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Witness: Henry E. Warren
Sponsoring Party: MO PSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

HENRY E. WARREN

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

Staff Exhibit No. 67
Case No(s) GR-2009-0355
Date 10-26-09 Rptr XF

Jefferson City, Missouri
October 2009

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

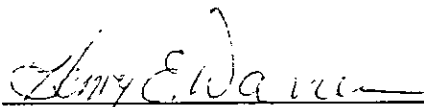
In the Matter of Missouri Gas Energy and)
Its Tariff Filing to Implement a General)
Rate Increase for Natural Gas Service)

Case No. GR-2009-0355

AFFIDAVIT OF HENRY E. WARREN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Henry E. 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 7 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.

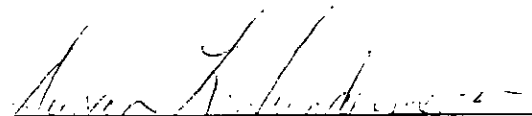


Henry E. Warren

Subscribed and sworn to before me this 14th day of October, 2009.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public

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Table of Contents

SURREBUTTAL TESTIMONY

OF

HENRY E. WARREN

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

1. EXECUTIVE SUMMARY	1
2. REBUTTAL TESTIMONY OF LARRY W. LOOS, MISSOURI GAS ENERGY	2
3.1 REBUTTAL TESTIMONY OF RYAN KIND, THE OFFICE OF THE PUBLIC COUNSEL, ENERGY EFFICIENCY	3
3.2 REBUTTAL TESTIMONY OF DAVID HENDERSHOT AND MIKE NOACK, MISSOURI GAS ENERGY, ENERGY EFFICIENCY	4
3.3 REBUTTAL TESTIMONY OF JOHN BUCHANAN, MISSOURI DEPARTMENT OF NATURAL RESOURCES, ENERGY CENTER, ENERGY EFFICIENCY	4
4. STAFF RECOMMENDATION.....	6

1
2
3
4
5
6
7
8
9
10
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SURREBUTTAL TESTIMONY

OF

HENRY E. WARREN

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

13 Q. Please state your name and business address.

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

16 Q. Are you the same Henry E. Warren that contributed to the Staff Revenue
17 Report (Staff Revenue Requirement Report) filed August 21, 2009, the Staff Cost-of-
18 Service and Rate Design Report (Staff COS Report) filed on September 3, 2009, and filed
19 Rebuttal Testimony on September 25, 2009?

20 A. I am.

1. EXECUTIVE SUMMARY

21 Q. What is the purpose of your rebuttal testimony?

22 A. My rebuttal testimony will address two issues: 1) regarding weather
23 normalization of test year volumes, I will respond to the rebuttal testimony of Missouri
24 Gas Energy's (MGE or Company) witness Larry W. Loos; and 2) regarding the issue of
25 MGE's revenue collections and expenditures on Residential and Small General Service
26 (SGS), Energy Efficiency (EE) Programs, and the MGE Energy Efficiency Collaborative
27 (EEC), I will respond to the rebuttal testimony Office of Public Counsel (OPC) witness
28 Ryan Kind. Regarding EE programs, I will also respond to the rebuttal testimony of
29 MGE's witnesses David Hendershot and Mike Noack; and to the rebuttal testimony of

Surrebuttal Testimony of
Henry E. Warren

1 Missouri Department of Natural Resources – Energy Center (DNR Energy Center)
2 witness John Buchanan.

3 **2. REBUTTAL TESTIMONY OF LARRY W. LOOS, MGE, ON VOLUMES**
4 **ADJUSTED TO NORMAL WEATHER**

5 Q. What rebuttal testimony did MGE Witness Larry W. Loos; submit
6 regarding MGE sales volumes adjusted to normal weather?

7 A. In his rebuttal testimony, Mr. Loos addresses the topic: *1) Staff's*
8 *adjustment of sales to reflect the average heating degree days during the 30-year period*
9 *ended 2000 (Staff's adjustment to sales).*

10 Q. Which questions and responses (Q&A) of the rebuttal testimony of Mr.
11 Loos will you address in your surrebuttal testimony?

12 A. I will address the first two Q&A on page 3 of his rebuttal testimony.

13 Q. What deficiencies do you find in his response to his first question
14 regarding general observations regarding Staff's proposed revenue adjustment?

15 A. Mr. Loos states:

16 With regard to its 365 day adjustment, Staff assumes that each
17 of the 21 billing cycles is equal. In other words implicit in
18 Staff's approach is the underlying assumption that the number
19 of meters read in Billing Cycle 1 is equal to the number of
20 meters read in Cycle 2; the number of meters read in Cycle 2 is
21 equal to the number of meters read in Cycle 3; and so forth.

22
23 With regard to its weather normalization adjustment, Staff
24 again implicitly assumes that the number of meters read in each
25 of the 21 billing cycles are the same. Staff also implicitly
26 assumes that sales reported in each billing cycle are the same.

Surrebuttal Testimony of
Henry E. Warren

1 Q. Are these statements factual and accurate?

2 A. No. In the spreadsheets in the workbook for each of the customer classes
3 (Residential, SGS, and Large General Service - LGS) there are columns labeled
4 *Customer Weighting*. In this section of the spreadsheet the volumes per day are
5 calculated for each cycle and then aggregated into monthly volumes or *Use per Customer*
6 *per Day* (U/C/D). Similarly, the read cycle Heating Degree Days (HDD) per day (D) are
7 calculated and aggregated for each month (HDD/D). This procedure effectively weights
8 the cycles by the customers in each cycle for the dependent variable in the regression
9 U/C/D, so contrary to the statement by Mr. Loos, Staff's method does not assume the
10 same number of customers in each cycle.

11 As a result of using a more accurate dependent variable i.e. *use per customer per*
12 *day* U/C/D and a more accurate independent variable and that reflects the customers in
13 each cycle, subsequently *HDD/D*, the coefficient of *HDD/D* computed in the regression
14 analysis, i.e. *use per customer per HDD*, is calculated on cycles weighted by the
15 appropriate number of customers.

16 **3.1 REBUTTAL TESTIMONY OF RYAN KIND, THE OFFICE OF THE**
17 **PUBLIC COUNSEL, ENERGY EFFICIENCY PROGRAMS,**

18 Q. What rebuttal testimony did OPC Witness Ryan Kind; submit regarding
19 MGE revenue collections and expenditures on EE Programs and the MGE EEC?

20 A. In his rebuttal testimony, Mr. Kind addresses several issues involving the
21 EEC and EE programs for SGS including: 1) that MGE EEC facilitated the development
22 and implementation of EE programs and should be continued; 2) that there is a need for
23 specific set of MGE SGS EE programs for EE funding to include these programs; 3) that

Surrebuttal Testimony of
Henry E. Warren

1 the link between an SGS straight fixed variable (SFV) rate design for the SGS class and
2 SGS EE programs; and 4) that overall funding for MGE EE programs should be
3 examined.

4 **3.2 REBUTTAL TESTIMONY OF DAVID HENDERSHOT AND MIKE**
5 **NOACK, MISSOURI GAS ENERGY – ENERGY EFFICIENCY PROGRAMS;**

6 Q. What rebuttal testimony did MGE Witness David Hendershot submit
7 regarding MGE revenue collections and expenditures on EE Programs and the MGE
8 EEC?

9 A. In his rebuttal testimony, Mr. Hendershot addresses: 1) the link between
10 the SFV rate design and MGE EE programs; 2) funding of MGE Residential and SGS
11 EE programs; 3) continuation of the EEC; and 4) specific SGS EE programs. Mr. Noack
12 in his rebuttal testimony proposes that MGE would continue the funding of the EE
13 program through rates as proposed, and would agree to segregate the funds received in
14 rates, but not spent to date and any new funds received and accrue interest on a going
15 forward basis at the short-term debt rate included in the approved capital structure.

16 **3.3 REBUTTAL TESTIMONY OF JOHN BUCHANAN, MISSOURI**
17 **DEPARTMENT OF NATURAL RESOURCES, ENERGY CENTER –**
18 **ENERGY EFFICIENCY PROGRAMS**

19 Q. What rebuttal testimony did DNR Energy Center Witness John Buchanan
20 submit regarding MGE revenue collections and expenditures on EE Programs and the
21 MGE EEC?

22 A. In his rebuttal testimony, Mr. Buchanan addresses: 1) the appropriate
23 levels of funding for MGE EE programs and methods of funding; and 2) the MGE EEC.

Surrebuttal Testimony of
Henry E. Warren

1 | Mr. Buchanan recommends that the funding for EE programs increase to \$4 million per
2 | year in 2010 and further increase to \$7 million by 2012 -- including the addition of EE
3 | programs for SGS customers in that funding. Mr. Buchanan recommends continuing the
4 | EEC as non-voting, non-binding advisory group in his testimony.

5 | Q. What is your response to the rebuttal testimony of OPC Witness, Mr.
6 | Kind; the rebuttal testimony of MGE Witnesses, Mr. David Hendershot, and Mr. Mike
7 | Noack; and the rebuttal testimony of EC Witness Mr. Buchanan regarding MGE EE
8 | Programs?

9 | A. In their rebuttal testimony, these witnesses addressed MGE's revenue
10 | collections and expenditures on EE Programs, MGE's EEC, and proposed provisions for
11 | MGE EE programs going forward. I will address these in the aggregate.

12 | While Staff supports EE programs, at this time I recommend that MGE's EE
13 | Programs continue to be funded from revenues at \$750,000 per year, with any surplus
14 | funds earning interest as proposed. Any EE programs for SGS should be included in this
15 | funding if those customers' rates include this part of the revenue requirement. Most of
16 | the current MGE EE programs need further evaluation before any additional funding of
17 | additional programs is implemented. Several of the SGS programs proposed by Mr.
18 | Hendershot have shown a measure of success as implemented by other Missouri natural
19 | gas local distribution companies and the EEC should consider these programs for MGE.
20 | The EEC should be reconstituted as a non-binding advisory group, so that Staff will be
21 | able to provide independent evaluations of MGE EE program results.

4. STAFF RECOMMENDATION

Q. What is your recommendation regarding the rebuttal testimony of MGE witness Mr. Loos regarding customer characteristics and the adjustment to volumes for normal weather?

A. Mr. Loos does not properly characterize Staff's calculation of the U/C/D for the customer classes and subsequently does not properly characterize Staff's use per customer per HDD. It is important that usage per customer per HDD be accurate because this determines the adjustment to volumes based on the difference between test year and normal HDD.

Since Mr. Loos' rebuttal criticism is incorrect, I recommend that, if the Commission does not adopt the SFV rate design, the Commission adopt Staff's adjustments to volumes for normal HDD for the Residential, SGS and LGS classes.

Q. What is your recommendation regarding the rebuttal testimony of witnesses Mr. Kind, OPC, Mr. Hendershot, MGE, Mr. Mike Noack, MGE, and Mr. Buchanan, DNR Energy Center regarding EE programs, the collection and distribution of funds for EE Programs and the EEC?

A. My recommendation is MGE should continue to collect \$750,000 per year for EE Programs with some funding coming from and going to the SGS customers and interest being collected going forward on any unspent balances. The EEC should be reconstituted as a non-binding advisory group.

Q. Why do you recommend a non-binding advisory group?

A. Decisions about the EE programs ultimately need to be Company decisions. Staff and other stakeholders may be effective advisors while not directly

Surrebuttal Testimony of
Henry E. Warren

1 | determining the expenditure of funds by the Company. Staff and other stakeholders do
2 | need to be able to do an independent analysis of the effectiveness of EE programs;
3 | consequently Staff agrees with Mr. Buchanan that the EEC be reconstituted as an
4 | advisory group.

5 | Q. Does this conclude your surrebuttal testimony?

6 | A. Yes, it does.