

# Excerpts from the Direct Testimony of Pamela Morgan, Natural Resources Defense Council witness, 3270-UR-120

Q. Does MGE's proposal to increase fixed customer charges revolve primarily around utility or customer-oriented objectives?

P-7-14

Rather, MGE's proposal appears to revolve primarily around customer-oriented objectives (though I disagree with the way they were applied. As explained in this testimony, MGE identifies at least four objectives for its proposal, including "economic efficiency," the prevalence of restructured utilities in other states and the presence of energy markets, "confusion" on the part of customers that invest in energy efficiency measures, and the need to "get its rights and costs in better alignment" to address customer interest in distributed generation. However, my review of MGE's application and the utility's underlying customer usage data demonstrate that the proposed fixed charge increases would satisfy none of these objectives.

Moreover, though customer impacts appear to form the basis for MGE's proposal, the utility has nonetheless left customers out of the decision-making process. Instead the utility has devised an approach that would (as discussed below) not only increase bills for the vast majority of MGE's customers, but make it more difficult for consumers to control their energy costs through energy efficiency measures. And it appears that to date MGE has made no attempt to survey or otherwise gauge its customers' reactions to this proposal.

Q. In your opinion is MGE experiencing a "death spiral"?

P-8-16

No, I can find no evidence that MGE is experiencing this and its application on this docket contains no evidence. While there are many ways to articulate a "death spiral" in the utility context, the basic logic is that as more customers adopt distributed generation, utilities' cost to maintain and operate the grid must be spread across a smaller customer base, raising rates and increasing the economic incentive to "cut the cord." But I do not see in this case the kind of revenue erosion that would be hastened by—and would further hasten -- a "death spiral." As I discuss below, MGE's recent financial results have been robust.

Q. Are fixed costs really fixed?

P-19-15

No, the designation “fixed” simply refers to the cost changes outside of a period of time that the person using the term has in mind. This could mean a quarter, a year, a decade, or longer.

**Q. MGE states that one of its objectives is to address customer conservation, that the current relationship between rates and costs creates confusion for customers that invest in energy efficiency. Do you agree?**

P-21-13

No. I can find no support for MGE’s key assumption here: that customer rates have gone up as a result of conservation. The utility’s last three 10-K reports list the reasons for recent rate increases as: electric fuel and purchased power costs; transmission costs and reliability enhancements; Elm Road units’ costs; energy efficiency program costs; and new environmental equipment at Columbia.

**Q. Why are price signals and their effect on energy efficiency and renewable distributed generation decisions such important considerations for the Commission?**

P-24-8

Energy efficiency and renewable distributed generation are long-term investments. The costs are up-front; the benefits to the investor, to the utility’s customer base, and to the state are long-term, appearing as bills are lower, utility investments are avoided and emissions reduced. Unlike embedded electricity and natural gas service rate base investments, which are depreciating and declining over time, few would suggest that the long-term cost of producing either is declining. Utility prices should signal to customers that using more energy will, sooner or later, cost more. Instead, MGE’s proposal sends an all-you-can-eat price signal that does customers a disservice and undercuts the true value of energy efficiency investments.

**Q. Have you done any analyses responding to MGE’s concern that distributed generation customers are not paying their fair share of infrastructure costs?**

P-29-7

Yes I have, and my review of the utility’s distributed generation accounts reveals otherwise. ... DG customers appear to be fairly evenly distributed across the various ranges within which MGE does frequency distributions. Assuming one should totally ignore benefits of distributed generation to other customers, it would appear that these customers are neither subsidizing nor being subsidized by other customers. Their usage variations fall into the same ranges as other Rg-1 customers in about the same percentages.

Q. Is MGE's proposed fixed charge increase consistent with this "historic continuity"?

P-31-8

No. The results of the proposal on customers will be significant, and a departure from the norm. ... In Table 3 below I estimated both the amounts and percentages of increase and the number of customers affected, according to the kWh usage groupings MGE uses. This analysis demonstrates that MGE's proposed fixed charge increase will result in bull increases for almost 80% of MGE's Rg-1 customers base. Breaking this figure down, over one-third of these customers will experience a double-digit increase,; for almost 9,00 customers, this double digit increase will exceed 30%. Conversely, ... decreases of any significance do not occur until a customer's monthly consumption exceeds 1,000 kWh.

## Recommendations

P-44-1

1. Reject MGE's proposed increases to its residential and small commercial gas and electricity customer and fixed charges.