

S T A T E O F M I C H I G A N
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
SEMCO ENERGY GAS COMPANY to combine)	
its MPSC Division and Battle Creek Division)	
rates and for authority to redesign and increase)	Case No. U- 16169
its rates, on a combined basis, for the sale and)	
transportation of natural gas and for other relief.)	
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QUALIFICATIONS AND DIRECT TESTIMONY OF
KATIE J. MORGAN
MICHIGAN PUBLIC SERVICE COMMISSION

November 19, 2010

QUALIFICATIONS OF KATIE J. MORGAN
CASE NUMBER U-16169
PART I

1 Q. Please state your full name, business address and occupation for the record.

2 A. My name is Katie J. Morgan and my business address is 6545 Mercantile Way,
3 Lansing, MI 48911. I am employed by the Michigan Public Service Commission
4 (MPSC) as an Economic Analyst in the Energy Efficiency Section of the Electric
5 Reliability Division.

6 Q. Please describe your education background.

7 A. I earned a dual bachelor's degree in Finance and Economics from Lake Superior
8 State University. I am also certified as a Building Analyst Professional from
9 Building Performance Institute, Inc.

10 Q. What is your work experience?

11 A. I worked for the Eastern Upper Peninsula Intermediate School District from 2006
12 to 2009 where I conducted data analysis and data processing of the Michigan
13 Educational Assessment Program (MEAP) as well as with a number of other
14 standardized tests. In August of 2009 I began employment with the Michigan
15 Public Service Commission as an Economic Analyst working in the Energy
16 Efficiency Section. I review filings made in the reconciliation process of utility
17 Energy Optimization plans and am the case coordinator for 40 municipally owned
18 utility companies. I am also the case coordinator of U-16276 which examines the
19 issue of Dynamic Peak Pricing. I participate in the Energy Efficiency
20 Collaborative as well as the Smart Grid Collaborative. I am a member of the
21 Midwest ISO Demand Response Working Group, the Organization of MISO
22 States Demand Response and Technology Work Group, and the Michigan Public
23 Service Commission's Plug-in Electric Vehicle Task Force.

QUALIFICATIONS OF KATIE J. MORGAN
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PART I

1 | Q. Have you previously filed testimony in proceedings before the Commission?

2 | A. Yes.

DIRECT TESTIMONY OF KATIE J. MORGAN
CASE NUMBER U-16169
PART II

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

2 A. The purpose of my testimony is to present Staff's recommendation of a gas-utility
3 revenue decoupling mechanism for SEMCO Energy Gas Company (SEMCO).

4 Q. Are you sponsoring any exhibits along with your testimony?

5 A. No.

6 Q. Does Staff have a specific recommendation for a revenue decoupling mechanism
7 for SEMCO?

8 A. Yes. Staff is recommending an Energy Optimization (EO) Program Lost Revenue
9 Tracker.

10 Q. Did SEMCO request a revenue decoupling mechanism in this general rate
11 proceeding?

12 A. Yes. SEMCO requested a straight fixed-variable rate design. This type of design
13 allows for an increase in monthly rates to customers and is a form of revenue
14 decoupling. Staff is proposing an alternative mechanism that is reasonable and
15 prudent.

16 Q. What is the primary advantage of Staff's decoupling proposal?

17 A. An EO Program Lost Revenue Tracker, as proposed by Staff, directly addresses
18 the primary disincentive for a utility to promote energy efficiency measures by its
19 retail customers. The mechanism relies on a computation of lost sales that directly
20 resulted from energy efficiency programming efforts.

21 Q. How are lost sales directly related to SEMCO's EO program determined?

DIRECT TESTIMONY OF KATIE J. MORGAN
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PART II

1 A. The estimation of annual lost sales will rely on EO credits generated by
2 SEMCO's administrator, Efficiency United, which are certified by an independent
3 third party evaluation contractor.

4 Q. How should lost revenues be calculated?

5 A. For administrative ease, annual lost sales would be calculated by major customer
6 classification, i.e. residential, C&I, and transport. The lost revenue (per-Dth)
7 charges for each customer classification would be calculated using a weighted
8 average distribution charge. For residential, C&I, and transport, lost revenue
9 equals: [actual certified EO credits less base EO lost sales] multiplied by [the weighted
10 average distribution charge].

11 Q. How is the weighted average distribution charge calculated for each customer
12 classification?

13 A. Distribution charges for each rate class within a major customer classification are
14 weighted by the volumetric rate case billing determinate. The net result is the weighted
15 average distribution charge for each of the three major customer classifications.

16 Q. Please explain why the EO Program Lost Revenue Tracker requires a base EO
17 lost-sales value?

18 A. SEMCO's sales forecast for the projected test-year does reflect the EO program.

19 Q. How should the base be calculated?

20 A. The base value is the EO program energy reductions that are built into the
21 projected test-year sales forecast. The base EO sales loss is 454,200 Dth. The EO
22 Program Lost Revenue Tracker works by comparing actual (certified) program
23 results during the test-year with the base lost-sales value, resulting in either a

DIRECT TESTIMONY OF KATIE J. MORGAN
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PART II

1 positive or negative adjustment to rates. This will be determined in the annual
2 reconciliation proceedings.

3 Q. Should the certified achieved energy savings, quantified for purpose of
4 determining compliance with PA 295, be adjusted if such values are used as the
5 basis for estimating lost sales revenues in the EO Program Lost Revenue Tracker?

6 A. Yes. The EO compliance value will overstate actual sales losses in the year the
7 measures were implemented. For such year, actual losses can be estimated by
8 assuming that energy efficiency measures were installed uniformly throughout the
9 year. With such an assumption, the compliance value should be divided by two.
10 This would reflect that on average EO program measures were installed at the
11 mid-point of the calendar year.

12 Q. Do EO sales losses accumulate from year-to-year?

13 A. Yes. Expenditures in any given year produce savings that accumulate from year-
14 to-year during the lifecycles of the measures installed. Because sales losses
15 accumulate, EO Program Lost Revenue Tracker surcharges must be calculated
16 using the cumulative sales loss in a given year.

17 Q. Can you illustrate this?

18 A. Yes. For example, 2010 EO expenditures will produce energy savings in 2010,
19 2011, 2012, etc. Likewise 2011 EO expenditures will produce energy savings in
20 2011, 2012, 2013 etc. Consequently, the net sales loss in a given year is the sum
21 of the EO sales losses from that year's program expenditures, plus the ongoing
22 sales losses from the prior years' EO program expenditures.

23 Q. Does the netting process continue indefinitely?

DIRECT TESTIMONY OF KATIE J. MORGAN
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PART II

1 A. No. The netting process terminates on the date of the Commission order in the
2 company's next general rate case.

3 Q. Should months where the company self-implements new rates be reflected in the
4 proposed revenue decoupling mechanism?

5 A. No. Revenues collected during months where the company self-implements rates
6 should not subject to a revenue decoupling mechanism. It is not appropriate to
7 include revenues collected during the self-implementation period because by self-
8 implementing new rates the utility is choosing to give up the more modest
9 protections of a revenue decoupling mechanism during the self-implementation
10 period.

11 Q. Are there any implementation details that need to be addressed?

12 A. Yes. Compensation for lost sales associated with the EO program cannot be made
13 for EO sales losses occurring prior to the date of Commission approval of the EO
14 Program Lost Revenue Tracker in this general rate proceeding. This has
15 implications with respect to recovery for lost revenues associated with the first
16 year of the EO program, which is calendar year 2009. For example if the
17 Commission order in this proceeding were to be issued on July 1st, 2011 then only
18 EO sales losses occurring on and after July 1st, 2011 can be included in the EO
19 Program Lost Revenue Tracker. In this case, only 6/12 of the certified annualized
20 EO savings for calendar year 2011 are eligible for recovery.

21 Q. Does this conclude your testimony?

22 A. Yes.

STATE OF MICHIGAN

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_____)**

Case No. U- 16169

PROOF OF SERVICE

April Stow, being duly sworn, deposes and says that on November 19, 2010, A.D.
she served a copy of the attached Testimony, via E-mail, to the persons as shown on the
attached service list.

April Stow

Subscribed to before me this
19th day of November, A.D., 2010

Sharron A. Allen
Notary Public, Ingham County, Michigan
My Commission expires August 16, 2011

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