

Exhibit No.:
Issues: Rate Design; Low-Income
Rate; and Weatherization
Program
Witness: Henry E. Warren
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2001-292
Date Testimony Filed: June 12, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

HENRY E. WARREN

MISSOURI GAS ENERGY

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2001-292

Jefferson City, Missouri
June 2001

Exhibit No. 2
Date 6-25-01 Case No. GR-2001-292
Reporter Stewart

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CASE NO. GR-2001-292

Q. Please state your name and business address.

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

Q. Are you the same Henry E. Warren that filed Direct Testimony in this case?

A. Yes, I am.

Q. What issues does your surrebuttal testimony address?

A. Rate Design and the Residential Low-Income Rate, Rate Design-Income/Consumption Correlation, and the Weatherization Program.

**RATE DESIGN: RESIDENTIAL LOW-INCOME RATE
AND INCOME/CONSUMPTION CORRELATION**

Q. Have you reviewed Section 5 of the Rebuttal Testimony of Missouri Gas Energy (MGE or Company) witness F. Jay Cummings titled *Low-Income Fixed Tariff*

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1 *Rate*, the Rebuttal Testimony of Company witness David Hendershot, and the Rebuttal
2 Testimony of Company Witness Philip B. Thompson?

3 A. Yes, I have. In all or part of their Rebuttal Testimonies these witnesses for
4 the Company address issues set forth by the Office of Public Counsel (OPC) witness
5 Roger Colton on the topic of the legality, justification, design, implementation,
6 administration, and overall costs of a Residential Low-Income Rate. This is a
7 multi-faceted issue. Although Residential Low-Income Rates have been implemented in
8 a few states, many of the details of the program furnish opportunities for debate, often
9 without clear answers. Based on the success of the Low-Income Weatherization
10 programs of MGE and AmerenUE, Staff recommends that an experimental pilot program
11 of limited scale be developed to implement the program, and subsequently, an
12 independent evaluation of the program be conducted. The Residential Customer Class
13 could fund the pilot program, and if the results of the pilot program warrant, the rates
14 would be implemented throughout the MGE system with funding from all customer
15 classes and the Company stockholders.

16 Q. Do you concur with Mr. Cummings that in the Commission Order in Case
17 No. GO-97-465, one reason that the Commission declined to implement a Residential
18 Low-Income tariff proposed by MGE was that no statutory authority was present for the
19 program?

20 A. Yes, in January 1997 the Company proposed a tariff providing for a
21 certain volume of gas per month to be provided to residential customers identified as
22 low-income. This would have created a separate class of residential customers different
23 from the residential service class that was not justified with a class cost-of-service study.

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1 In Case No. GO-97-465 the *ORDER APPROVING RECOMMENDATION OF THE*
2 *PARTIES* states:

3
4 The parties stated in their Report that a number of factors militate
5 against the development of a new energy assistance program at this
6 time: ...

7 (4) no specific statutory authority is present for a new energy
8 assistance program;...

9 The Commission has reviewed the Report of the parties. The
10 Commission determines that the recommendations set forth in the
11 Report are reasonable and should be approved.

12
13 Since the Order in Case No. Case No. GO-97-465 there has been no legislative
14 action to change the statutory authority of the Public Service Commission (PSC). The
15 establishment of the Residential Low-Income Rate proposed in this case by the Office of
16 Public Counsel (OPC) witness Roger D. Colton is not based on a cost-of-service study
17 that identifies low-income residential customers as having cost characteristics different
18 than the Residential Service Class. Thus, item (4) above in the *Order* in GO-97-465
19 would seem to apply to the Residential Low-Income Rate proposed by Mr. Colton.

20 Q. What is the Report to which the quote from the Order refers?

21 A. It is the *Report and Recommendation of the Parties* submitted to the
22 Commission in the case.

23 Q. Were MGE, Missouri Public Service Commission Staff (Staff), and OPC
24 signatories to this Report?

25 A. Yes, MGE, Staff, and OPC were signatories to this Report.

1 Q. Is Mr. Cummings reference to the Commission *REPORT AND ORDER* in
2 Case No. GE-2001-393, denying the Company's *Application for Variance*, relevant to the
3 Residential Low-Income Rate proposed in this case by OPC witness Roger D. Colton?

4 A. Yes, in this case the Commission also finds that the Application would
5 have the effect of establishing residential low-income customers as a separate class of
6 customers.

7
8 Approving this variance would result in intraclass rate level
9 differences, creating a new class of customers: the disadvantaged or
10 low-income customer class. ^[2] Furthermore, the proper venue to
11 discuss the appropriateness of creating a new customer class is not a
12 variance case. ...

13 1. That the Application for Variance filed by Missouri Gas Energy, a
14 division of Southern Union Company, on January 18, 2001, is denied.

15
16 Q. Are there cases, in addition to those mentioned by Mr. Cummings,
17 relevant to the issue of a Residential Low-Income Tariff?

18 A. Yes, one is Case No. GR-2000-512, the rate case of Union Electric
19 (AmerenUE). In this case the Commission decision is relevant. In the Commission's
20 *ORDER APPROVING UNANIMOUS STIPULATION AND AGREEMENT*, (AmerenUE
21 Order) stated:

22 3. AmerenUE shall establish a new weatherization program, to be
23 funded by AmerenUE's ratepayers at an annual rate of \$125,000. This
24 amount is allowed to be recovered from AmerenUE's ratepayers as
25 outlined in the Stipulation and Agreement. The details of this program
26 will be determined through a collaborative process among
27 representatives of AmerenUE, Staff, Public Counsel and MoDNR;...

1

2 Q. What is significant about this item in the AmerenUE Order, and how does
3 it relate to the cases cited by Mr. Cummings?

4 A. The PSC had previously authorized AmerenUE to conducted a two year
5 Experimental Low-Income Weatherization Program (AmerenUE Experimental LIWP),
6 which concluded in the spring of 2000. The experimental program was funded at
7 \$125,000 per year by all of AmerenUE's gas customers including Residential Service,
8 General Service, Interruptible Service and Transportation Service. In the experimental
9 program and subsequently in the current program, AmerenUE contracted with three not-
10 for-profit Community Action Program (CAP) agencies to weatherize AmerenUE
11 residential low-income gas customers. The \$125,000 per year was allocated among the
12 Central Missouri Counties' Human Development Corp., Columbia, Mo.; the North East
13 Community Action Corp., Bowling Green, Mo.; and the East Missouri Action Agency,
14 Inc., Park Hills, Mo. In addition, the current LIWP program includes the Delta Area
15 Economic Opportunity Corp., Portageville, Mo.

16 This is very similar to the MGE Experimental Weatherization Program (EWP)
17 addressed in my Direct Testimony. The Commission's authorization of the AmerenUE
18 LIWP was a direct result of an independent evaluation of the MGE EWP by TechMRKT
19 Works, Oregon, Wisconsin, that demonstrated the benefits of the program exceeded the
20 cost. The initial phase of the evaluation, the *Process and Impact Evaluation Report* was
21 presented to MGE, the PSC Staff and OPC on March 23, 1998. The *Impact Evaluation*
22 on the current weatherization project was presented in May 1999 (These evaluation
23 reports are attached to my Direct Testimony.). As I stated in my Direct Testimony, both

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1 of these evaluations demonstrated benefits to the customer receiving the weatherization
2 in terms of decreased gas use, the company in terms of decreasing arrearages and having
3 the customers' accounts more current, and eventually the residential customer class in
4 terms of decreasing collection costs or bad debt costs.

5 Q. What characteristics of the MGE EWP and the AmerenUE LIWP are
6 relevant to the proposed Residential Low-Income Rate in this case?

7 A. Both weatherization programs were first implemented on a limited
8 experimental basis, they utilized agencies already established for taking applications and
9 performing weatherization for low-income families rather than setting up an in-house unit
10 to do the work, and the costs and benefits of the programs were verified by an
11 independent evaluation. Mr. Cummings addressed several concerns regarding the
12 proposed Residential Low-Income Rate in his surrebuttal testimony. Most of these
13 concerns were not issues in AmerenUE LIWP and are not issues in the proposed
14 expansion of the MGE Weatherization Program. They were not issues because of the
15 process and procedures used in implementing these programs.

16 An experimental program designed to test the major components of the
17 Residential Low-Income Rate program on a limited basis would provide answers to many
18 of the issues raised by Mr. Cummings surrounding the design, implementation and
19 operation of such a program at MGE. As proposed by OPC, the residential customer
20 class could fund the experimental program. If the results of the test and evaluation are
21 positive, the program could then be fully implemented with all customer classes and the
22 Company sharing the cost of the program.

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1 Q. What are some of the major implementation issues that would be avoided
2 in designing a Residential Low-Income Rate program more like the Weatherization
3 Program?

4 A. Unintentional incentives are avoided by not trying to make the
5 Weatherization Program dependent on the amount of the annual bill or the amount of
6 arrears as is the case with the Residential Low-Income Rate.

7 Major changes to the MGE billing system that would have to be quickly
8 implemented and the associated cost of this short fuse project would be avoided.

9 The expense of creating an in-house unit in MGE to administer the
10 Weatherization Program is avoided by using the incumbent CAP agency.

11 Because the Weatherization Program is an expense, revenues from all customer
12 classes not just residential customers offset it.

13 Q. Is Mr. Cummings correct, that the Residential Low-Income Rate program
14 could place sizeable expense on MGE and its other Residential Customers if increases
15 occurred in program activities, and that the Kansas ad valorem tax refund is not a viable
16 source of funding for the program?

17 A. Yes, in their Surrebuttal Mr. Cummings and Mr. Hendershot address
18 numerous assertions from Mr. Colton that MGE has not been doing a cost effective job
19 with respect to its customers who are not current with their accounts. Mr. Cummings
20 then addresses in Surrebuttal the potential costs associated with Mr. Colton's subsequent
21 proposition that the solution is to have MGE administer a program that is supposed to
22 benefit these very same customers.

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1 On page 17 of his Surrebuttal Testimony Mr. Cummings lists eight variables in
2 customer's activities that Mr. Colton would need to remain constant if the costs of the
3 program are not increased. If these activities increase the cost of the program will
4 increase. Mr. Colton on page 18 lists five assumptions Mr. Colton made about MGE
5 customers to determine the cost of the program based on similar Low-Income Programs
6 in Pennsylvania. If these assumptions are not applicable to MGE customers then the
7 costs of the program will increase. I agree with Mr. Cummings that it is likely that the
8 costs of the program could be more than those estimated by Mr. Colton. The accuracy of
9 these cost estimates and appropriateness of these assumptions could be better determined
10 in an experimental program.

11 Mr. Cummings is correct in noting on page 20 that the distributions of the Kansas
12 ad valorem tax refunds have already been determined in a Case No. GO-98-500, and
13 these refunds are not subject to reallocation in this case.

14 Q. In the context of the proposed Residential Low-Income Rate program
15 what are some relevant points from the Rebuttal Testimony and the attached study by
16 Company witness Dr. Philip B. Thompson?

17 A. Dr. Thompson presents procedures and discusses the results of his study of
18 MGE residential customers by zip code to determine a relationship between annual
19 household income and Ccf (hundreds of cubic feet) of gas per monthly bill. He
20 concludes that this relationship is U-shaped. This would indicate that customers with
21 annual incomes of less than \$20,000 may use more Ccf per month than the mean usage
22 and customers with \$50,000 annual income may use less than the mean usage, and
23 subsequently usage may not exceed the mean until income is above \$80,000 per year.

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1 Dr. Thompson concludes that this finding contradicts OPC witness Roger Colton, when
2 he states that low-income customers use only 90% of the overall average residential gas
3 usage.

4 Q. How does Dr. Thompson demonstrate the validity of his conclusion?

5 A. Dr. Thompson uses 1989 U.S. Census data by zip code in the MGE
6 service areas estimated for 1999. These data are combined with MGE meter reading
7 cycle data for their customers in these zip codes for 24 months (October 1998 through
8 September 2000). He uses a technique known as pooled cross-section time series
9 analysis (24 months x 182 zip codes = 4,368 observations). He uses an annual model
10 where HDD and Ccf are an average monthly value for the year, and a monthly model
11 where the variables related to the household characteristics in the zip codes are constant.
12 Some things need to be determined about the consistency of the data, i.e. do the
13 households in the zip code and the MGE residential customers in the zip code have the
14 same household characteristics? Other things need to be determined about the modeling
15 technique i.e. do geographic differences in heating degree days have the same effect as
16 monthly differences? However, this study points to the need for a comprehensive end
17 use study of MGE residential customers including the household demographics to fully
18 evaluate the effect of various proposed rate designs on the residential customer class.

19 Q. Did Dr. Thompson, Mr. Cummings, or Mr. Hendershot address the issue
20 of determining the social cost and social benefit of the Residential Low-Income Rate as
21 social welfare program?

22 A. No, they did not directly address this issue, although Mr. Cummings in his
23 discussion of the effect of Roger Colton's proposed Residential Low-Income Rate

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1 touched on some of the components of the issue in his discussion of the effect the
2 proposed rate would have on the Company, and the non-low-income Residential
3 customers.

4 As Mr. Cummings points out, Mr. Colton finds it necessary to disparage aspects
5 of the Low Income Home Energy Assistance Program (LIHEAP). This is done in order
6 to justify MGE's establishing an in-house social welfare program to administer the
7 Residential Low-Income Rate that would have many of the same characteristics of the
8 LIHEAP.

9 LIHEAP is a federal program created a quarter-century ago to help low income
10 customers through the energy crisis of the 1970s. It has survived to provide aid in the
11 first energy crisis of the new millennium.

12 In this rate case witnesses have not comprehensively evaluated marginal benefit
13 to society compared to the marginal social cost to society of the Residential Low-Income
14 Rate as an additional social welfare program.

15 Q. What is Staff's recommendation with respect to OPC's proposed
16 low-income fixed credit tariff?

17 A. Staff proposes that the OPC proposal be modified to use the LIHEAP
18 application process for income verification; that the program be experimental in nature;
19 that the initial term be two years; that annual reports be required; and that arrangements
20 for an independent evaluation of the program be made in the planning stages of the
21 program prior to implementation. In conjunction with the planning and implementation
22 of the experimental Pilot Program a comprehensive end use study of the MGE residential
23 class should be conducted. The MGE Residential Customer Class could fund the pilot

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1 program and the end use study, and if the results of these studies warrant, rates would be
2 implemented throughout the MGE system with funding from all customer classes and the
3 Company stockholders. An oversight committee comprised of representatives from
4 MGE, Staff, and OPC will determine details for the planning and implementation of the
5 pilot program, independent evaluation, and end use study.

6 Q. Does this conclude your prepared Surrebuttal Testimony?

7 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's)
 tariff sheets designed to increase rates)
 for gas service in the company's Missouri)
 service area.)

Case No. GR-2001-292

AFFIDAVIT OF HENRY E. WARREN

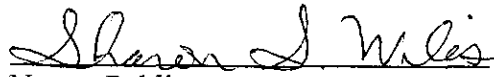
STATE OF MISSOURI)
) ss.
 COUNTY OF COLE)

Henry E. Warren is, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.



 HENRY E WARREN

Subscribed and sworn to before me this 12th day of June 2001.



 Notary Public

SHARON S WILES
 NOTARY PUBLIC STATE OF MISSOURI
 COLE COUNTY
 MY COMMISSION EXP. AUG. 23, 2002

My Commission Expires: _____