Exhibit No.: Issues: Rate Design Witness: Sponsoring Party: Type of Exhibit: Case No.: Date Testimony Prepared:

Henry E. Warren MO PSC Staff **Rebuttal Testimony** GR-2010-0171 June 24, 2010

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

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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In the Matter of Laclede Gas Company's Tariff to Increase Its Annual Revenues for Natural Gas Service

Case No. GR-2010-0171

AFFIDAVIT OF DR. HENRY E. WARREN

STATE OF MISSOURI)) ss COUNTY OF COLE)

Dr. 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 5 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.

Subscribed and sworn to before me this $2 \frac{\gamma}{day}$ of June, 2010.



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

Notary Public

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1	REBUTTAL TESTIMONY
2 3	OF
4 5	HENRY E. WARREN
6 7	LACLEDE GAS COMPANY
8 9	CASE NO. GR-2010-0171
10 11	Q. Please state your name and business address.
12	A. My name is Henry E. Warren and my business address is Missouri Public
13	Service Commission, P. O. Box 360, Jefferson City, Missouri, 65102.
14	Q. Are you the same Henry E. Warren that contributed to the <i>Staff Report</i> ,
15	RATE DESIGN AND CLASS COST-OF-SERVICE REPORT, LACLEDE GAS
16	COMPANY, filed May 24, 2010?
17	A. I am.
18	1. EXECUTIVE SUMMARY
19	Q. What is the purpose of your Rebuttal Testimony?
20	A. My Rebuttal Testimony will address: 1) The issue of <i>Weather Mitigation</i>
21	Rate Design (WMRD) contained in the Direct Testimony (Direct Testimony) of Laclede
22	Gas Company (Laclede or Company) witness Michael T. Cline; 2) The issue of
23	Residential and Small Commercial, and Industrial Rate Design contained in the Direct
24	Testimony of Office of Public Counsel (OPC) witness Barbara A. Meisenheimer; and 3)
25	the issue of the Benefits of Traditional Rate Design in the Direct Testimony of OPC
26	witness Barbara A. Meisenheimer.

1 2. **RESPONSE TO DIRECT TESTIMONY OF MICHAEL T. CLINE,** 2 LACLEDE GAS COMPANY, ON WEATHER MITIGATION RATE DESIGN 3 Q. To which portion of the Direct Testimony submitted by Laclede Witness, 4 Michael T. Cline regarding WMRD does Staff wish to address? 5 Beginning on Page 5 Line 9 of his Direct Testimony, Mr. Cline presents A. 6 the design and performance of the current Laclede rate design for general service 7 customers in the Residential, Class 1 (C1), Class 2 (C2), and Class 3 (C3) Commercial 8 and Industrial classes. Mr. Cline states that the current Laclede rate design for these 9 classes does not have any margin rate on tail block therms in the heating season of 10 November – April, and is characterized as a WMRD. He then proposes two additional modifications to the current rate design. 11 12 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 13 14 season of May – October. The second, found at page 9 line 11 of his Direct Testimony, 15 is a proposal to introduce a Customer Usage Adjustment (CUA) clause, which would 16 make an adjustment in the margin rate similar to adjustments in the Purchase Gas 17 Adjustment (PGA) rate to account for under or over collection of revenues. On page 11 18 line 1 of his Direct Testimony, Mr. Cline also presents a variation on the CUA proposal,

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which suggests only having a negative CUA when the weather is colder and the Company over collects revenues.

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

Rebuttal Testimony of Henry E. Warren

A. Mr. Cline's proposal to increase the monthly customer charges to move
 closer to the Straight Fixed Variable (SFV) rate design proposed by Staff is a move in the
 right direction. Staff agrees with Mr. Cline's discussion, found at page 7 lines 10-21 of
 Direct Testimony, regarding the importance of the decoupling rate mechanism to promote
 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 should be. Staff estimates that in the July 2008 - June 2009 heating year that only 13% of 11 12 the typical Residential customer's bill was collected in margin rates. Staff does not support a CUA because this mechanism adds a level of complexity to the customer's bill 13 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 eliminates this issue. 16

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

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

Rebuttal Testimony of Henry E. Warren

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

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

14 Beginning on page 22 line 1 of her Direct Testimony, Ms. Meisenheimer A. 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 Staff. 23

Rebuttal Testimony of Henry E. Warren

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4. STAFF RECOMMENDATION

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

- A. My recommendation is that the SFV rate design proposed by Staff exhibits
 more desirable characteristics such as promoting energy conservation, simplicity, and
 reflecting cost of service than the WMRD-CUA rate design proposed by Laclede witness,
 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.