

Exhibit No.:  
Issues: Rate Design and  
Low Income Programs  
Witness: Henry E. Warren  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Surrebuttal Testimony  
Case No.: GR-2010-0171  
Date Testimony Prepared: July 20, 2010

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**HENRY E. WARREN**

**LACLEDE GAS COMPANY**

**CASE NO. GR-2010-0171**

**Jefferson City, Missouri  
July 2010**

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

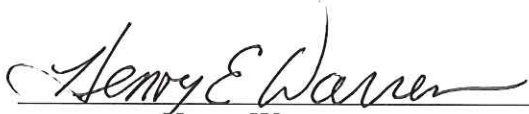
In the Matter of Laclede Gas Company's   )  
Tariff to Increase Its Annual Revenues for   )  
Natural Gas Service                                    )

Case No. GR-2010-0171

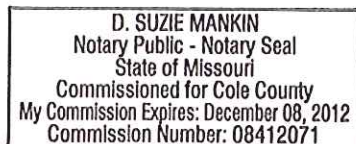
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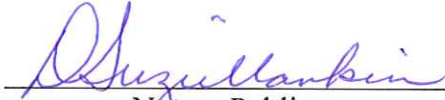
STATE OF MISSOURI    )  
                                  ) ss  
COUNTY OF COLE        )

Henry Warren, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of   4   pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal 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 Warren

Subscribed and sworn to before me this   19<sup>th</sup>   day of July 2010.



  
Notary Public

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**OF**

**HENRY E. WARREN**

**LACLEDE GAS COMPANY**

**CASE NO. GR-2010-0171**

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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 Surrebuttal Testimony?

1

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

4           Q.     Which portion of the Rebuttal Testimony of Laclede Witness, Michael T.  
5 Cline regarding WMRD do you discuss?

6           A.     In his Rebuttal Testimony, (beginning on page 17, line 1) Mr. Cline  
7 presents Laclede's arguments for its WMRD for general service customers in the  
8 Residential class versus Staff's proposed SFV Residential class rate design. Mr. Cline  
9 states that,

10           “[c]onsistent with the recommendations I made in my direct testimony, the  
11 Company is willing to establish SFV rates, but the Company's preference is for  
12 continuation of the Weather Mitigation Rate Design (“WMRD”) with some  
13 modifications that move the Company closer to what an SFV rate design would  
14 do.”

15           Mr. Cline further argues Laclede's preference for the WMRD, implying that if the  
16 SFV is adopted the Company might lose customers and that such adoption would  
17 disproportionately burden low income customers

18           Q.     What is your response to Mr. Cline's arguments regarding his SFV,  
19 WMRD, and Customer Usage Adjustment (CUA) rate design commentary?

20           A.     Staff supports the SFV rate design because it is more simple and  
21 straightforward than the WMRD. Mr. Cline's implication that the SFV rate design might  
22 result in a loss of customers is not supported by the experience of two other Local  
23 Distribution Companies (LDCs) in Missouri, Atmos Energy Corporation (Atmos) and  
24 Missouri Gas Energy (MGE). Atmos implemented SFV rates in 2007, and MGE  
25 implemented SFV rates in 2008. Neither company has experienced any measurable loss  
26 of customers attributable to the SFV rate structure.

1           The CUA is not a rate design that Staff supports, as stated in my Rebuttal  
2           Testimony. Staff estimates that in the July 2008 - June 2009 heating year only 13% of  
3           the typical residential customer's bill was collected in margin rates. Laclede's proposed  
4           WMRD is similar to the current WMRD. The WMRD collects margin-related revenues  
5           mostly in the customer charge and the first rate block, so a move to the SFV rate design  
6           would not significantly impact customer's bills. Moreover, Staff recommends the SFV  
7           rate design because customers can better understand the billing components of the SFV  
8           as compared to the WMRD.

9           **3.     RESPONSE TO REBUTTAL TESTIMONY OF BARBARA A.**  
10           **MEISENHEIMER ON RESIDENTIAL RATE DESIGN**

11           Q.     Do you agree with the Rebuttal Testimony of OPC witness, Barbara A.  
12           Meisenheimer regarding Residential Rate Design?

13           A.     No. Beginning on page 5 line 6 of her Rebuttal Testimony, Ms.  
14           Meisenheimer addresses Staff's SFV Residential Rate Design proposal and compares it  
15           to a traditional rate design for Laclede's Residential customers. On page 16, lines 5-6 of  
16           her Rebuttal Testimony, Ms. Meisenheimer states, "[b]ased on the customer comments I  
17           reviewed in this and other cases, I do not believe that customers view the SFV rate design  
18           as a fair rate design." Further, on page 16 lines 15-17 she states, "[t]he traditional rate  
19           design provides a better incentive for customers to conserve than does the SFV rate  
20           design because, under the traditional rate design, increasing consumption increases the  
21           non-gas charges a customer must pay."

22           Staff does not agree with these conclusions. Review of a limited number of  
23           customer comments is not a valid sample on which to base an opinion of the views of the

1 entire residential customer base. Further, Ms. Meisenheimer does not refer to any  
2 specific studies of what increases or decreases a customer's incentives to conserve.

3 Staff agrees with Mr. Cline's argument in his Direct Testimony (page 7, lines 10-  
4 21) for a decoupling rate mechanism as presented in the American Recovery and  
5 Reinvestment Act of 2009 (ARRA). Section 410 (a) of ARRA requires that the  
6 Commission seek to implement,

7 "a general policy that ensures utility financial incentives are aligned with helping  
8 their customers use energy more efficiently and provide timely cost recovery and  
9 timely earnings opportunity for utilities associated with cost-effective  
10 measureable and verifiable energy savings, in a way that sustains or enhances  
11 utility customers' incentives to use energy more efficiently [.]"

12 ARRA also provides that the Commission must give due consideration to individual  
13 utility company proposals to decouple revenues from sales volumes, "in appropriate  
14 proceedings."

15 A number of recent studies concur with this recommendation. (i.e. Hansen D.G.;  
16 *A Review of Natural Gas Decoupling Mechanisms and Alternative Methods for*  
17 *Addressing Utility Disincentives to Promote Conservation*, Madison, WI, 2007.)

18 Further, the cost of the gas commodity is approximately 70% of a typical Laclede  
19 Residential customer's annual bill. Because gas costs are such a high proportion of a  
20 residential customer's bill, the motivation for customer conservation remains strong and  
21 the motivation for the Company to promote conservation is better captured in the SFV  
22 rate design proposed by Staff.

23 The actual experience of Atmos and MGE indicates wide acceptance of the SFV  
24 rate design among their residential customers.

**4. RESPONSE TO REBUTTAL TESTIMONY OF THEODORE B. REINHART, P.E., LACLEDE GAS COMPANY, ON LOW-INCOME PROGRAMS**

Q. To which portion of Theodore B. Reinhart's Rebuttal Testimony would you like to address?

A. Beginning on page 4, line 1 of his Rebuttal Testimony Mr. Reinhart addresses what he terms Laclede's "Low-Income Programs," which include low-income weatherization, bill payment assistance program and arrearage repayment program. For the low-income weatherization program he recommends Laclede continue to collect and fund the program through rates at the level of \$950,000 annually. Staff agrees, having found that Laclede's low-income weatherization program as set forth in their tariff has been effective and should be continued.

Q. What is Mr. Reinhart's proposal for Laclede's low-income bill payment assistance program and arrearage repayment program?

A. Mr. Reinhart states on page 5, lines 6-9 of his Rebuttal Testimony that, "Laclede proposes continuation of the \$600,000 spending limit. Based on the Company's spending of a total of \$635,000 for calendar years 2008 and 2009, Laclede recommends including \$250,000 annually in rates and having the Company invest amounts above that level in the regulatory asset account."

Q. What is Staff's position on these two low-income programs?

Staff agrees that Laclede's LIEAP as set forth in their currently effective tariff should be continued. The tariff includes the spending limit of \$600,000 annually. Staff does not agree, however, that Laclede should start collecting \$250,000 annually in rates for these programs. In its previous rate case, Case No. GR-2007-0208, the terms of the program were modified to discontinue the collection of funds in rates and Staff does not think this should be changed at this time.



1     **5.     STAFF RECOMMENDATION**

2           Q.     What is your recommendation regarding the Rebuttal Testimony of  
3     Laclede witnesses Michael T. Cline and Theodore B. Reinhart, P.E.; and OPC witness  
4     Barbara A. Meisenheimer?

5           A.     My conclusion is that the Commission should adopt the SFV rate design  
6     proposed by Staff because it exhibits more desirable characteristics than the WMRD rate  
7     design proposed by Laclede witness, Mr. Cline, or the traditional rate design proposed by  
8     OPC witness, Ms. Meisenheimer. These characteristics include promotion of energy  
9     conservation, simplicity, and reflecting actual cost of service. My recommendation on  
10    the LIEAP is that it be continued as it is currently designed and that no funds be collected  
11    in rates.

12          Q.     Does this conclude your Surrebuttal Testimony?

13          A.     Yes, it does.