

*Exhibit No.:*  
*Issues:* *Miscellaneous Charges /  
Earmarking*  
*Witness:* *Michael J. Ensrud*  
*Sponsoring Party:* *MO PSC Staff*  
*Type of Exhibit:* *Rebuttal Testimony*  
*Case No.:* *GR-2014-0007*  
*Date Testimony Prepared:* *March 4, 2014*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**  
**Tariff, Safety, Economic & Engineering Analysis**

**REBUTTAL TESTIMONY**

**OF**

**MICHAEL J. ENSRUD**

**MISSOURI GAS ENERGY (MGE)**  
**a Division of Laclede Gas Company**

**CASE NO. GR-2014-0007**

*Jefferson City, Missouri*  
*March 2014*

**\*\* Denotes Highly Confidential Information \*\***

**NP**

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**CASE NO. GR-2014-0007**

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PURPOSE OF TESTIMONY ..... 1

RECONNECTION CHARGE ..... 2

    Precedent of Cost-based Miscellaneous Charges ..... 2

    Specific Customers Should be held Responsible for the Costs They Generate ..... 3

    Overcharge Low-income Customers to Subsidize Low-income Customers? ..... 3

EARMARKING ..... 3

    Two Hundred Percent Increase in Late Payment Fee..... 5

1 **REBUTTAL TESTIMONY**

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5 **a Division of Laclede Gas Company**

6 **CASE NO. GR-2014-0007**

7 Q. Please state your name and business address.

8 A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

9 Q. Are you the same Michel J. Ensrud whose direct testimony in this case appears  
10 in Section VI, of the Missouri Public Service Commission Staff's ("Staff") Cost of Service  
11 Report ("COS Report") filed in this proceeding on January 29, 2014?

12 A. Yes, I am.

13 Q. Did you provide any schedules attached to the COS Report?

14 A. Yes. Appendix 1 contained my credentials and a list of cases in which I have  
15 previously filed testimony as well as the issues that I have addressed in testimony.  
16 Additional, Appendix 3 contained my Schedule MJE 1.

17 **PURPOSE OF TESTIMONY**

18 Q. What is the purpose of your testimony?

19 A. I will address the proposal of Missouri Gas Energy, a Division of Laclede Gas  
20 Company ("MGE") relating to miscellaneous charges. In addition, I'll explain the practice  
21 of "earmarking" certain incremental revenues derived from increasing two  
22 miscellaneous charges.

**RECONNECTION CHARGE**

1  
2 Q. What is Staff's response to MGE's proposal to increase the reconnection  
3 charge?

4 A. Staff opposes MGE's proposed \$30.00 increase to its reconnection charge from  
5 its \$65.00<sup>1</sup> tariff rate, to a proposed \$95.00<sup>2</sup> tariff rate. Staff has requested traditional cost  
6 support from MGE in at least two data requests in order to support the \$95.00 rate. Initially,  
7 MGE referenced Staff to cost support using data from calendar year 2007.<sup>3</sup> (See Schedule MJE 2)

8 The use of this old study does not justify or support a \$95.00 reconnection charge.  
9 (See Schedule MJE 2) After MGE's initial response, Staff sought updated cost support, but  
10 none was forthcoming. (See Schedule MJE 3)

11 **Precedent of Cost-based Miscellaneous Charges**

12 Q. Is the Staff position of basing miscellaneous charges on costs consistent with  
13 Commission practice?

14 A. Yes. The practice of the Commission supporting "cost-based" reconnection  
15 charges is long established. An example of this occurred in the Atmos Energy Corporation's  
16 Case No. GR-2006-0387. The Commission stated the following:

17 In addition, the Commission finds that it is reasonable to align  
18 the charges with the actual costs to provide the service.

19 ...

20 The Commission finds the proposed charges to be **just and**  
21 **reasonable based on the actual costs to provide such services**  
22 and shall adopt them.<sup>4</sup> (**Emphasis added**)

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<sup>1</sup> MGE's – P.S.C. No. 1 / Fourth Revised - SHEET No. R-87.

<sup>2</sup> MGE's – P.S.C. No. 6 / Fifth Revised - SHEET No. R-87.

<sup>3</sup> GR-2009-0355 / Response to DR 0116.

<sup>4</sup> Report & Order - In the Matter of Atmos Energy Corporation's Tariff Revision Designed to Consolidate Rates and Implement a General Rate Increase for Natural Gas Service in the Missouri Service Area of Atmos. (Case No. GR-2006-0387) / 22nd day of February, 2007 / page 26 & 27.

1 **Specific Customers Should be held Responsible for the Costs They Generate**

2 Q. Please explain why cost-based rates are just and reasonable for reconnection  
3 charges in this case.

4 A. If a customer generates a unique, traceable cost that benefits that specific  
5 customer, then that customer should pay that specific cost that he/she generated. This is  
6 generally considered the concept of “cost causer should be cost payer.” The Staff supports  
7 this concept for its miscellaneous tariff rates.

8 **Overcharge Low-income Customers to Subsidize Low-income Customers?**

9 Q. What does MGE propose to do with the additional revenue that will be  
10 generated by the proposed reconnection charge?

11 A. MGE claims the additional money generated will be earmarked for low-  
12 income energy affordability and weatherization programs (Lindsey / Direct – Pages 12 &13/  
13 Lines 19 -2).

14 Q. What is Staff’s response to this proposal?

15 A. Staff is opposed. This proposal would establish a subsidy by overcharging  
16 customers for a reconnection. A higher percentage of customers who incur a reconnection  
17 charge are low-income customers than are the total customer base – on a national average.  
18 (See Schedule MJE 4) MGE’s request is not just and reasonable because it would result in  
19 low income customers contributing more to fund low-income energy affordability and  
20 weatherization programs than would other customers.

21 **EARMARKING**

22 Q. Is there any other aspect of MGE’s reconnection charge request that  
23 Staff opposes?

1           A.     MGE requests that these additional (incremental) revenues from the increase in  
2 the reconnection charge and the late payment charge should not be included in the revenue  
3 requirement in this case. These “earmarked” monies will be treated as a separate pot of funds,  
4 and it remains unclear what exactly MGE intends to do with this money. (See  
5 Schedule MJE 5).

6           Schedule MJE 5 shows that MGE has made a number of references in testimony and  
7 DR responses indicating that future negotiation will take place to clarify or define where  
8 earmarked money from the increased reconnection and late payment charges can go.  
9 However, the issue has yet to be resolved.

10           After reviewing testimony and discovery responses, Staff found differing proposals for  
11 how the money would be used:

- 12           • To pay down MGE’s arrearages. Assuming MGE is referring to uncollectables  
13 or “bad debt,” MGE already is being reimbursed for this in its revenue  
14 requirement.
- 15           • To fund “low income weatherization program” - which is already funded with  
16 \$750,000 of rate payer money<sup>5</sup>.
- 17           • “To fund a new low income energy affordability program to assist MGE’s  
18 most vulnerable customers in retaining gas service year round”.
- 19           • Fund the \$450 indigent “Red Tag” program” provision
- 20           • Fund the “appliance repairs or customer owned piping defects” provision.  
21 (Indications are the costs of the “provision” are taking place & embedded in  
22 the revenue Requirement.)

23 All these bullet points are based upon quotes included in Schedule MJE 5.

24           Staff is left to assume that MGE is free to pick and choose where the money goes  
25 among and between these various possible expenditures. It would appear MGE could spend  
26 all the money on any particular program, divide it among programs, or not spend any of the

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<sup>5</sup> Schedule MJE 5. See also Direct Testimony Mike Noack/ Page 13 / Lines 17 – 22.

1 money on any of the programs, all at MGE's discretion. Nor is there any constraint that  
2 would limit MGE's ability to simply hold the earmarked money being collected. Finally,  
3 nothing indicates what limits, if any, exists, on how earmarked money can be spent. The  
4 above "list" may not be all-inclusive.

5 Finally, it is important to note that MGE currently is being reimbursed for  
6 uncollectables,<sup>6</sup> and for weatherization and low-income programs that are in place. Those  
7 programs have already been considered in current rates. If MGE can reserve additional  
8 revenue for these costs a second time by earmarking these funds without a reduction to the  
9 proposed revenue requirement, then doubled recovery of those costs will occur.

#### 10 **Two Hundred Percent Increase in Late Payment Fee**

11 Q. What does MGE request regarding the late payment fee?

12 A. MGE is requesting an increase in the existing fee from 0.5 percent to  
13 1.5 percent.

14 Q. How does MGE justify a 200 percent increase in the Late Payment Fee?

15 A. MGE states that the increase will be earmarked primarily for paying for  
16 arrearages, and for low-income type programs and weatherization<sup>7</sup>. Exactly how MGE will  
17 use this additional revenue is unknown. This issue is identical to the reconnection fee issue.

18 Q. What other responses do you have to this requested increase?

19 A. MGE Witness Lindsey states the increase in the late payment fees is justified  
20 in order "to be more in line with the fees charged by both regulated and unregulated businesses."  
21 (Lindsey Direct / Page 13 / Lines 1& 2). MGE is not the only utility to have a 0.5 percent late

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<sup>6</sup> Uncollectables are generally treated as a subset of arrearages.

Rebuttal Testimony of  
Michael J. Ensrud

1 payment fee. Empire also has a 0.5 percent tariffed rate.<sup>8</sup> However, the other regulated gas  
2 utilities have a 1.5 percent late payment fee. In this case, MGE did not offer any cost support  
3 for its Late Payment Fees, other than stating the late payment rate is consistent with other  
4 regulated and unregulated businesses.

5 Q. Does this conclude your rebuttal testimony?

6 A. Yes. It does.

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<sup>8</sup> Tariff PSC-MO-2 /1<sup>st</sup> Revised Sheet No. 53.



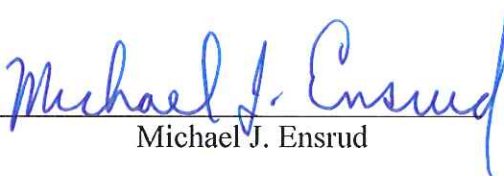
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Missouri Gas Energy, Inc.'s )  
Filing of Revised Tariffs to Increase its Annual ) Case No. GR-2014-0007  
Revenues for Natural Gas )

AFFIDAVIT OF MICHAEL J. ENSRUD

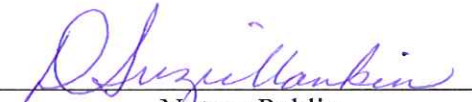
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Michael J. Ensrud

Subscribed and sworn to before me this 4<sup>th</sup> day of March, 2014.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070
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Notary Public

**SCHEDULE MJE 2**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**

**NP**

**SCHEDULE MJE 3**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**

**NP**

# **LIHEAP Home Energy Notebook**

## **For Fiscal Year 2009**



**U.S. DEPARTMENT OF  
HEALTH AND HUMAN SERVICES  
Administration for Children and Families  
Office of Community Services  
Division of Energy Assistance  
September 2011**

below 75% of State median income, and those with income above 75% of State median income but at or below 100% of State median income.

Table 5.9 presents information on the number of households having energy affordability problems by income group. According to the SIPP, an additional 10.6 million households are, under the Federal maximum LIHEAP income standard, made income eligible for LIHEAP by the increase in that standard. The table shows that there are about 2.7 million households with income at or below poverty that had bill payment problems. Nearly 600 thousand of such households experienced a service disconnection. There are about 1.3 million households with income above 60% but at or below 75% of State median income that had bill payment problems. Nearly 250 thousand of such households experienced a service disconnection.

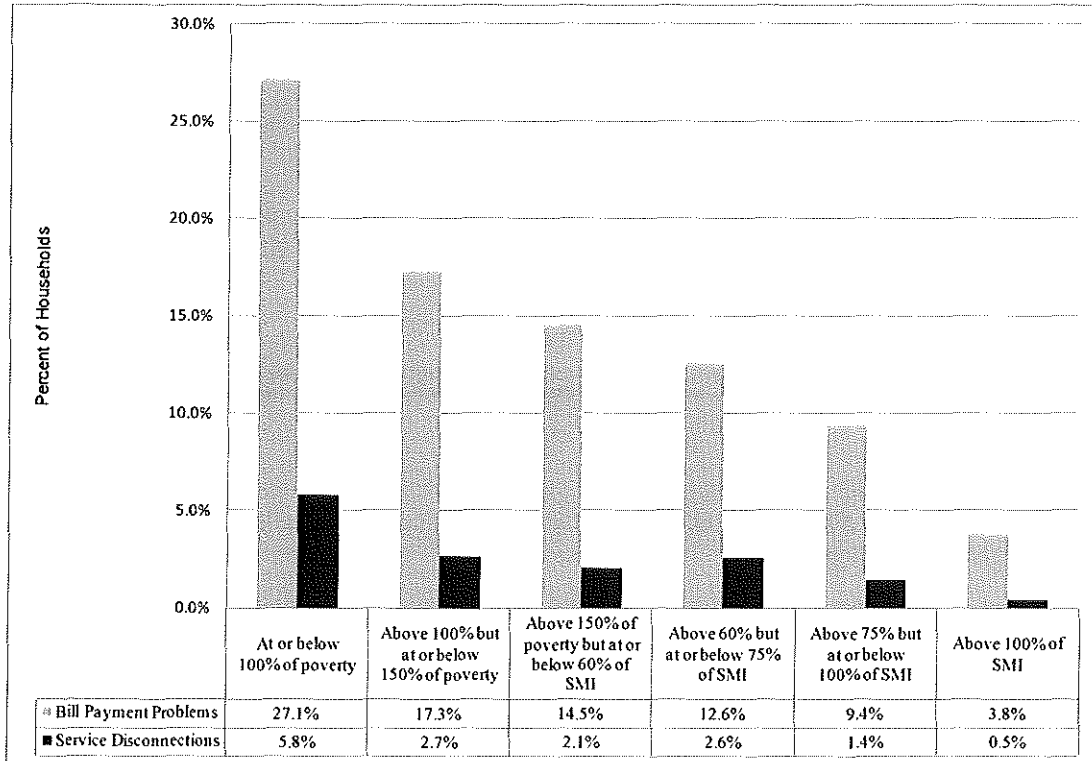
**Table 5.9. Number of Households Having Energy Affordability Problems by Income Group, 2005**

<b>Income Group</b>	<b>Total Number of Households</b>	<b>Number of Households with Bill Payment Problems</b>	<b>Number of Households with Service Disconnections</b>
<=100% of poverty	9,873,658	2,678,410	574,757
100% <income<=150% of poverty	10,621,868	1,834,904	282,926
150% of poverty <income<=60% of SMI	10,380,973	1,505,233	213,457
60% <income<=75% of SMI	10,614,062	1,333,995	277,079
75% <income<=100% of SMI	16,519,242	1,547,162	238,407
Income>100% SMI	53,848,966	2,024,450	242,034

SOURCE: 2004 SIPP Panel

Figure 5.1 shows the percentage of households having bill payment problems and service disconnections by income group. It is clear from the figure that as the household income increases, the likelihood of having bill payment problems decreases. For example, while 27.1% of the households with income at or below HHS Poverty Guidelines (“poverty”) reported having bill payment problems, only about 3.8% of households with income above the State median income reported that. Similarly, the higher the household income, the lower is the incidence of service disconnections. However, it is interesting to note that households with income above the Federal income standard but at or below 75% of the State median income experienced a slightly higher rate of service disconnections (2.6%) than households with income above 150% of poverty but at or below the 60% of the State median income (2.1%). This may be due to the fact the former group of households was not, under the Federal maximum LIHEAP income standard, income eligible for LIHEAP at the time of the SIPP survey but the latter group was.

Figure 5.1. Energy Affordability Problems by Income Group, SIPP, 2005



SOURCE: 2004 SIPP Panel

## Study implications

OCS funded this study to analyze energy affordability problems for low income households using the 2005 SIPP data and compare the SIPP findings with those of the 2005 RECS to assess the consistency findings between the two surveys. The study also included a special analysis of household net worth and income dynamics and a special analysis of income groups that could not be performed using the RECS data.

The study answers many of the following important questions posed by OCS at the beginning of the study:

*Question #1 – Are the SIPP and RECS findings consistent for the level and type of energy affordability problems among low income households?*

*Answer* – No. The study found that while there are some similarities in the findings from the RECS and the SIPP, there are also some important differences in the incidence of energy bill payment problems and energy service disconnections between the geographic and demographic subgroups that the study looked at. One major difference between the SIPP and RECS findings is that SIPP not only shows a lower overall incidence of bill payment problems and energy service disconnections for low income households but also a consistently lower incidence of such problems for every subgroup that the study analyzed.

*Question #2 – Are the SIPP and RECS findings consistent for the rate of energy affordability problems for elderly vs. non-elderly households?*

Missouri Gas Energy  
Case No. GR-2014-0007

**What MGE's Testimony and Data Request Responses say about how earmarked money will be treated, what will be specifically done with the money, and when decisions will be made about how the generated money will be spent:**

**TESTIMONY**

*Q. HOW WOULD SUCH A PROGRAM BE STRUCTURED?*

*A. As Company witness Steven Lindsey has said in his direct testimony, **the Company is not trying to pre-determine exactly how such a program should be structured.*** (Emphasis added) (Noack Direct / Page 14 / Lines 18 – 21)

**TESTIMONY**

*Q. WHAT CHANGES TO MGE'S CURRENT PROGRAMS SHOULD BE MADE TO ACHIEVE THIS GOAL?* (Lindsey / Direct – Page 13/ Lines 15 & 16)

*A. . . . Accordingly, rather than put a stake in the ground on the specific contours of such a program, **I am signaling the Company's strong commitment to sit down with these parties during the course of this proceeding to see what sensible solutions we can develop together.*** (Emphasis Added) (Lindsey / Direct – Page 14 / Lines 7 -10)

This indicates the details will be discussed at a later date.

**TESTIMONY**

*Q. PLEASE IDENTIFY THE ADDITIONAL SOURCES OF REVENUE THAT COULD BE USED TO FUND OR EXPAND THE COMPANY'S LOW-INCOME ENERGY AFFORDABILITY AND WEATHERIZATION PROGRAMS.*

*A. These potential sources include the added revenues that would be generated by increasing MGE's late payment charge from .5% to 1.5% and by increasing its existing reconnection charge by \$30. (Noack Direct / Page 15, Line 19 through Page 16, Lines 3)*

This testimony indicates earmarked monies will go to Low Income and Weatherization Program-activities already included in the current revenue requirement.

## TESTIMONY

**Q. HOW WOULD SUCH A PROGRAM BE STRUCTURED?**  
(Noack Direct / Page 14 / Line 18)

A. . . . **Among other things**, these include provisions that help eligible customers **to pay for arrearages that have accumulated during the winter heating season.** (Emphasis Added) (Page 15 / Lines 4 through 7)

The use of the term “Among other things” is a clear indication that MGE has other purposes in mind for “earmarked” money. Staff has made repeated attempts to determine what those “other things” (others uses) are - in their entirety.

Staff’s second point is that MGE seeks an additional \$4,372,730 in “bad debt expense or uncollectable expense” (Noack Direct / Page 10 / Line 22), while only a few pages later, states “earmarked” money will go “to pay arrearages that have accumulated during the winter season”. Without more specificity, double recovery is possible.

## VARIOUS DR RESPONSES AS TO HOW THE MONEY WILL BE SPENT

### **DR No. 0096:**

Staff asked the following question: “Please provide cost information (by sub-category and composite summary) as to what costs were incurred on a monthly basis and the respective number of each sub-category of Reconnection chare that generated those associated costs for the past 36 months.”

MGE provided the following response: “Please refer to the response to DR 0116 in case GR-2009-0355. Since there has not been a request made in this case for an increase to other charges based on costs, **MGE did not perform another study of the costs incurred. The requested increase in the reconnection charge from \$65 to \$95 is primarily for the purpose of funding a low income program to help customers pay for arrearages accumulated during the winter heating season.**” (Emphasis Added).

### **DR No. 0135.**

#### **Question:**

. . . 3) For what specific “**LOW-INCOME ENERGY AFFORDABILITY AND WHETHERIZATION PROGRAMS**” is MGE committing to spend the earmarked money? (What is the distribution of the earmarked funds



among & between various “LOW-INCOME ENERGY AFFORDABILITY AND WHETHERIZATION PROGRAMS”?)

There MGE states:

**Response:** As discussed in the Company’s direct testimony, **MGE believes the most effective way to address this issue is to have an open and constructive dialogue with the Staff, the Office of the Public Counsel, and other interested stakeholders over how such programs can be best structured and funded.** That is how such programs have been historically developed in the past and MGE is committed to working with the parties in a similarly constructive process in this case. (Emphasis added)

**DR No. 0194.**

**Question #1**

**How does MGE specifically propose to use earmarked money collected from the additional reconnection charge revenues and increased late payment fees? Please provide details about how, when and for what the earmarked money will specifically be spent.**

There MGE states:

**Response:**

MGE had proposed using the earmarked funds for two purposes. First, **to fund a red-tag program similar to the one Laclede Gas currently has in effect whereby up to \$450 would be paid for needed appliance repairs or customer owned piping defects instead of red-tagging the appliance and not turning on service.** The second use would be **to fund a new low income energy affordability program to assist MGE’s most vulnerable customers in retaining gas service year round.** Because of the earmarking concerns expressed by some of the parties, however, the Company in its latest settlement proposal **has decoupled the proposed increases in these fees from funding the programs mentioned above, and has addressed each of these items separately in the proposed stipulation and agreement.** (Emphasis Added)

**Question #2**

Does MGE have other uses for the earmarked funds other than customer arrearages? Please provide copies of all support for those proposals.

There MGE states:

**Response:** Please see the response to Question #1.

This response includes no references to arrearages, and no reference to using the money for low-income or weatherization programs.

**DR No. 0199.**

**Question #1**

Provide a list of all expenditure types that MGE believes constitutes a valid application of MGE's "Low Income Energy Affordability and Weatherization Programs."

There MGE states:

**Response:**

As part of its previous settlement offer in this case, the Company provided a specimen tariff containing proposed terms and conditions for a low-income energy affordability program. Expenditures on the program **would consistent [consist] primarily of the arrearage repayment assistance and rate discounts specified in the proposed tariffs.** (Emphasis Added)

**Question #2**

What happens if the earmarked monies collected exceeds the specific needs of MGE's "Low Income Energy Affordability and Weatherization Programs?" How are remaining dollars treated?  
\*Mike Noack Direct Testimony / Page 15 – Lines 20 to 22 \*\*Mike Noack Direct Testimony / Page 15 & - Lines 19 to 21 & Lines 4 to 7

There MGE states:

**Response:**

Based on comments received from the Staff, the **Company did not seek in its settlement proposal to specifically tie the increase in**

**delayed payment and reconnection charge revenues to funding the low income energy affordability program. As a result, it did not seek to address how "excess" revenues would be treated.**  
(Emphasis Added)

This response is a clear acknowledgement that MGE has not settled on a use for the excess revenues. In short, MGE's testimony is unclear about how it will spend the money generated by its requested increases to reconnection charges and late payment fees.