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Witness: Henry E. Warren
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

HENRY E. WARREN

LACLEDE GAS COMPANY

CASE NO. GR-2010-0171

**Jefferson City, Missouri
December 2009**

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HENRY E. WARREN

CASE NO. GR-2010-0171

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

A. I am.

Q. What is the purpose of your Rebuttal Testimony?

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**2. RESPONSE TO DIRECT TESTIMONY OF MICHAEL T. CLINE,
LACLEDE GAS COMPANY, ON WEATHER MITIGATION RATE DESIGN**

Q. To which portion of the Direct Testimony submitted by Laclede Witness, Michael T. Cline regarding WMRD does Staff wish to address?

A. Beginning on Page 5 Line 9 of his Direct Testimony, Mr. Cline presents the design and performance of the current Laclede rate design for general service customers in the Residential, Class 1 (C1), Class 2 (C2), and Class 3 (C3) Commercial and Industrial classes. Mr. Cline states that the current Laclede rate design for these classes does not have any margin rate on tail block therms in the heating season of November – April, and is characterized as a WMRD. He then proposes two additional modifications to the current rate design.

The first, found at page 9 line 1 of his Direct Testimony, is a proposed increase the customer charge with a higher charge in the heating season than the non-heating season of May – October. The second, found at page 9 line 11 of his Direct Testimony, is a proposal to introduce a Customer Usage Adjustment (CUA) clause, which would make an adjustment in the margin rate similar to adjustments in the Purchase Gas Adjustment (PGA) rate to account for under or over collection of revenues. On page 11 line 1 of his Direct Testimony, Mr. Cline also presents a variation on the CUA proposal, which suggests only having a negative CUA when the weather is colder and the Company over collects revenues.

Q. What is your response to the Direct Testimony of Laclede witness Mr. Cline regarding his general service rate design modifications?

1 A. Mr. Cline's proposal to increase the monthly customer charges to move
2 closer to the Straight Fixed Variable (SFV) rate design proposed by Staff is a move in the
3 right direction. Staff agrees with Mr. Cline's discussion, found at page 7 lines 10-21 of
4 Direct Testimony, regarding the importance of the decoupling rate mechanism to promote
5 energy efficiency.

6 However, the CUA is not a rate design that Staff supports. The CUA rate design
7 introduces a complication and an additional regulatory process that adjusts rates, between
8 rate cases, according to weather variations. This means that customers would face rate
9 adjustments that would vary according to past weather and that such rate adjustments
10 would require an additional regulatory process to determine what those adjustments
11 should be. Staff estimates that in the July 2008 - June 2009 heating year that only 13% of
12 the typical Residential customer's bill was collected in margin rates. Staff does not
13 support a CUA because this mechanism adds a level of complexity to the customer's bill
14 and a regulatory process that is not necessary to address this small portion of margin-
15 related revenues. Moreover, adoption of Staff's recommendation for SFV rate design
16 eliminates this issue.

17 **3. RESPONSE TO DIRECT TESTIMONY OF BARBARA A.**
18 **MEISENHEIMER ON RESIDENTIAL AND SMALL COMMERCIAL AND**
19 **INDUSTRIAL RATE DESIGN**

20 Q. To what portion of the Direct Testimony was submitted by OPC witness,
21 Barbara A. Meisenheimer regarding *Residential and Small Commercial and Industrial*
22 *Rate Design* does Staff wish to address?

1 A. Beginning on page 2 line 15 of her Direct Testimony, Ms. Meisenheimer
2 presents an analysis of the current Laclede rates for Residential and C1 customers. On
3 page 5, line 7 of her Direct Testimony, Ms. Meisenheimer concludes that a uniform block
4 rate structure is preferable.

5 Staff does not agree with this recommendation. Staff agrees with Mr. Cline's
6 argument for a decoupling rate mechanism as presented in the American Recovery and
7 Reinvestment Act of 2009. A number of recent studies concur with this recommendation
8 (i.e. Hansen D.G.; *A Review of Natural Gas Decoupling Mechanisms and Alternative*
9 *Methods for Addressing Utility Disincentives to Promote Conservation*, Madison, WI,
10 2007).

11 Q. To what portion of the Direct Testimony submitted by OPC Witness,
12 Barbara A. Meisenheimer regarding *Benefits of Traditional Rate Design* does Staff wish
13 to address?

14 A. Beginning on page 22 line 1 of her Direct Testimony, Ms. Meisenheimer
15 presents an analysis of Laclede's traditional rate design, which divides the revenue the
16 Company can recover into a monthly customer charge and a volumetric charge. Staff
17 does not agree with this rate design for Laclede. Staff estimates the cost of gas to be over
18 70% of a Laclede Residential customer's annual bill. Consequently, the need for the
19 Company to include a volumetric margin rate as part of its revenue recovery has
20 diminished significantly. Because gas costs are such a high proportion of the customer's
21 bill, the motivation for customer conservation remains strong and the motivation for the
22 Company to promote conservation is better captured in the SFV rate design proposed by
23 Staff.

1 **4. STAFF RECOMMENDATION**

2 Q. What is your recommendation regarding the Direct Testimony's of
3 Laclede witness Michael T. Cline and OPC witness Barbara A. Meisenheimer?

4 A. My recommendation is that the SFV rate design proposed by Staff exhibits
5 more desirable characteristics such as promoting energy conservation, simplicity, and
6 reflecting cost of service than the WMRD-CUA rate design proposed by Laclede witness,
7 Mr. Cline or the traditional rate design proposed by OPC witness, Ms. Meisenheimer.

8 Q. Does this conclude your Rebuttal Testimony?

9 A. Yes, it does.