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Witness: Henry E. Warren
Sponsoring Party: MO PSC Staff
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Case No.: GR-2009-0355
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

HENRY E. WARREN

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

**Jefferson City, Missouri
September 2009**

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

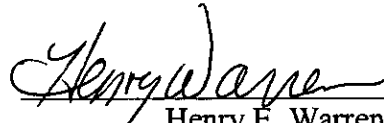
In the Matter of Missouri Gas Energy and)
Its Tariff Filing to Implement a General)
Rate Increase for Natural Gas Service)

Case No. GR-2009-0355

AFFIDAVIT OF HENRY E. WARREN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Henry E. Warren, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 6 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



Henry E. Warren

Subscribed and sworn to before me this 28th day of September, 2009.



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



Notary Public

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HENRY E. WARREN

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

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REBUTTAL TESTIMONY

OF

HENRY E. WARREN

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

13 Q. Please state your name and business address.

14 A. My name is Henry E. Warren and my business address is Missouri Public
15 Service Commission, P. O. Box 360, Jefferson City, Missouri, 65102.

16 Q. Are you the same Henry E. Warren that contributed to the Staff Revenue
17 Report (Staff Revenue Requirement Report) filed August 21, 2009, and the Staff Cost-of-
18 Service and Rate Design Report (Staff COS Report) filed on September 3, 2009?

19 A. I am.

1. EXECUTIVE SUMMARY

20 Q. What is the purpose of your rebuttal testimony?

21 A. My rebuttal testimony will address two issues: 1) Regarding weather
22 normalization of test year, I will respond to the direct testimony of Missouri Gas
23 Energy's (MGE or Company) witness Larry W. Loos; and 2) regarding the issue of
24 MGE's revenue collections and expenditures on Residential Energy Efficiency (EE)
25 Programs and the MGE Energy Efficiency Collaborative (EEC), I will respond to the
26 direct testimony Office of Public Counsel (OPC) witness Ryan Kind. Regarding EE
27 programs, I will also respond to the direct testimony of MGE's witness David
28 Hendershot; and to the direct testimony of Missouri Department of Natural Resources –
29 Energy Center (DNR Energy Center) witness John Buchanan.

1 **2. DIRECT TESTIMONY OF LARRY W. LOOS, MGE, ON VOLUMES**
2 **ADJUSTED TO NORMAL WEATHER**
3

4 Q. What direct testimony did MGE witness Larry W. Loos; submit regarding
5 MGE sales volumes adjusted to normal weather?

6 A. In his direct testimony, Mr. Loos has a section, Weather Normalization
7 Adjustment, with subsections, Selection of Weather Stations, Normal Heating Degree
8 Days, Customer Use Characteristics, and Normal Sales and Revenue.

9 Q. Which sections of the direct testimony of Mr. Loos on Weather
10 Normalization Adjustments will you address in your rebuttal testimony?

11 A. I will address Customer Use Characteristics and Normal Sales for the
12 Residential (Res), Small General Service (SGS), and Large General Service (LGS), and
13 Large Volume (LV) customer classes.

14 Q. What deficiencies do you find in his analysis of Customer Use
15 Characteristics?

16 A. For the customer classes, Res, SGS, LGS, and LV, Mr. Loos uses as his
17 dependent variable *monthly use per customer*. A more accurate measure of the customer
18 characteristic is *use per customer per day* calculated from the meter reading cycles (Read
19 Cycles) for each month.

20 For his independent variables Mr. Loos uses the calendar month's Heating Degree
21 Days (HDD) and the previous calendar month's HDD. A more accurate measure of the
22 HDD associated with *use per customer per day* for a billing month is HDD for each Read
23 Cycle in the month weighted by the number of customers in each Read Cycle.

24 Q. What is the result of the deficiencies in the variables used by Mr. Loos in
25 his regression analysis?

1 A. As a result of not using a more accurate dependent variable i.e. *use per*
2 *customer per day* and a more accurate independent variable, i.e. *customer weighted HDD*,
3 the coefficient of HDD computed in the regression analysis, i.e. *use per customer per*
4 *HDD*, is larger than it would be otherwise.

5 Q. Given the straight fixed variable rate design that Staff is proposing, why is
6 Staff concerned with the weather normalization?

7 A. Staff still recommends the straight fixed variable rate design. However,
8 should the Commission choose to include fixed costs in the volumetric charge it is
9 important that the most accurate weather normalization methodology be used. Since the
10 weather normalization adjustment is calculated by multiplying the HDD coefficient by
11 the difference between the actual and normal HDD, Mr. Loos' adjusted volumes are
12 overstated (because the test year is colder than normal the HDD adjustment is a reduction
13 to test year volumes), normal volumes are understated resulting in higher volumetric rates
14 being set to meet the revenue requirement.

15 **3.1 DIRECT TESTIMONY OF RYAN KIND, THE OFFICE OF THE PUBLIC**
16 **COUNSEL, ENERGY EFFICIENCY PROGRAMS**

17 Q. What direct testimony did The Office of the Public Counsel (OPC)
18 Witness Ryan Kind; submit regarding MGE revenue collections and expenditures on EE
19 Programs and the MGE EEC?
20

21 A. In his direct testimony, Mr. Kind proposes: 1) that MGE no longer collect
22 \$750,000 per year as an expense for EE Programs; 2) that MGE add interest to the
23 surplus that has been generated by the EE Program revenue collected since the previous
24 MGE rate case (Case No. GR-2006-0422); 3) that in the future, in lieu of collecting
25 revenues for EE Programs, that a regulatory asset account be established as a cost

1 recovery mechanism; 4) the EEC established in Case No. GT-2008-0005 be continued;
2 and 5) that expenditures for EE programs for multiple customer classes be accounted for
3 separately and booked to separate regulatory asset accounts.

4 **3.2 DIRECT TESTIMONY OF DAVID HENDERSHOT, MISSOURI GAS**
5 **ENERGY -- ENERGY EFFICIENCY PROGRAMS**
6

7 Q. What direct testimony did MGE witness David Hendershot submit
8 regarding MGE revenue collections and expenditures on EE Programs and the MGE
9 EEC?

10 A. In his direct testimony, Mr. Hendershot proposes that MGE continue to
11 collect \$750,000 per year as an expense for EE Programs, including the addition of EE
12 Programs for SGS customers in that funding, with the provision that the Commission
13 adopts a rate design for SGS customers similar to the current straight fixed variable rate
14 design for Res customers. Mr. Hendershot did not address the EEC in his testimony.

15 **3.3 DIRECT TESTIMONY OF JOHN BUCHANAN, MISSOURI DEPARTMENT**
16 **OF NATURAL RESOURCES, ENERGY CENTER --**
17 **ENERGY EFFICIENCY PROGRAMS**
18

19 Q. What direct testimony did DNR Energy Center witness John Buchanan
20 submit regarding MGE revenue collections and expenditures on EE Programs and the
21 MGE EEC?

22 A. In his direct testimony, Mr. Buchanan proposes that MGE continue to
23 collect funds as an expense for EE Programs and that the funding increase to \$4 million
24 per year in 2010 and further increase to \$7million by 2012, including the addition of EE
25 Programs for SGS customers in that funding. Mr. Buchanan recommends continuing the
26 EEC as non-voting, non-binding advisory group in his testimony.

1 Q. What is your response to the direct testimony of OPC Witness, Mr. Kind,
2 the direct testimony of MGE witness, Mr. David Hendershot, and the direct testimony of
3 EC witness Mr. Buchanan regarding MGE EE Programs?

4 A. In their direct testimony, all three witnesses addressed MGE's revenue
5 collections and expenditures on EE Programs and MGE's EEC and proposed provisions
6 for MGE EE programs going forward. I will address these in the aggregate.

7 I recommend that MGE EE Programs continue to be funded from revenues at
8 \$750,000 per year, with any surplus funds earning interest. Any EE programs for SGS
9 should be included in this funding if those customers' rates reflect this part of the revenue
10 requirement. Any additional funding or change in the funding mechanism for either
11 Residential EE programs or SGS EE programs should be contingent on the success of the
12 current programs. The EEC should be reconstituted as a non-binding advisory group.

13 4. STAFF RECOMMENDATION

14 Q. What is your recommendation regarding the direct testimony of MGE
15 witness Mr. Loos regarding customer characteristics and the adjustment to volumes for
16 normal weather?

17 A. Mr. Loos does not properly characterize the use per customer per day for the
18 customer classes and subsequently does not properly model the use per customer per HDD.
19 It is important that usage per customer per HDD be accurate because this determines the
20 adjustment to volumes based on the difference between test year and normal HDD.

21 Since Mr. Loos' model is incorrect, I recommend that, if the Commission does not
22 adopt the straight fixed variable rate design, the Commission adopt Staff adjustments to
23 volumes for normal HDD.

Rebuttal Testimony of
Henry E. Warren

1 Q. What is your recommendation regarding the direct testimony of witnesses
2 Mr. Kind, OPC, Mr. Hendershot, MGE and Mr. Buchanan, DNR Energy Center regarding
3 the collection and distribution of funds for EE Programs and the EEC?

4 A. My recommendation is MGE should continue to collect \$750,000 per year
5 for EE Programs with some funding coming from and going to the SGS customers. The
6 EEC should be reconstituted as a non-binding advisory group.

7 Q. Why do you recommend a non-binding advisory group?

8 A. So that decisions about the EE programs ultimately are Company decisions,
9 and Staff, or any other stakeholder, does not directly determine the expenditure of funds by
10 the Company.

11 Q. Does this conclude your rebuttal testimony?

12 A. Yes, it does.