Exhibit No.:	
Issues:	Rate Design
Witness:	Henry E. Warren
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Surrebuttal Testimony
Case No.:	GR-2014-0086
Date Testimony Prepared:	August 8, 2014

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
Tariff, Safety, Economic & Engineering Analysis

SURREBUTTAL TESTIMONY

OF

HENRY E. WARREN

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GR-2014-0086

Jefferson City, Missouri
August 2014

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri Inc.'s Filing of Revised Tariffs To Increase its Annual Revenues For Natural Gas Service	))))	Case No.: GR-2014-0086

AFFIDAVIT OF HENRY E. WARREN, Ph.D

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Henry E. Warren, Ph.D, 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 6 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 E. Warren, Ph.D

Subscribed and sworn to before me this 7th day of August, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public

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CASE NO. GR-2014-0086

Q. Please state your name and business address.

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

Q. Are you the same Henry E. Warren that contributed to the Staff Report, Rate Design and Class Cost-of-Service Report, Summit Natural Gas of Missouri, Inc., Case No. GR-2014-0086, filed June 13, 2014?

A. I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony will address the issue of straight fixed variable ("SFV") rate design contained in the rebuttal testimony of Summit Natural Gas Company of Missouri ("SNG" or "Company") witness Timothy R. Johnston. My surrebuttal testimony will also address a section in the Rebuttal Testimony of the Office of the Public Counsel ("OPC") witness Ms. Barbara A. Meisenheimer titled *V. Response to the Staff and Company Rate Design Proposals.*

RESPONSE TO REBUTTAL TESTIMONY OF TIMOTHY R. JOHNSTON, SUMMIT, ON RATE DESIGN

Q. To which portion of the rebuttal testimony submitted by SNG witness Timothy R. Johnston regarding rate design does Staff wish to address?

A. Beginning on Page 3 Line 5 of his rebuttal testimony, Mr. Johnston asks and answers the following,

> Q. DOES SUMMIT HAVE A PHILOSOPHICAL OBJECTION TO THE USE OF SFV RATE DESIGN?
> A. No. The use of SFV Rate Design as a tool by which to decouple utility non-gas costs from gas usage makes sense in an overall context which also promotes conservation.
>
> Q. WHAT IS THE BASIS FOR SUMMIT'S OBJECTION TO SFV RATE DESIGN IN THIS CASE?
> A. Summit's distribution system has been constructed and placed in service since 1994. . A majority of the investment has occurred in the last ten years. The investment is characterized by costs that have not been eroded by inflation and the investment recovery has had little time to occur. Consequently, the investment per customer and corresponding non-gas revenue requirement per customer is significant.
>
> Further, unlike many local distribution companies, Summit exists in a competitive environment. Summit's management believes SFV pricing may artificially drive customers to competitive fuels because low usage customers may migrate away from Summit's system when faced with a significant fixed monthly charge.

Q. Do you agree with the reservations expressed in this testimony regarding his objections to implementing the SFV rate design?

A. No, the SFV rate design was first successfully implemented by the Atmos Energy natural gas utility in Missouri in 2007, subsequent to the Commission Order in Case No. GR-2006-0387; later that same year SFV rates were successfully implemented by the natural gas utility Missouri Gas Energy, subsequent to the Commission Order in Case No. GR-2006-0422; and thus SFV rates can be successfully implemented by SNG. While Atmos

had SFV rates they did not experience customer loss due to the SFV rates, and the Atmos service area, which is mostly in eastern Missouri, is largely non-urban, similar to the SNG service area in western Missouri, which is non-urban.

Speculation as to the effects of SFV rates for gas utilities in Missouri should not be given consideration in rate case proceedings because empirical evidence exists on the successful implementation and operation of SFV rates by gas utilities in Missouri[1]. The classical rate design will be detrimental to customers in a colder than normal heating season. A margin rate on each unit of gas will over-collect in a colder than normal heating season. The SFV rate will lessen the effect of a colder than normal heating season on the heating customer's bill for the heating season, since the customer only pays the PGA rate on the volumes of gas they use. Similarly, in a warmer than normal winter the Company has some protection against an under collection revenues because their margin costs are computed in the customer charge.

RESPONSE TO REBUTTAL TESTIMONY OF OPC WITNESS BARBARA A. MEISENHEIMER STAFF'S PROPOSED RATE DESIGN

Q. To what portion of the rebuttal testimony submitted by OPC witness, Barbara A. Meisenheimer in her *RESPONSE TO THE STAFF AND COMPANY RATE DESIGN PROPOSALS* does Staff wish to address?

A. Beginning on page 32 line 3 of her Direct Testimony, Ms. Meisenheimer testimony:

> Q. WOULD THE STAFF'S PROPOSED SFV DISTRIBUTION RATES BE DETRIMENTAL TO CUSTOMERS?
> A. Staff's proposed monthly rates are excessive. In support of its proposal, the Staff has provided no customer bill analysis to demonstrate the impact on customers at different usage levels.

[1] See *Reply Brief and True Up Brief of Missouri Gas Energy*, Case No. GR-2009-0355.

Q. Do you agree that Staff's SFV rates will be excessive?

A. No, SFV rates will be appropriate and will result in lower bills than traditional rate design in colder than normal heating seasons. As I stated previously, speculation as to the effects of SFV rates for gas utilities in Missouri should not be given consideration in rate case proceedings because empirical evidence exists on the successful implementation and operation of SFV rates by gas utilities in Missouri.

Q. What part of Ms. Meisenheimer's testimony do you wish to address next?

A. Lines 8-11 on page 32.

> Q. DOES ANY REGULATED NATURAL GAS DISTRIBUTION COMPANY USE AN SFV RATE DESIGN?
> A. No. The only two local distribution companies that have ever used an SFV rate design have discontinued its use, agreeing instead to a traditional rate design.

A. Staff does not agree with this statement. Several Missouri natural gas distributors have a modified block SFV, where the margin rate is not collected in the second block or in the heating season. Also, the modification of the SFV rate designs originally implemented in Case Nos. GR-2006-0387 and GR-2006-0422 have not been the result of Commission decisions, but the result of a stipulation and agreement.

Q. What part of Ms. Meisenheimer's rebuttal testimony do you wish to address next?

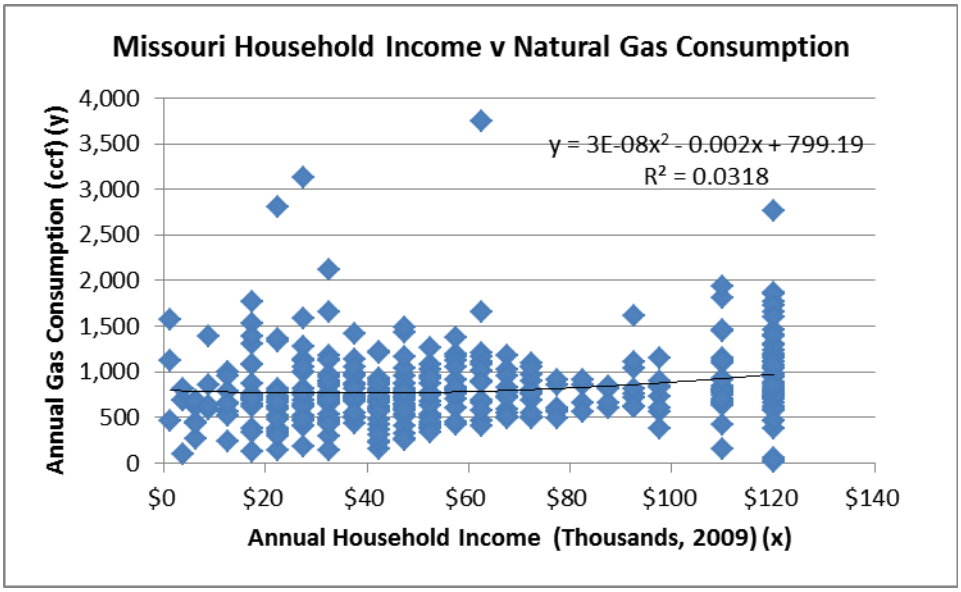
A. Beginning on line 1 of page 33:

> Q. WHAT POPULATION WOULD BE MOST NEGATIVELY IMPACTED 1 BY A STRAIGHT FIXED RATE DESIGN THAT REQUIRES LOW-USE CUSTOMERS TO PAY THE SAME DISTRIBUTION RATE AS HIGH-USE CUSTOMERS?
> A. Rate designs that recover all distribution costs through a fixed charge, and without a volumetric rate, require low-use customers to pay more for their distribution service than rate designs that include both a fixed charge and a volumetric rate. This negatively impacts those households that use

less than average amounts of natural gas, which historically includes low-income households.

Q. Do you agree with that low-use customers would be adversely affected or low-income customers would be adversely affected?

A. No, natural gas customers who use at least as much gas as is consumed by a gas water heater in a month will not be adversely affected. Also, Staff performed an analysis of the Missouri data in the U.S. Energy Information Administration ("EIA"), 2009 Residential Energy Consumption cited by Ms. Meisenheimer. Staff's analysis indicates there is no statistically significant relationship between household income and natural gas consumption for the Missouri natural gas customers in the EIA survey.



STAFF RECOMMENDATION

Q. What is your recommendation regarding the rebuttal testimony's of SNG witness Timothy R. Johnson and OPC witness Barbara A. Meisenheimer?

A. The SFV rate design proposed by Staff exhibits more desirable characteristics such as promoting energy conservation, simplicity, and reflecting cost of service than the

traditional rate design proposed by SNG witness Mr. Johnson and OPC witness, Ms. Meisenheimer; and is supported by empirical results from the implementation of SFV as the result of Commission Orders in Case Nos. GR-2006-0387 and GR-2006-0422. Therefore, Staff recommends the implementation of the SFV rate design for SNG's MGU and SMNG Service Areas, GS-Residential (GS-Res or Residential) and GS-Commercial (GS-Com or Small Commercial) rate classes.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.