportunity to review the contract and supporting information for 30 days. If neither party objects within that period, the Company could proceed to implement the contract, and the pricing in the contract would be used to set rates for the duration of the of agreement. If a party did object, the

Commission would have an opportunity to determine whether to approve the contract as is, ask the parties to amend the contract if such change in terms or delay is acceptable, or reject it.

MODIFICATIONS TO RATE SCHEDULES

Q WHAT WERE YOU REFERRING TO WHEN YOU SAID THE COMPANY WAS PROPOSING TO MOVE CERTAIN PROVISIONS BETWEEN THE GENERAL TERMS AND THE RATE SCHEDULES OF THE TWO OPERATING UNITS?

A. MGE currently has a schedule of miscellaneous charges in its general rules for various kinds of discrete activities ranging from disconnection and reconnection activities to removal and reinstallation of a meter. (See R-87). LAC has similar charges for such activities but includes them in the Rate Schedule and Clauses section of its tariffs. We are proposing that MGE's schedule of miscellaneous charges likewise be moved to the Rate Schedule portion of its tariffs. I will discuss our proposals for consistent fees for these activities later in my testimony. Similarly, MGE has the tariffed terms of its Energy Efficiency Programs in its Rate Schedules while LAC has them in its Rules. We are proposing to move the tariff provisions addressing MGE's Energy Efficiency programs to the Rules section like LAC's, although MGE and LAC-specific programs will continue to be designated as such.

Q. WHAT MODIFICATIONS IS THE COMPANY PROPOSING TO MAKE TO THE RATE SCHEDULE PORTIONS OF MGE'S AND LAC'S TARIFFS?

A. In addition to consolidating certain rate classes, which I will discuss separately, we are proposing rate schedule changes or additions in four general areas, including (a) the addition of language implementing a revenue stabilization mechanism; (b) changes designed to bring greater consistency to the PGA/ACA Clauses of the two operating units; and (c) a number of miscellaneous tariff changes relating to other items.

Revenue Stabilization Mechanism

Q. ARE YOU FAMILIAR WITH THE REVENUE STABILIZATION MECHANISM BEING PROPOSED BY THE COMPANY IN THIS PROCEEDING?

A. Yes. Both Company witnesses Lobser and Buck discuss the rationale and overall purpose of Revenue Stabilization Mechanism ("RSM") in their direct testimony. My testimony will be limited to sponsoring and explaining the mechanics of the tariff provisions implementing the RSM. Those provisions can be found at tariff sheet nos. 50-53 for MGE and tariff sheet nos. 10-10c for LAC.

Q. TO WHICH CUSTOMER CLASSES WOULD THE RSM APPLY?

A. Consistent with the statute that authorizes an adjustment mechanism for revenue variations resulting from changes in residential and commercial usage, the RSM would apply to the residential class for both operating units as well as the existing or proposed Small General Service classes. The RSM would not include the Large General Service class and similar large volume customer classes.

Q. WHAT BASELINE WOULD THE COMPANY USE TO DETERMINE THE AMOUNT OF ANY UPWARD OR DOWNWARD ADJUSTMENT

NECESSARY TO RETURN TO OR RECOVER FROM CUSTOMERS ANY OVER OR UNDER-COLLECTION OF BASE REVENUES DUE TO CHANGES IN CUSTOMER USAGE?

A. The usage volumes contained in the billing determinates approved by the Commission in these cases for setting the rates of each of the classes subject to the RSM is specifically identified and included in section 5 of the RSM tariff. These volumes would be used to establish the per therm charge necessary to return to customers any excess in the authorized class revenues or, conversely, recover from customers any shortfall in the authorized class revenues billed by LAC and MGE due to usage variations.

Q IS THE LEVEL OF BASE REVENUES AUTHORIZED BY THE COMMISSION IN THE RATE CASE ALSO IDENTIFIED IN SECTION 5 OF THE RSM TARIFF.

A. Yes, the tariff would identify the base revenues and customers by month approved for each of the affected customer classes so the adjustment necessary to reconcile to those revenues would be completely transparent.

Q. WOULD THE RSM EXCLUDE ANY REVENUE VARIATIONS RELATING TO THESE CLASSES?

A. Yes. Because gas costs and related revenues are already reconciled through the Company's PGA/ACA, such revenues are excluded from the RSM which focuses solely on reconciling variable base revenues. Changes in customer counts because of organic losses or growth is also excluded.

Q. WHY ARE REVENUE VARIATIONS DUE TO CHANGES IN NUMBER OF CUSTOMERS EXCLUDED FROM THE MECHANISM?

A. The purpose of the mechanism is to reconcile base revenues back to the levels approved by the Commission in the most recent rate proceeding, based on the customer levels that existed at that time. Therefore, positive or negative growth is factored out of the RSM. Moreover, excluding revenue variations due to changes in customers also provides the Company with a suitable incentive to work hard to retain existing customers and attract new ones – actions which ultimately redound to the benefit of all customers. This is also consistent with current regulatory treatment for the addition or loss of customers between rate cases.

Q. DOES THE RSM TARIFF PROVIDE A PER CUSTOMER BASE REVENUE AMOUNT TO FACILITATE THE EXCLUSION OF REVENUE VARIATIONS DUE TO THE LOSS OR ADDITION OF CUSTOMERS?

A. Yes. Those amounts are also identified in section 5 of the RSM tariff.

Q. HOW OFTEN COULD AN ADJUSTMENT BE MADE UNDER THE RSM?

A. Similar to the ACA mechanism, the Company would be permitted to make up to four adjustments per year, provided that they were spaced at least two months apart. The one required adjustment per year would create a point of reconciliation to help ensure past balances are refunded or recovered over the next year, similar to the ACA portion of the PGA.

Q. WHEN AN ADJUSTMENT IS MADE, OVER HOW LONG A PERIOD WOULD THE AMOUNT OF THE ADJUSTMENT BE RETURNED TO OR RECOVERED FROM CUSTOMERS?

A. Adjustments would be designed to return any excess revenue or recover any revenue shortfall over the next 12-month period, which will help to stabilize revenues, rather than trying to recover them over a shorter period of time.

Q. WOULD A CARRYING COST BE APPLIED TO UNDER AND OVER-RECOVERIES?

A. Any under or over-recoveries would be debited or credited to a deferred revenue account on a monthly basis. Like the ACA, a similar carrying cost equal to the prime rate minus two percentage points would be applied to the monthly balances in this account. At no point, however, would a carrying cost of less than zero be used.

Q. WOULD THE FILING PROCESS FOR RSM ADJUSTMENTS ALSO BE SIMILAR TO THE PROCESS FOLLOWED FOR ACA ADJUSTMENTS?

A. Yes. Although the calculations for the RSM filing should be relatively simple and straightforward, the tariff provides for the same time period between when an RSM adjustment is filed and when it becomes effective. The Company would also be required to provide all supporting workpapers at the time it makes any filing so that its calculations can be readily verified.

Q. DO YOU HAVE ANY CONCLUDING COMMENTS REGARDING THE RSM MECHANISM BEING PROPOSED BY THE COMPANY?

A. As set forth in the proposed tariff, I believe the RSM mechanism being proposed by the Company is a practical and positive way of addressing the financial and policy concerns that have been raised by the Company, Staff and OPC over the years regarding how to deal with revenue variations in a manner that equitably meets the needs of all stakeholders.

<u>Modifications to PGA/ACA Clauses</u>

Q. WHAT MODIFICATIONS IS THE COMPANY PROPOSING TO MAKE TO MGE'S AND LAC'S PGA/ACA CLAUSES?

A. As discussed by Laclede witness Lobser in his direct testimony, the Company is proposing to make the PGA/ACA Clauses of its two operating units as consistent as possible, with the potential of combining these two cost structures at some point in the future. This includes modifying various technical features of those clauses, as well as provisions relating to the Gas Supply Incentive Plan and the mechanism for off-system sales and capacity releases.

Q. WHAT TECHNICAL MODIFICATIONS ARE NECESSARY TO MAKE THE PGA/ACA MORE CONSISTENT?

A. One involves modifying LAC's and MGE's approach for establishing standard volumes and, where possible, moving LAC to the single PGA rate used by MGE. Another involves changing the ACA period for MGE so that it ends on September 30 – the same ending date for the Company's fiscal year - instead of June.

Q. **PLEASE EXPLAIN WHY LAC AND MGE WANT TO CHANGE THEIR STANDARD VOLUMES**.

A. Standard Volumes stated in tariffs are static and become stale over time. LAC and MGE propose to use normal sales loads for their customer classes and total purchases. Using past ACA volumes can also be problematic, depending on if it is a warmer than normal, or colder than normal ACA year.

Q. WHAT RATE ADJUSTMENTS SHOULD BE MADE UPON RESOLUTION OF THE CASE?

A. The Company's PGA factors should be adjusted to reflect the normalized throughput in this proceeding.

Q. PLEASE EXPLAIN THE PGA ADJUSTMENT.

A. The Company's Current PGA rates include certain cost recovery components derived by dividing the Company's fixed gas costs by normalized volumes. Presently, such cost recovery components are based on the settlement volumes determined in a prior rate case. In order to avoid a systematic but temporary over- or under-recovery of fixed gas costs that would result when PGA rates are applied to volumes different from those volumes used to establish PGA rates, such cost recovery components should always be adjusted to reflect the normalized volumes established in the Company's latest rate case.

Q. WHY IS SUCH OVER- OR UNDER-RECOVERY ONLY TEMPORARY?

A. Absent the change in PGA rate, the over-or under-recovery is corrected through the Deferred Purchased Gas Costs Account provisions of the Company's PGA clause.

Q. WHAT WILL HAPPEN WHEN PGA RATES ARE ADJUSTED?

A. By adjusting the PGA rates whenever new normalized volumes are established in a general rate case proceeding, the Company can minimize the potential over-or under- recovery of gas costs that would otherwise occur in the short term due to the change in the Company's throughput.

Q. WHAT IS THE COMPANY PROPOSING TO CHANGE WITH THE DEFERRED PURCHASED GAS COST ACCOUNTS?

A. The Company plans to have one Actual Cost Adjustment (ACA) factor for all LAC rate classes similar to how MGE handles its ACA. This will provide consistency between the operating units in how accounting tracks the ACA and will simplify the billing process. The exception to this will be for Interruptible customers and seasonal rate customers, who will have an offset for demand charges in their PGA.

<u>Changes to Gas Supply Incentive Plan</u>

Q. WHAT OTHER CHANGES IS THE COMPANY PROPOSING TO BRING GREATER CONSISTENCY TO THE PGA/ACA CLAUSES OF LAC AND MGE?

A. The first modification relates to LAC's Gas Supply Incentive Plan ("GSIP"). Currently, only LAC has a GSIP in its PGA/ACA Clause, although MGE has had one in the past. In this proceeding, we are proposing to make the GSIP applicable to MGE as well as LAC, with an MGE-specific set of index prices to be used in establishing the benchmark for determining savings. We are also proposing to make a number of changes to the existing GSIP. These include: (a) eliminating the current outdated gas price range that determines when the Company is eligible to retain a sharing of savings achieved under the GSIP; (b) eliminating hedging impacts from the calculation of whether savings have been achieved; and (c) adding an additional provision to the GSIP which would permit the Company to share in 10% of the savings achieved through future negotiated discounts from the maximum rates charged by its third-party pipeline suppliers. The end result of these changes is reflected in proposed tariff sheets 28-b.1, 28-b.2, 28-b.3 for LAC and 24.4 through 24.7 for MGE.

Q. WHY IS THE COMPANY PROPOSING TO ELIMINATE THE CURRENT PRICE RANGE THAT DETERMINES WHETHER IT IS ELIGIBLE FOR RETAINING A SHARE OF SAVINGS?

A. Philosophically, we believe it is important to strive to achieve savings in our procurement of gas supplies whether markets prices are relatively low or relatively high. Under either scenario, customers benefit when such a result is achieved. In addition, the range was first established in a far different natural gas market environment than we have today. Because of the extraordinary increase in natural gas supplies due to shale production, the price range is no longer a reasonable reflection of future ranges for gas prices. Rather than trying to re-adjust it in some way to account for these significant market changes, which would also be tied to the timing of the next rate case, we believe the most optimal approach is to simply eliminate it.

Q. WHY IS THE COMPANY PROPOSING TO EXCLUDE HEDGING IN THE MECHANISM?

A. Hedging is a tool used to reduce price volatility, not necessarily to lock in the best price. The Company will still use hedging to mitigate price volatility; however, it believes that should be the primary purpose of its hedging strategy. I would note that this focus on mitigating upward price volatility is also consistent with the policy reflected in the Commission's rule on this subject.

Q. WHY IS THE COMPANY PROPOSING TO ADD TO THE GSIP A COMPONENT THAT WOULD ALLOW IT TO RETAIN A SHARE OF THE PIPELINE DISCOUNTS IT NEGOTIATES?

A. The charges MGE and LAC pay to interstate pipelines for transporting and storing the natural gas supplies needed to meet the demands of their customers comprise a significant portion of the costs recovered through the PGA. In fact, between the two companies, these costs totaled nearly $200 million, or about one third of the PGA component in the most recent ACA periods for the two operating units. Given the magnitude of this cost component, it makes sense to implement an incentive feature to pursue and achieve superior results in this area as well. I should note that achieving such discounts is a function of more than just tough negotiating. It also requires the development of thoughtful strategies for creating the kind of competitive pressures that make obtaining such discounts possible. Permitting the Company to retain 10% of the value of such future discounts would provide a suitable incentive for encouraging superior results in this area. The 10% sharing percentage being recommended is also consistent with the sharing percentages being recommended for the other component of the GSIP.

<u>Changes to Off-System Sales and Capacity Release Sharing Mechanism</u>

Q. WHAT MODIFICATIONS IS THE COMPANY PROPOSING TO MAKE TO THE OFF-SYSTEM SALES AND CAPACITY RELEASE SHARING MECHANISM CONTAINED IN THE RATE SCHEDULES OF MGE AND LAC?

A. We are proposing to eliminate the current tiers at which different sharing percentages are triggered depending on the level of margins realized in favor of a single 25% sharing percentage.

Q. WHY IS IT APPROPRIATE TO ELIMINATE THE CURRENT SHARING PERCENTAGE TIERS IN FAVOR OF A SINGLE SHARING PERCENTAGE.

A. The same market considerations that justify eliminating the pricing range for triggering when the GSIP's sharing provisions apply also support an elimination of the tiers under the Off-System Sales/Capacity Release sharing mechanism. Specifically, while shale production has been hugely beneficial for customers in terms of reducing the relative level of natural gas prices, it has also made it more difficult to achieve the same level of margins from selling gas to customers located off our system. As a result, the current tiers for the Off-System Sales/Capacity Release sharing mechanism are too high and no longer reflective of opportunities in current market conditions. Rather than establish new tiers at a lower level, we believe the appropriate response is to establish a single percentage that is just slightly above the average, effective percentage of margins retained by both operating units over the past five years under their respective programs.

Q. IS THE COMPANY ALSO PROPOSING TO HAVE A SINGLE OFF-SYSTEM SALES/CAPACITY RELEASE SHARING MECHANISM FOR BOTH LAC AND MGE?

A. Yes. Such an approach makes sense since it is the same gas supply personnel who undertake the activities that produce the off-system sales and capacity release revenues for both operating units. This also furthers the Company's efforts to integrate LAC and MGE's PGA/ACA mechanisms and eventually consolidate the underlying costs and revenues.

Q. ARE THERE ANY OTHER CHANGES BEING PROPOSED BY THE COMPANY TO THE PGA/ACA CLAUSE THAT WOULD BE APPLICABLE TO BOTH LAC AND MGE.

A. As Laclede witness Lobser discusses in his direct testimony, we are also proposing to treat storage inventory costs in the same manner for both operating units by including LAC's storage inventory costs in base rates, where such costs are currently recovered by MGE. Consistent with this proposal, the language that was in LAC's PGA/ACA Clause relating to such costs has been eliminated. (See Sheet No.17). We are also proposing to recover costs for lost and unaccounted ("L&U) gas in the same manner for both operating units by applying it to all customers, including LAC's transportation customers. In recognition of the need to transition our two utilities to one PGA/ACA mechanism over a period of time, as well as the use of more precise metering equipment by these customers and their general closer proximity to our transmission mains, we believe an L&U of 1% should be established for LAC transportation customers. Finally, we have made reconciling changes to the ACA provisions to enable them to be applied effectively to both companies.

Q. WHY MIGHT IT BE APPROPRIATE TO COMBINE THE GAS COSTS AND RELATED REVENUES UNDERLYING THE TWO OPERATING UNITS' PGA AND ACA RATES SOME TIME IN THE FUTURE?

A. There are a number of reasons. First, while LAC has historically had a slightly lower PGA rate than MGE, the difference is relatively modest, especially compared to the benefit of a larger, more diverse gas supply portfolio that can provide the benefit of its assets, contracts and gas supply arrangements to all customers, rather than just some of them. Second, the same gas supply and system control personnel are now handling the gas, transportation and storage procurement and control functions at both operating units as well as related programs such as off-system sales. Given this centralization of functional control, it makes sense to have the resulting gas cost and revenue impacts accounted for on an integrated basis. Third, while portions of the supply and pipeline assets serving the two operating units are still physically separate, there are numerous examples of similar consolidations in Missouri, including with MGE itself for its Joplin, Kansas City and St. Joseph territories that have distinct gas supply requirements and portfolio elements to serve them. The trend has been towards arrangements that have or will increasingly integrate the utilization of these assets.

Q. DOES THE COMPANY BELIEVE THERE WOULD BE A NEED FOR A TRANSITION PERIOD TO ACHIEVE THIS MOVEMENT TO A SINGLE PGA/ACA FOR BOTH OPERATING UNITS?

A. Yes. We recognize that there are a number of issues relating to how existing over and under-recoveries of costs would need to be accounted for before a complete consolidation of underlying PGA/ACA costs and revenues could be achieved. Accordingly, we are proposing to collaborate with the parties to this proceeding on a schedule that would permit such a consolidation to occur in a time frame that would allow these and other issues to be addressed in a careful and comprehensive manner before full implementation.

MODIFICATIONS TO RATE CLASSES AND BILLING UNITS

Consolidation of Rate Classes

Q. WHAT RATE CONSOLIDATION IS LAC PROPOSING?

A. LAC is proposing to consolidate its commercial and industrial classes C&I 1, 2, and 3 into a small general service and large general service rate class similar to the current class structure for MGE. LAC is also proposing to eliminate residential seasonal air conditioning service (RA) rate class.

Q. WHAT IS CHANGING WITH LAC'S COMMERCIAL AND INDUSTRIAL RATE CLASSES C&I 1, 2, AND 3?

A. Currently C&I 1 has customers whose annual consumption is 5,000 therms or less. C&I 2 has annual consumption greater than 5,000 therms and less than 50,000 therms. C&I 3 has annual consumption greater than or equal to 50,000 therms. Those three rate classes were developed in 2002 as part of the weathermitigated rate design and can be consolidated with the implementation of the RSM. These classes will be blended to a small general service (SGS) rate class with annual consumption of 10,000 therms or less and a large general service (LGS) class with annual usage greater than 10,000 therms, allowing LAC to have a rate structure more consistent with MGE.

Q. WHY IS LAC PROPOSING TO DROP THE RESIDENTIAL SEASONAL AIR CONDITIONING SERVICE (RA) CLASS?

A. Currently the RA class has only a handful of customers in that rate class.

<u>Conversion of MGE to Therm Billing</u>

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL TO CONVERT MGE TO THERM BILLING.

A. For many decades, LAC has billed its customers on a per therm basis while MGE has billed its customers on a per ccf basis.

Q. WHAT IS THE DIFFERENCE BETWEEN THE TWO BILLING CONVENTIONS?

A. Essentially, billing on a per therm basis charges the customers based on the volume and energy content of the natural gas consumed by the customer, while billing on a ccf basis bills the customer based only on the volume of natural gas consumed. Both ways of billing are appropriate and reasonable as long as all of the customers of any operating unit are being billed consistently by using one method or the other.

Q. WHY DOES THE COMPANY BELIEVE THAT IT WOULD BE DESIRABLE TO HAVE MGE BILL ON A THERM BASIS LIKE LAC?

A. There are a number of advantages to having both LAC and MGE bill on a consistent, per them basis. First, it should make it easier to track and reflect lost and unaccounted for gas on a consistent basis. Second, it will provide customers who may move from the service territory of one operating unit to another, with the same method for billing and tracking usage. Additionally, it will allow the Company to produce consistent financial and operational data for the Commission and other outside sources without having to convert usage and rates in ccf to a therm basis.

Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes, it does.

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	)))	File 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	)))	File No. GR-2017-0216

AFFIDAVIT

STATE OF MISSOURI	)	
	)	SS.
CITY OF ST. LOUIS	)	

Scott A. Weitzel, of lawful age, being first duly sworn, deposes and states:

1. My name is Scott A. Weitzel. I am Manager, Tariffs and Rate Administration for Laclede Gas Company. My business address is 700 Market St., St Louis, Missouri, 63101.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on behalf of Laclede Gas Company and MGE.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Scott A. Weitzel

Scott A. Weitzel

Subscribed and sworn to before me this 3rd day of April 2017.

Marcia A. Spangler

Notary Public

MARCIA A. SPANGLER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Sept. 24, 2018
Commission # 14630361