

**STATE OF MINNESOTA
BEFORE THE OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE PUBLIC UTILITIES COMMISSION**

In the Matter of the Application of)	MPUC Dkt. No. G-007, 011/GR-10-977
Minnesota Energy Resources Corporation)	
for Authority to Increase Rates for Natural)	OAH No. 16-2500-21807-2
Gas Service in Minnesota)	

**Surrebuttal Testimony
Of
J. Richard Hornby
Synapse Energy Economics, Inc.**

**On Behalf of
Izaak Walton League of America – Midwest Office
Minnesota Center for Environmental Advocacy**

June 30, 2011

I. INTRODUCTION / SUMMARY

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Q. Please state your name, employer, and present position.

A. My name is J. Richard Hornby. I am a Senior Consultant at Synapse Energy Economics, Inc., 485 Massachusetts Avenue, Cambridge, MA 02139.

Q. Are you the same J. Richard Hornby who submitted pre-filed Direct Testimony in this proceeding?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony responds to certain of the points made in the Rebuttal Testimonies filed by witness Grace on behalf of Minnesota Energy Resources Corporation (“MERC” or the Company) and by witness Davis on behalf of Minnesota Department of Commerce (“DOC”).

Q. Does the Rebuttal Testimony of MERC witness Grace address either of the main reasons you gave for not supporting the company’s proposed full decoupling mechanism?

A. No. My Direct Testimony presents the two reasons why I don’t support the proposed Revenue Decoupling Mechanism (“RDM”), i.e., the absence of adequate Company commitments to specific initiatives to increase energy efficiency and the absence of a

1 reasonable level of benefits to ratepayers (Hornby Direct Testimony, p. 8). The Rebuttal
2 Testimony of Ms. Grace does not address either of those two reasons.

3
4 **Q. Please respond to the position of MERC witness Grace regarding the additional**
5 **information to be gained if MERC begins with a partial decoupling mechanism**
6 **rather than a full decoupling mechanism.**

7 A. My Direct Testimony states that the Commission and other stakeholders would gain
8 additional information regarding the merits of a partial decoupling mechanism if MERC
9 began with a partial decoupling mechanism similar to that of Centerpoint (Hornby Direct
10 Testimony, p. 12). That approach would enable the Commission to compare the
11 experience of each utility with the same mechanism. In contrast, if MERC has great
12 results from its test of a full decoupling mechanism and Centerpoint has poor results from
13 its test of a partial decoupling mechanism, the Commission may find it difficult to
14 determine whether the differences in results are attributable to differences between the
15 two mechanisms or differences between the two utilities.

16 Ms. Grace does not agree that requiring MERC to begin with a partial decoupling
17 mechanism similar to that of Centerpoint would provide additional information to the
18 Commission on the merits of that particular mechanism (Grace Rebuttal Testimony, p.
19 20). Ms. Grace provides no explanation or analysis to support her position.

1 **Q. Please respond to the Rebuttal Testimony of witness Davis regarding your position**
2 **that the company has not provided an adequate commitment to specific initiatives to**
3 **increase energy efficiency.**

4 A. In his rebuttal, Mr. Davis addresses my position that the Company did not provide an
5 adequate commitment to specific initiatives to increase energy efficiency, which is one of
6 the reasons why I don't support MERC's proposed RDM (Davis Rebuttal Testimony, p.
7 3). It appears that Mr. Davis may have misinterpreted my position regarding the manner
8 in which a utility should commit to incremental energy savings. Mr. Davis implies that
9 my position requires "...that utilities **must both** increase their savings from current
10 energy conservation programs **and** offer new energy conservation projects to demonstrate
11 their commitment to obtaining incremental energy savings" (Davis Rebuttal Testimony,
12 p. 3, emphasis added).

13 My position is not prescriptive. In fact, my position on how the utility should
14 achieve incremental savings is very similar to that of Mr. Davis, as indicated by the
15 following quotes from my Direct Testimony and his Rebuttal Testimony:

16 "These are commitments to **some combination** of increased activity under
17 existing programs and introduction of new initiatives that the utility would not
18 otherwise pursue under its current ratemaking..." (Hornby Direct Testimony, p.5,
19 emphasis added).

20
21 "Incremental energy savings, i.e., energy savings greater than historical levels,
22 **can come from a combination** of new and existing projects, new projects alone,

1 or existing projects alone. What matters, simply, is that the utility is increasing its
2 level of energy savings.” (Davis Rebuttal Testimony, p. 3, emphasis added).
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4 **Q. What disagreement remains between you and witness Davis regarding the need for**
5 **MERC to make an adequate commitment to incremental energy savings to justify**
6 **implementation of decoupling?**

7 A. Mr. Davis and I agree that a utility such as MERC should commit to achieving
8 incremental energy savings as a condition of implementing a decoupling mechanism,
9 Mr. Davis and I disagree on the reference point, or baseline, against which those
10 incremental energy savings should be measured.

11 Mr. Davis indicates that the utility’s historical level of savings is a reasonable
12 reference point (Davis Rebuttal Testimony, p. 4). I disagree. Incremental savings should
13 be measured relative to the level of savings the utility is expected to achieve under its
14 current ratemaking framework (Hornby Direct Testimony, p.5 and p. 9). The fact that a
15 utility such as MERC is achieving higher energy savings now, under the existing
16 ratemaking framework, than it did in the past, under the existing ratemaking framework,
17 is not in itself justification for approving a change in the existing ratemaking framework
18 such as a decoupling mechanism.

19 The appropriate reference point for measuring incremental savings is the level of
20 savings the utility is expected to achieve under its current ratemaking framework. This
21 reference point ensures that improving the utility’s financial incentives will produce an
22 actual increase in energy efficiency relative to a continuation of the existing ratemaking

1 framework. In addition, this reference point contributes to a more equitable balancing of
2 the interests of utility shareholders and the interests of ratepayers.

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4 **Q. Does this complete your surrebuttal testimony?**

5 **A. Yes.**