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LACLEDE GAS COMPANY
GR-2002-356
SURREBUTTAL TESTIMONY
OF
PAUL H. RAAB

August 23, 2002

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

IN THE MATTER OF LACLEDE GAS)
COMPANY'S TARIFF TO REVISE)
NATURAL GAS RATE SCHEDULES)

Case No. GR-2002-356

AFFIDAVIT OF PAUL H. RAAB


STATE OF MARYLAND)
) ss
COUNTY OF MONTGOMERY)

Paul H. Raab, of lawful age, on his oath states: that he has participated in the preparation of the following written testimony in question and answer form, consisting of 10 pages of testimony to be presented in the above case, that the answers in the following written 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.



Paul H. Raab

Subscribed and sworn to before me this 10 day of August, 2002.



Notary Public



LIONEL HANNIBLE BUTLER
Notary Public, State of Maryland
My Commission Expires May 14, 2005

My commission expires _____

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2

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TABLE OF CONTENTS

4

5 I. THE WEATHER MITIGATION CLAUSE..... 2

6 II. THE RATE DESIGN PROPOSAL..... 5

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **PAUL H. RAAB**

4 **CASE NO. GR-2002-356**

5 **LACLEDE GAS COMPANY**

6
7 Q. PLEASE STATE YOUR NAME.

8 A. My name is Paul H. Raab.

9 Q. ARE YOU THE SAME PAUL H. RAAB WHO HAS PREVIOUSLY CAUSED TO
10 BE FILED REBUTTAL TESTIMONY IN THIS DOCKET?

11 A. Yes.

12 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies
14 of Public Counsel witness Ryan Kind and Staff witness James M. Russo as it
15 relates to the Company's Weather Mitigation Clause (WMC) proposal (Section I)
16 and to respond to the rebuttal testimony of Public Counsel witness Kind as it
17 relates to the Company's weather mitigation rate design proposal (Section II).
18 Since return on equity has been resolved as part of the revenue requirement
19 settlement in this case, I will not address any weather-related arguments that
20 have been made by Staff and Public Counsel witnesses regarding ROE before
21 the settlement was reached.

1 **I. THE WEATHER MITIGATION CLAUSE**

2 Q. WHY DOES PUBLIC COUNSEL WITNESS RYAN KIND OPPOSE THE
3 COMPANY'S PROPOSED WMC?

4 A. Witness Kind's primary objection to the Company's WMC proposal is that he
5 believes that implementation of the WMC would effectively "guarantee" that
6 Laclede will recover its cost of service. (Rebuttal Testimony of Ryan Kind, page
7 9, line 15 – page 10, line 20). Witness Kind also advances a number of
8 subsidiary arguments. Specifically, he argues that the proposal would:

- 9 1. Virtually eliminate Laclede's weather risk but not provide significant
10 benefits to Laclede's customers. (Kind Rebuttal Testimony, page 19, lines
11 19-20 and page 14, line 1 – page 19, line 15)
- 12 2. Not be consistent with the purposes of regulation. (Kind Rebuttal
13 Testimony, page 19, line 21 and page 20, line 20 – page 21, line 18)
- 14 3. Charge customers in future periods for gas that is not consumed in prior
15 periods. (Kind Rebuttal Testimony, page 19, lines 22-23 and page 21,
16 lines 19-25)
- 17 4. Dilute the price signal that now exists between the quantity of gas
18 consumed and the amount charged for that consumption. (Kind Rebuttal
19 Testimony, page 20, lines 1-2 and page 21, line 26 – page 22, line 9)
- 20 5. Create radical changes in the manner in which customers are billed and
21 PGA/ACA rates are determined. (Kind Rebuttal Testimony, page 20, lines
22 3-4 and page 22, lines 10–19)

6. Increase the complexity of the rate structure. (Kind Rebuttal Testimony, page 20, line 6 and page 22, line 20 – page 23, line 7)
7. Lead to increased costs. (Kind Rebuttal Testimony, page 20, lines 11-13 and page 23, lines 14–21)
8. Create rates that discriminate between customers in different divisions of Laclede's service territory. (Kind Rebuttal Testimony, page 20, lines 14-16 and page 23, line 22 – page 24, line 4)
9. Not be consistent with customer wishes concerning billing. (Kind Rebuttal Testimony, page 20, lines 17-19 and page 24, lines 5–14)

Q. DO YOU AGREE WITH THESE CRITICISMS OF THE COMPANY'S WMC PROPOSAL?

A. I agree with none of them, and have responded to most of them already in my rebuttal testimony. For example, I discussed in my rebuttal testimony that the WMC proposal, if implemented, would do little to shield the Company from what I believe are more significant risks. In response to Mr. Kind's other arguments related to the WMC:

1. While the WMC will reduce Laclede's weather risk, it will also provide the significant benefit to Laclede's customers that they pay only cost of service for the natural gas they consume—no more and no less.
2. The WMC is entirely consistent with a competitive environment. For example, my home is insured by State Farm Insurance Company, which provides insurance in a competitive market (i.e., I can purchase insurance from any number of carriers, but choose State Farm). Each year, I do not

1 know how much my insurance will cost, since it will be a function of the
2 losses (or lack thereof) that the Company will face over the year.
3 Furthermore, the amount of money that I get back or am required to pay
4 will largely be determined by the weather.

5 3. The WMC will appropriately and correctly charge customers in future
6 periods for service that they consumed but did not pay for, and refund to
7 customers in future periods for service that they did not consume but paid
8 for.

9 4. The WMC will provide a better price signal than now exists between the
10 quantity of gas consumed and the amount charged for that consumption.

11 5. The WMC will not create radical changes in the manner in which
12 customers are billed and PGA/ACA rates are determined. In my
13 experience in Kansas, most customers do not even notice the changes.

14 6. The WMC will not significantly increase the complexity of the rate
15 structure. Again, if my experience in Kansas is any indication of customer
16 acceptance and understandability, customers will not likely notice a
17 change.

18 7. In my experience, the WMC will not lead to increased costs of any kind.

19 8. The WMC creates non-discriminatory rates that differ between customers
20 in different divisions of Laclede's service territory due to identifiable
21 differences in consumption.

1 9. In my experience, the WMC will have no effect on customer satisfaction
2 regarding the billing process. In fact, I believe it will increase customer
3 satisfaction for the reasons stated by other Laclede witnesses.

4 Q. WHY DOES STAFF WITNESS JAMES M. RUSSO OPPOSE THE COMPANY'S
5 WMC PROPOSAL?

6 A. While Mr. Russo echoes Mr. Kind's mistaken notion that the WMC will somehow
7 "guarantee" that Laclede will achieve its authorized return (Rebuttal Testimony of
8 James M. Russo, page 4, lines 13-15), his primary objection seems to be that the
9 Company's cost of service should not include its authorized rate of return.
10 (Rebuttal Testimony of James M. Russo, page 2, lines 33-34)

11 Q. DOES LACLEDE'S COST OF SERVICE INCLUDE A RETURN?

12 A. Of course it does and to argue otherwise demonstrates a basic
13 misunderstanding of a fundamental economic concept. For example, the
14 following passage can be found on page 244 of Ferguson and Gould,
15 Microeconomic Theory, 1975, "economic cost includes the returns that could be
16 obtained from the most profitable alternative use of the invested resources." In
17 other words, economic theory requires the inclusion of the return on and of
18 capital in the definition of cost. Thus, since most of the discussion in Mr. Russo's
19 testimony from pages 1 through 6 is based on this faulty premise, it must simply
20 be disregarded.

21 **II. THE RATE DESIGN PROPOSAL**

22 Q. PLEASE SUMMARIZE THE REBUTTAL TESTIMONY OF WITNESS KIND
23 WITH RESPECT TO THE COMPANY'S INITIAL RATE DESIGN PROPOSAL.

1 A. Witness Kind opposes the initial rate design proposal that was submitted by the
2 Company in this proceeding on the grounds that:

3 1. The proposal greatly reduces Laclede's weather risk but does not provide
4 significant benefits to Laclede's customers. (Kind Rebuttal Testimony,
5 page 28, lines 4-5)

6 2. The proposal will decrease the price signal that increased future
7 distribution infrastructure costs are associated with increased levels of
8 consumption. (Kind Rebuttal Testimony, page 28, lines 9-10 and page 28,
9 line 18 – page 29, line 17)

10 3. The proposal will decrease the price signal for marginal usage in the
11 winter months. (Kind Rebuttal Testimony, page 28, lines 11-12)

12 4. The proposal will change the rate structure without any support from the
13 cost of service study. (Kind Rebuttal Testimony, page 28, lines 13-15)

14 5. The proposal will encourage greater natural gas usage. (Kind Rebuttal
15 Testimony, page 28, lines 16-17 and page 29, line 18 – page 30, line 7)

16 Q. DO YOU AGREE WITH THESE OBJECTIONS?

17 A. Again, I agree with none of them. However, I should point out that to the extent
18 such objections have any validity, they affirmatively support a Commission
19 finding that the weather mitigation rate design proposal submitted by the
20 Company in its surrebuttal testimony is superior to, and should be approved in
21 lieu of, the rate design proposal that was submitted by Public Counsel in its
22 rebuttal testimony.

1 Q. USING PUBLIC COUNSEL'S OWN CRITERIA, PLEASE EXPLAIN THE BASIS
2 FOR YOUR CONCLUSION.

3 A. As I indicated, Public Counsel has expressed a concern over the prospect of a
4 rate design proposal that would reduce Laclede's weather risk but provide no
5 significant benefits to Laclede's customers. In contrast to Public Counsel's rate
6 design proposal, however, the Company's weather mitigation rate design actually
7 operates in a manner that is biased in favor of the Company's customers.
8 Specifically, because there are zero costs in the second block of its distribution
9 rates, the Company can never earn more than its approved costs due to weather,
10 no matter how cold it gets. However, because there is still some weather
11 sensitive load in the first block, the Company can still under-recover 1-2 million
12 dollars of its distribution costs if the weather is abnormally warm. In other words,
13 the weather mitigation rate design proposed by the Company places a hard cap
14 on over-recoveries of costs due to weather, but still leaves the opportunity for
15 some under-recovery of such costs. This bias in favor of the customer is found in
16 none of Public Counsel's rate design proposals. Moreover, as discussed by
17 other Company witnesses, by providing greater protection from extraordinarily
18 warm weather, the Company's weather mitigation proposal would also be more
19 helpful in preventing a further deterioration in the Company's ability to attract
20 credit -- a result that should also work to the financial benefit of Laclede's
21 customers in the future in the form of lower debt costs than would otherwise be
22 the case. Accordingly, this criterion of Public Counsel's supports adoption of the
23 Company's weather mitigation rate design, not Public Counsel's. Moreover, this

1 is simply a fairer method of pricing than the current approach that charges
2 customers more than the cost of service when it is cold and less than the cost of
3 service when it is warm.

4 Q. TURNING TO PUBLIC COUNSEL'S SECOND CRITICISM, WOULD THE
5 COMPANY'S RATE DESIGN PROPOSAL DECREASE THE PRICE SIGNAL
6 THAT INCREASED FUTURE DISTRIBUTION INFRASTRUCTURE COSTS ARE
7 ASSOCIATED WITH INCREASED LEVELS OF CONSUMPTION?

8 A. No, for the simple reason that the Company's rate design proposal has
9 absolutely no impact on the second rate block offered to customers since any
10 decrease in the second rate block of the Company's distribution rates would be
11 offset by a corresponding increase in the second block of the PGA rate. As a
12 result, there is no impact on price signals compared to the existing rate design.
13 In contrast, Public Counsel's alternative rate design proposal would impact price
14 signals in the very manner that Public Counsel's believes is inappropriate since
15 the proposed decrease in the second block of the distribution rate would not be
16 offset by a corresponding increase in the second block of the PGA rate. I want to
17 emphasize again that I do not agree with Public Counsel's price signal concerns.
18 However, by Public Counsel's own standard, the Company's weather mitigation
19 rate design proposal, and for that matter the Company's proposed WMC, are
20 clearly superior to Public Counsel's proposal on that score.

21 Q. WILL THE COMPANY'S WEATHER MITIGATION RATE DESIGN PROPOSAL
22 DECREASE THE PRICE SIGNAL FOR MARGINAL USAGE IN THE WINTER
23 MONTHS?

1 A. No, because again the Company's weather mitigation rate design proposal has
2 no impact on the second rate block offered to customers, unlike Public Counsel's
3 proposal.

4 Q. WHICH OF THE COMPANY'S AND PUBLIC COUNSEL'S RATE DESIGN
5 PROPOSALS IS MOST RESPONSIVE TO PUBLIC COUNSEL'S CONCERNS
6 OVER CHANGING THE COMPANY'S RATE STRUCTURE WITHOUT ANY
7 SUPPORT FROM THE COST OF SERVICE STUDY?

8 A. The Company's proposal is most responsive for two reasons. First, it would
9 effect less change in the customer's ultimate rate than would Public Counsel's
10 proposal. Second, as discussed by Laclede witness Cline in his surrebuttal
11 testimony, the rate structure set forth in the Company's weather mitigation rate
12 design, compared to Public Counsel's, is far more consistent with the Company's
13 costs and how they are incurred. This is because it does a much better job of
14 collecting on a fixed basis those costs that are relatively fixed.

15 Q. WHICH RATE DESIGN PROPOSAL IS MOST CONSISTENT WITH PUBLIC
16 COUNSEL'S CRITERIA OF NOT ENCOURAGING GREATER NATURAL GAS
17 USAGE?

18 A. The Company's weather mitigation rate design proposal would have no effect on
19 gas usage since the second rate block offered to customers would not change.
20 Public Counsel's proposal, on the other hand, would have such an impact and, in
21 the process, produce a result that is inconsistent with Public Counsel's price
22 signal concerns.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY AT THIS TIME?

2 A. Yes.