

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

In the Matter of Laclede Gas Company’s Request to Increase Its Revenue for Gas Service))	<u>File No. GR-2017-0215</u> Tariff No. YG-2017-0195
In the Matter of Laclede Gas Company d/a/a Missouri Gas Energy’s Request to Increase Its Revenues for Gas Service)))	<u>File No. GR-2017-0216</u> Tariff No. YG-2017-0196

**MISSOURI DIVISION OF ENERGY’S
INITIAL POST-HEARING BRIEF**

COMES NOW the Missouri Department of Economic Development – Division of Energy (“DE”)¹ before the Missouri Public Service Commission (“Commission”), by and through the undersigned counsel, and for its *Initial Post-Hearing Brief* in the above-styled matter states as follows:

Introduction

Through its pre-filed testimony, DE provided its positions on a number of issues in the respective rate cases of Laclede Gas Company (“Laclede”) and Laclede Gas Company d/b/a Missouri Gas Energy (“MGE”) (collectively, “Companies” or “Spire”). The issues addressed by DE included:

1. The Low-Income Energy Affordability Program;
2. The Red-Tag Repair Program;
3. Weatherization program administration;
4. A “check-off” box for donations to the weatherization program;
5. Economic Development Riders and Special Contract Rates;
6. Combined Heat and Power (“CHP”);
7. Building Operator Certification programs;

¹ On August 28, 2013, Executive Order 13-03 transferred, “... all authority, powers, duties, functions, records, personnel, property, contracts, budgets, matters pending, and other pertinent vestiges of the Division of Energy from the Missouri Department of Natural Resources to the Missouri Department of Economic Development”

8. Energy efficiency program funding and design;
9. Residential rate design; and,
10. The Revenue Stabilization Mechanism (“RSM”) proposed by Spire.

In the *Partial Stipulation and Agreement* filed on December 13, 2017, all of the parties either agreed to – or did not oppose – the resolution of many of these issues. The only issues addressed by DE that now remain for briefing are therefore the budgets for the Low-Income Energy Affordability Program, CHP, residential rate design, and the RSM proposal. As stated at the hearing by DE, the office’s chief – but by no means only – concern is that the Low-Income Energy Affordability Program continues; in so doing (and by approving DE’s other proposals), customers will receive some of the benefits that they were promised when Laclede and MGE merged.² Although low utility rates are important, some low-income customers will need more meaningful relief than the general benefits received from lower rates;³ fundamentally, customers should not only pay low rates, but should also receive value from their utility services.

Low-Income Energy Affordability Program

Consumers Council of Missouri (“CCM”) witness Ms. Jacquelyn Hutchinson provided testimony indicating a need for funding the Low-Income Energy Affordability Program at \$5 million in each Spire territory,⁴ and spoke convincingly at the evidentiary hearing as to the need for the program.⁵ DE witness Ms. Sharlet E. Kroll presented pre-filed testimony that also describes the energy burdens faced by low-income customers.⁶ At the hearing, both CCM and DE indicated support for additional program funding above that initially proposed by Spire of \$1 million each in Laclede’s

² Tr. Vol. 14, pp. 434-435, ll. 5-25 and 1.

³ Tr. Vol. 15, pp. 708-709, ll. 23-25 and 1-7.

⁴ Exhibit No. 800, pp. 3-5, ll. 25-30, 1-30, and 1-30, and p. 6, ll. 26-30.

⁵ Tr. Vol. 15, pp. 730-732, ll. 11-25, 1-25 and 1-8.

⁶ Exhibit No. 503, pp. 20-23, ll. 1-18, 1-19, 1-8, and 1.

and MGE's former service territories.⁷ Although these funding amounts fall short of the total need attested to by Ms. Hutchinson, they represent progress towards meeting that need.

Combined Heat and Power

Regrettably, parties have not accurately portrayed DE's recommended CHP Pilot Program. DE's pilot program, as proposed by DE witness Ms. Jane Epperson, is intended to address the need for resilient critical infrastructure, such as schools, hospitals, emergency service providers, and communities, through \$4.5 million dollars in incentives towards up to 10 Commission-approved CHP projects.⁸ This proposal is not, as asserted by other parties, a "load-building" initiative designed to increase natural gas usage at the expense of electric utilities, a request to "subsidize" for-profit entities, such as large industrial customers, or a request to raise the Companies' revenue requirements by \$4.5 million.

Much of the opposition to DE's proposal centers on an unreasonable interpretation of the Commission's Promotional Practices Rules. Parties have asserted that DE's proposal constitutes load-building, or the inducement of additional natural gas consumption at the expense of electric utilities. This is inaccurate for several reasons. First, DE's proposal envisions the co-delivery of a CHP pilot program with electric utilities under their Missouri Energy Efficiency Investment Act programs, which would account for lost sales by these electric utilities.⁹ Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company were parties to this case, yet they filed no testimony in opposition to DE's proposal.¹⁰ Second, the clear intent and motivation of the DE proposal is to increase the resiliency of critical infrastructure, in addition to the benefits of increased energy

⁷ Tr. Vol. 15, p. 707, ll. 5-9.

⁸ Exhibit No. 502, pp. 16-18, ll. 14-20, 1-17, and 1-10, and Tr. Vol. 15, p. 853, ll. 18-21.

⁹ Exhibit No. 502, p. 18, ll. 4-8.

¹⁰ Tr. Vol. 15, p. 856, ll. 11-21.

efficiency.¹¹ Third, the Promotional Practices Rules specifically provide for programs that increase energy efficiency,¹² as well as, for pilot programs designed, “... to evaluate the cost-effectiveness of potential demand-side resources.”¹³ Nonetheless, if the Commission believes that DE’s proposal would violate the Promotional Practices Rules, these rules allow the Commission to issue a waiver if doing so is in the public interest.¹⁴ Improving the resiliency of critical infrastructure is clearly in the public interest.¹⁵

Parties have also suggested that DE’s proposal would provide funding to for-profit entities in order to encourage CHP uptake. This is not DE’s proposal – DE is focused on improving the resiliency of critical infrastructure, such as hospitals and emergency service providers. The benefits of doing so would be passed on to communities and the ratepayers in these communities by ensuring that community services are available even in the wake of natural disasters.

Finally, parties have attempted to portray DE’s proposal as an addition of \$4.5 million to the Companies’ revenue requirements. However, as stated in Ms. Epperson’s testimony, each project under the pilot program would require individual Commission approval.¹⁶ Since each project would require individual approval, it is not possible that the full \$4.5 million could be immediately spent by 10 projects and included in the rates resulting from these cases. The \$4.5 million would be included in rates over time as CHP projects were approved by the Commission and implemented.

During the hearing, Chairman Hall requested additional information on alternative mechanisms to support CHP that do not require the proposed funding.¹⁷ As a preliminary matter, DE wishes to emphasize that any of the alternatives proposed are likely to fall short of supporting

¹¹ Exhibit No. 502, pp. 2-3, ll. 20-21 and 1-2.

¹² 4 CSR 240-14.010(5).

¹³ 4 CSR 240-14.010(4).

¹⁴ 4 CSR 240-14.010(2).

¹⁵ Tr. Vol. 15, p. 911, ll. 7-10.

¹⁶ Exhibit No. 502, pp. 16-17, ll. 19-20 and 1-3.

¹⁷ Tr. Vol. 15, pp. 884-885, ll. 23-25 and 1-3.

additional CHP deployment at critical facilities. Despite natural disasters such as the Joplin tornado, Missouri's community institutions have largely been unable to consider CHP as a feasible option for improving resiliency. This is partly due to the current low electric rates in Missouri, although the abundance of recent electric rate cases makes it unlikely that such a situation will last forever. Community institutions also lack the financial capability to consider CHP, as they are often non-profit institutions.¹⁸ Additionally, the low level of CHP installation in Missouri is due to a continuing need for information about CHP's benefits.¹⁹ While many approaches are required to encourage CHP uptake, the financial barriers to doing so must be addressed.

Without incentives for CHP uptake, there are only a few other meaningful approaches. One is to support an on-bill financing arrangement whereby the Companies allow critical infrastructure facilities to repay the costs of CHP installation over time. Such arrangements would likely require favorable interest rates and repayment periods, and the favorable interest rates might require funding for the Companies in order to "buy down" the rates.²⁰ Education on the benefits of CHP would also be useful; however, without financial support, non-profit community institutions will likely be unable to consider CHP.

Residential Rate Design

DE witness Mr. Martin R. Hyman sponsored several recommendations related to the design of residential rates. These include: 1) implementing low customer charges; 2) implementing inclining block rates if doing so would not result in significantly adverse bill impacts; and, 3) creating a lower temporary tail-block rate in the winter for Laclede customers in order to mitigate bill impacts on the customers that use significant amounts of natural gas.²¹ The first and second proposals would

¹⁸ *Id.*, p. 888, ll. 15-20.

¹⁹ *Id.*, p. 892, ll. 7-20.

²⁰ Exhibit No. 502, p. 17, ll. 4-10.

²¹ Exhibit No. 505, p. 24, ll. 7-11.

encourage efficient consumption of natural gas by customers and mitigate bill impacts on low-income and low-use customers; the third proposal would support the principle of gradualism by avoiding rate shock on high usage customers.

Low customer charges benefit customers by placing an increased emphasis on volumetric rates. This emphasis better encourages efficient consumption by improving the price signals received by customers.²² In addition, low customer charges provide relief to low-income customers; since low-income customers tend to use less natural gas than the general body of residential customers,²³ the reduction in avoidable fixed charges generally improves energy affordability for low-income customers.²⁴ Low customer charges are also not inconsistent with principles of cost allocation – customer charges are designed in cost-of-service ratemaking to recover the costs incurred to serve an additional customer, such as meters, meter reading, and billing and collecting, but not to recover all fixed utility costs.²⁵ Raising customer charges violates the principle of gradualism and risks creating “rate shock” for those least able to afford their bills; for this and other reasons, DE does not support the Commission Staff’s proposed \$26 customer charge for Laclede residential customers.²⁶

Inclining block rates have similar benefits. Under such rates, customers pay more per unit of energy consumed at higher levels of consumption. This encourages energy efficiency²⁷ and can be designed to provide rate relief for low-use and low-income customers, compared to declining block rates.²⁸ In this case, DE only recommends implementing inclining block rates if doing so would not cause significantly adverse bill impacts. This condition is important for purposes of ensuring

²² *Id.*, p. 10, ll. 13-15.

²³ Exhibit No. 503, pp. 21-23, ll. 3-19, 1-8, and 1.

²⁴ Exhibit No. 505, p. 10, ll. 13-15.

²⁵ Tr. Vol. 21, pp. 2328-2329, ll. 12-25 and 1.

²⁶ Exhibit No. 505, pp. 17-18, ll. 10-20 and 1-5.

²⁷ *Id.*, p. 11, ll. 4-7.

²⁸ *Id.*, ll. 8-18.

gradualism, particularly given the potential for a revenue requirement increase as a result of this case.²⁹

In support of gradualism, DE also recommends a lower temporary tail-block rate for Laclede customers during the winter. This recommendation is based on Mr. Hyman's bill impact analyses, which show the potential for high bill impacts on high-use customers in Laclede's former service territory during the winter. Such a tail block rate could be designed to apply only to the upper five percent of usage or bill impacts during the winter.³⁰

Revenue Stabilization Mechanism

DE is not opposed to the implementation of an RSM so long as the Companies' energy efficiency programs are robust and the Commission implements DE's residential rate design recommendations.³¹ The RSM is one of the regulatory tools at the disposal of the Commission that would make the Companies indifferent to increased energy efficiency savings and would better enable customer-centric rate designs.³² One of the conditions stated above has already been met as a result of the aforementioned stipulation and agreement, which raises the funding target for Spire's energy efficiency programs.³³ Therefore, so long as the Commission implements low customer charges for Laclede and MGE (somewhere in the range of \$20 per month or less),³⁴ creates a temporary winter tail block rate to address high-use Laclede customers, and (potentially) implements inclining block rates, DE does not oppose implementing some form of RSM. DE takes no position as to whether an RSM should take the form supported by Spire, the Commission Staff, or some other option, so long as the ordered RSM complies with the authorization provided at Section 386.266.3, RSMo.³⁵

²⁹ Tr. Vol. 21, pp. 2327-2328, ll. 17-25 and 1-7.

³⁰ Exhibit No. 505, pp. 16-17, ll. 16-17 and 1-2, and p. 23, ll. 18-20.

³¹ *Id.*, p. 8, ll. 18-21.

³² Exhibit No. 500, p. 6, ll. 13-16, and p. 7, ll. 5-6.

³³ Partial Stipulation and Agreement, p. 10.

³⁴ Tr. Vol. 21, p. 2332, ll. 3-8.

³⁵ *Id.*, pp. 2325-2326, ll. 17-25 and 1-17.

Should the Commission not order the implementation of the RSM, DE supports maintaining Laclede's current residential rate design.³⁶ Based on DE's review of customer comments, complaints, and inquiries, customers are less concerned with Laclede's existing weather mitigation rate design (or rate design generally) than with the use of high customer charges.³⁷ To the extent that the Companies' rates already provide some insulation from changes in customer use,³⁸ they represent reasonable (if not perfect) alternatives in the event that the Commission does not approve the use of an RSM.

WHEREFORE, the Missouri Department of Economic Development – Division of Energy respectfully files its *Initial Post-Hearing Brief*.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been served electronically on all counsel of record this 9th day of January, 2018.

/s/ Brian Bear

Brian Bear

³⁶ Missouri Division of Energy's Statement of Positions, p. 2.

³⁷ Exhibit No. 505, pp. 4-8, ll. 16-23, 1-18, 1-18, 1-20, and 1-17.

³⁸ Exhibit No. 500, p. 5, ll. 11-12.