

Exhibit No.:	
Issue:	Rate Design
Witness:	Michael T. Cline
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2010-0171
Date Testimony	
Prepared:	July 20, 2010

LACLEDE GAS COMPANY

GR-2010-0171

SURREBUTTAL TESTIMONY

OF

MICHAEL T. CLINE

SURREBUTTAL TESTIMONY OF MICHAEL T. CLINE	1
PURPOSE OF TESTIMONY	1
RESPONSE TO REBUTTAL TESTIMONY OF STAFF WITNESS WARREN.....	1
RESPONSE TO REBUTTAL TESTIMONY OF STAFF WITNESS SOLT	3
RESPONSE TO REBUTTAL TESTIMONY OF OPC WITNESS MEISENHEIMER.....	4

1 **SURREBUTTAL TESTIMONY OF MICHAEL T. CLINE**

2 Q. Please state your name and address?

3 A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis,
4 Missouri 63101.

5 Q. Are you the same Michael T. Cline who filed direct and rebuttal testimony in this
6 proceeding?

7 A. Yes, I am.

8 **PURPOSE OF TESTIMONY**

9 Q. What is the purpose of your testimony in this proceeding?

10 A. I will respond to the rebuttal testimony of Staff witnesses Warren and Solt, and Office of
11 the Public Counsel (“OPC”) witness Meisenheimer pertaining to rate design.

12 **RESPONSE TO REBUTTAL TESTIMONY OF STAFF WITNESS WARREN**

13 Q. On page 3 of his rebuttal testimony Dr. Warren states that Staff opposes the Company's
14 proposed Customer Usage Adjustment (“CUA”) clause because it is complicated and it
15 would adjust rates between rate cases. How do you respond?

16 A. First, the CUA is not complicated. The method for calculating the CUA is set forth in
17 straightforward and simple terms in Sheet No. 46 of the Company's proposed tariff
18 sheets. Mechanisms similar to this one have been in effect for years in numerous other
19 jurisdictions which presumably have been able to cope with the associated calculations.
20 Second, I fail to understand why Staff is opposed to making very modest rate adjustments
21 between rate cases. Purchased Gas Adjustment and Infrastructure System Replacement
22 Surcharge are examples of other mechanisms that have operated for years and even
23 decades to permit rates changes between rate cases for valid reasons such as changes in

1 the Company's purchased gas costs or increases in the costs incurred by the Company to
2 comply with various governmental mandates. Both of these mechanisms have come to
3 be accepted by the regulatory community and customers alike as legitimate cost recovery
4 vehicles just as the CUA would be. Finally, even though I would agree that the CUA is
5 not as simple as the Staff's proposed Straight Fixed Variable ("SFV") rate design, it
6 permits the Company to recover its fixed non-gas distribution costs without having to
7 charge both low use and high use customers the same for distribution service.

8 Q. On page 3 of his rebuttal testimony Dr. Warren also suggests that the CUA can't be
9 justified because it addresses a small portion of a residential customer's bill. Do you
10 agree?

11 A. No, I do not. Even though the impact of the CUA on an individual customer is relatively
12 small, such impact when multiplied by over 600,000 customers represents a meaningful
13 impact to the Company that can amount to millions of dollars which, contrary to Dr.
14 Warren's belief, justifies its implementation.

15 Q. Can you give the Commission some idea as to how small the impact of the CUA may be
16 to a residential customer?

17 A. Yes. For example, if the space heating requirements of a typical residential customer
18 declined by as much as 15% due to weather or conservation or both, and assuming that
19 the residential class as a whole exhibited the same type of block 1 loss in which margin
20 losses likely only occurred in the shoulder heating months of October and May, the CUA
21 would increase the typical bill by less than a *dollar* during the following year, hardly the
22 kind of impact that should cause customers to "cry foul" for being "penalized" for using

1 less of the Company's distribution system. At the same time, this would translate into an
2 under collection of \$600,000 for the Company.

3 Q. I assume from your previous comments that the Company has experienced even greater
4 revenue losses. Is this true, and if so, please explain?

5 A. Yes. In fiscal 2008 lost revenues from reduced residential usage alone amounted to over
6 \$2 million, some of which was attributable to unusual usage losses in shoulder months far
7 in excess of the 15% in my example. I should also point out that even in this case the
8 CUA would have collected less than \$4 per year from the typical residential customer,
9 less than one-half of one percent of the typical annual bill.

10 Q. Even though the CUA is likely to be small, aren't customers having to pay for service
11 they don't use?

12 A. No. If the customer doesn't burn the gas, the customer enjoys true savings on the cost of
13 the commodity. However, the same cannot be said for the Company's costs associated
14 with the delivery of gas. The Company's investment in and operation of its delivery
15 infrastructure is a sunk cost and cannot be conserved by customers in the short run. Thus,
16 it is impractical for customers to expect distribution charge savings for each therm that is
17 not run through our pipes. In fact, I think both the Company and the Staff agree on this
18 principle as it also underlies Staff's proposed use of the SFV rate design.

19 **RESPONSE TO REBUTTAL TESTIMONY OF STAFF WITNESS SOLT**

20 Q. On page 2 of his rebuttal testimony Mr. Solt states that on the basis of the public
21 comments received regarding the Company's notice of its proposed rate changes, the
22 "CUA would not be well received by ratepayers". How do you respond to Mr. Solt?

1 A. My impression is that those relatively few customers who actually made an effort to
2 attend the public hearings held in this case were not at all fixated on the CUA, but instead
3 focused on concerns over the affordability of an overall increase. I think this is
4 noteworthy since OPC made a special effort to add the CUA proposal to the public notice
5 in this case, and Staff made a point at some of the local hearings to volunteer that it
6 opposed the CUA. Secondly, I think Mr. Solt took some liberties in his interpretation of
7 written or emailed comments that supposedly reflected a negative reaction by customers
8 to the CUA. For example, to no one's surprise, customers' comments in Schedules TAS-
9 1-3 and TAS-1-4 are simply opposing a utility rate hike, and opposition to the CUA is
10 nothing more than a convenient tag along since there is no attempt at all by those
11 customers to articulate what it is that they don't like about the CUA. I believe it's unfair
12 to count those as "no" votes. Finally, it's clear from the comments of certain other
13 customers that they incorrectly believe that the CUA is customer specific-- in other
14 words, they believe that the CUA is tied to their own individual conservation efforts.

15 Q. But isn't that true? If a customer conserves gas the customer can expect to pay a
16 surcharge that is related to the customer's own individual consumption, correct?

17 A. No. The CUA is calculated based on the overall usage of residential customers. If I
18 conserve gas, but the class as a whole uses the same or more gas, no CUA charge would
19 be assessed.

20 **RESPONSE TO REBUTTAL TESTIMONY OF OPC WITNESS MEISENHEIMER**

21 Q. On page 6 of her testimony Ms. Meisenheimer's comments on the Customer Usage
22 Refund ("CUR") that the Company proposed as a possible alternative for the Commission
23 to consider in this proceeding. Please summarize how the CUR would work.

1 A. The CUR is a one-way, refund only offshoot of the CUA clause under which the
2 Company's distribution charges for gas used are established based on a conservative
3 estimate of customer usage. To the extent the Company achieves sales volumes in excess
4 of such levels, the Company would refund such difference to customers.

5 Q. How did you arrive at your conservative level of billing determinants?

6 A. For purposes of preparing the specimen tariff sheets that were attached to my direct
7 testimony, I divided the year into several time frames and I assigned a different estimate
8 of block 1 load loss to each of those periods. For example, for the coldest months of the
9 year, December through March, my estimated block 1 load loss was only one-half of a
10 therm whereas in the more weather-sensitive shoulder months like October and May, I
11 estimated the block 1 load loss could be as much as 2.5 therms in each of those months,
12 even though the Company has realized much greater losses than that for those months in
13 the past.

14 Q. To put your estimates in perspective, can you tell me what your losses translate to in
15 terms of an overall percentage reduction from the block 1 therms you otherwise would
16 have used to establish rates without a CUR?

17 A. Approximately 3.6%.

18 Q. What kind of support can you provide for your assumed load losses?

19 A. With all of the emphasis on energy conservation today, specific numerical support for a
20 3.6% loss should not be necessary, especially considering that an over-collection from the
21 use of these assumed losses would be refunded anyway. However I can offer at least two
22 reference points for your consideration, even though they reflect total use and not block 1
23 use only. First, the Company's weather normalized residential use has declined by 6.4%

1 over the past three years. Also a June 2003 American Gas Association study found that
2 in the four-year period between 1997 and 2001 the residential natural gas use in the
3 Midwest declined by 8.1%. Even though I believe the 3.6% loss I assumed for the CUR
4 in my direct testimony can be supported based on past losses the Company has
5 experienced, in light of the more modest decreases to which I just referred, I am willing
6 to trim my loss estimate from 3.6% to 2.4%.

7 Q. On page 6 Ms. Meisenheimer also goes on to state that she believes that the CUR is
8 “nothing more than a weather normalization adjustment that adjusts billing units in
9 advance of setting rates”. Do you agree?

10 A. Absolutely not. First, I would hope that OPC would agree that the Company should not
11 be penalized for encouraging conservation which is also covered by the CUR. Assuming
12 that OPC supports conservation and the use of more fuel efficient gas appliances, OPC
13 should see the merits in a device such as the CUR that protects the Company from the
14 negative impact of the usage reductions the Company encourages. Secondly, unlike the
15 CUA, the CUR still leaves the Company with the risk that billing determinants may not
16 have been set low enough since the Company would not be permitted to come back and
17 surcharge customers for losses that were not provided for in the derivation of rates. The
18 CUR then should have some appeal to OPC since it frequently complains that the
19 Company is shedding risk. Finally, in light of the legal impediments to which Ms.
20 Meisenheimer alludes on page 5, the CUR is, in fact, more than a weather normalization
21 adjustment since it does not require the Commission to establish rules before it can be
22 approved. If the OPC is concerned about legality, the CUR overcomes that hurdle as
23 well.

1 Q. Is there any way to make the CUR more palatable to OPC and the Staff?

2 A. Yes. Rather than refund any over-collection that could occur as result of using a
3 conservative level of billing determinants, the CUR could be more directly linked to a
4 primary reason for its existence.

5 Q. What do you mean?

6 A. Since the Company has been encouraged to offer energy efficiency programs that not
7 only require funding but also result in reduced throughput, any additional monies that are
8 recovered as a result of the CUR could be used first by the Company to offset any
9 associated revenue losses. If such monies are not necessary to offset load losses, they
10 would instead be used to fund the Company's energy efficiency and low income
11 programs and reduce the Company's regulatory asset or increase the Company's
12 regulatory liability in connection therewith.

13 Q. Why should the Staff find the programs funding version of the CUR
14 more palatable than the original CUR proposed by the Company?

15 A. If the Company's energy efficiency and low income programs are funded through monies
16 that are remaining after the Company's revenue losses from usage reductions are
17 covered, there will be no CUR rate change between rate cases which should please the
18 Staff.

19 Q. And how much additional money are we talking about that would be raised through the
20 use of conservative billing determinants?

21 A. The answer is dependent on the magnitude of the rate increase as well as the increase in
22 the customer charge. For example, assuming a \$45 million total rate increase, along with
23 the increase in the customer charges proposed by the Company in direct testimony to \$25

1 in the winter and \$19.50 in the summer, the money raised by the CUR would be
2 approximately \$2.3 million from residential customers alone.

3 Q. On page 10 of her testimony, Ms. Meisenheimer indicates that in lieu of the Staff's
4 proposed SFV she would prefer continued use of the Company's WMRD along with a
5 \$16.50 customer charge. Would that type of rate design be acceptable to the Company?

6 A. Absolutely not. I estimate that such a design could still potentially expose the Company
7 to nearly \$5 million in residential load loss alone.

8 Q. Ms. Meisenheimer devotes several pages of her testimony, pages 7-12, to her concern
9 that SFV would have a regressive impact on low income customers who she claims use
10 less gas than other customers? Do you share the same concern?

11 A. The Company understands OPC's concerns regarding the impact of an SFV customer
12 charge on a low use customer, irrespective of whether that low consumption is a function
13 of the low income of the customer or the customer's use of gas appliances other than a
14 furnace that don't consume a lot of gas. Notably, I made a couple of proposals in my
15 direct testimony to attempt to avoid the adverse impact of SFV on low use customers
16 while at the same time providing for improved recovery of the Company's distribution
17 costs. Another alternative for the Commission to consider that would actually *reduce* the
18 relative amount that some low-use customers are paying today is to simply increase the
19 block 1 and block 2 PGA differential in the Company's current WMRD and thereby
20 offset increases in the Company's residential customer charge. Possible residential
21 customer charges to consider that don't move all of the way to SFV would be \$20 or \$25
22 in the summer and \$30 or \$35 in the winter. Accordingly, to the extent the OPC is truly
23 concerned about the low use customer, this type of a proposal along with what I proposed

1 in direct testimony provide workable, tested and thoroughly effective solutions for issues
2 that affect low use customers

3 Q. What do you mean by increasing the block 1 and block 2 PGA differential?

4 A. Altering the PGA rates for gas usage in blocks 1 and 2 so as to offset the impact of
5 moving all usage distribution charges into block 1 has been an underpinning of WMRD
6 ever since its inception in November 2002. In other words, the block 2 PGA rate is set
7 higher than the block 1 PGA rate to achieve a desired offset yet still collect the same
8 PGA dollars in total. I am proposing a similar kind of offset here for the proposed
9 increases in the customer charge. Specifically, I propose to increase the PGA differential
10 to \$.35 therm, which is where it was in November 2002. In addition, I would propose
11 that there be a differential year-round rather than in only the winter months.

12 Q. Have you prepared a schedule that demonstrates the impact of the various rate design
13 proposals being made in this case?

14 A. Yes. See Schedule MTC-S1 that is attached to my testimony. Unlike SFV, I should note
15 that even with the higher customer charges included in the new WMRD examples I
16 illustrate in this schedule, the Company still remains exposed to some degree of usage
17 losses.

18 Q. Despite your concerns with SFV, doesn't it solve the Company's cost recovery problems
19 associated with reduced customer usage?

20 A. Yes, it does but due to its adverse impacts on low use customers we would reluctantly
21 implement rates designed on that basis since we have offered alternatives to the
22 Commission that we believe are preferable from the standpoint of our customers. In
23 addition, should the Commission approve SFV instead of any of our other proposals, the

1 Company will be closely monitoring the possible loss of customers that could accompany
2 a change of this magnitude with an eye towards possibly requesting an Accounting
3 Authority Order to recover margin losses in a future rate case that are the fall-out of
4 implementation of SFV.

5 Q. Are there any other options for the Commission to consider as it weighs the pros and cons
6 of the various rate design solutions that you have proposed?

7 A. In the event the Commission has some reservations about the ramifications of SFV on the
8 Laclede system but is still hesitant to adopt any of the tracker type solutions the Company
9 has proposed to provide the Company with greater assurance of cost recovery in the face
10 of continued declines in customer usage, I would direct the Commission to the return on
11 equity adjustment discussed in the surrebuttal testimony of Company witness Murry.

12 Q. Are there any other factors that should be considered before rate design is resolved in this
13 proceeding?

14 A. Yes. As I proposed in my direct testimony, before the Company's rates in this proceeding
15 are finally established, it is important that the effect of potential rate switching be
16 reflected in the Company's rates.

17 Q. Why do the Company's rates need to be adjusted to reflect rate switching?

18 A. To keep the Company whole, the Company's rates must be adjusted to offset the revenue
19 anticipated to be lost from customers who switch rates due to rate changes resulting from
20 this proceeding.

21 Q. Does this conclude your testimony?

22 A. Yes, it does.

COMPARISON OF VARIOUS RESIDENTIAL RATE DESIGN PROPOSALS
Assumes \$45 million rate increase

	Annual Bill	Increase/ (Decrease)	
		Amount	%
Overall Average Increase- all rate schedules			4.5%
<u>Annual Use/Rate Design</u>			
300 therms annual use			
Existing	\$541		
WMRD plus \$35 winter/\$25 summer cust chg.; \$.35 PGA diff.*	\$570	\$29	5.3%
WMRD plus \$30 winter/\$20 summer cust chg.; \$.35 PGA diff.*	\$570	\$29	5.4%
WMRD plus \$25 winter/\$19.50 summer cust. chg. plus CUR	\$599	\$58	10.7%
SFV	\$620	\$79	14.6%
400 therms annual use			
Existing	\$623		
WMRD plus \$35 winter/\$25 summer cust chg.; \$.35 PGA diff.*	\$641	\$18	2.9%
WMRD plus \$30 winter/\$20 summer cust chg.; \$.35 PGA diff.*	\$647	\$24	3.9%
WMRD plus \$25 winter/\$19.50 summer cust. chg. plus CUR	\$678	\$56	8.9%
SFV	\$685	\$62	10.0%
600 therms annual use			
Existing	\$751		
WMRD plus \$35 winter/\$25 summer cust chg.; \$.35 PGA diff.*	\$792	\$41	5.5%
WMRD plus \$30 winter/\$20 summer cust chg.; \$.35 PGA diff.*	\$793	\$42	5.6%
WMRD plus \$25 winter/\$19.50 summer cust. chg. plus CUR	\$803	\$52	6.9%
SFV	\$816	\$65	8.6%
884 therms annual use- Typical residential customer			
Existing	\$955		
WMRD plus \$35 winter/\$25 summer cust chg.; \$.35 PGA diff.*	\$999	\$43	4.6%
WMRD plus \$30 winter/\$20 summer cust chg.; \$.35 PGA diff.*	\$1,003	\$48	5.0%
WMRD plus \$25 winter/\$19.50 summer cust. chg. plus CUR	\$1,001	\$46	4.8%
SFV	\$1,001	\$46	4.8%

* block 1 only distribution charges in both winter and summer

SCHEDULE MTC-51

In the Matter of Laclede Gas Company's)
Tariff to Revise Natural Gas Rate Schedules) Case No. GR-2010-0171

[illegible]

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director-Tariff & Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Michael T. Cline

Subscribed and sworn to before me this 19th day of July, 2010.

Karen R. Furline
Notary Public

