Exhibit No.:	_______________
Issue(s)	Rate Design/Global Settlement/ Estimated Bills/Other Tariff and Data Issues
Witness/Type of Exhibit:	Marke/Response to Commission Questions
Sponsoring Party:	Public Counsel
Case No.:	ER-2019-0374

TESTIMONY IN RESPONSE TO COMMISSION QUESTIONS

OF

GEOFF MARKE

Filed on Behalf of the Office of the Public Counsel

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

May 6, 2020

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company's Request for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in its Missouri Service Area	)))))	Case No. ER-2019-0374

VERIFICATION OF GEOFF MARKE

Geoff Marke, under penalty of perjury, states:

1. Attached hereto and made a part hereof for all purposes is my testimony in response to Commission questions in the above-captioned case.

3. My answer to each question in the attached testimony in response to Commission questions is true and correct to the best of my knowledge, information, and belief.

Geoff Marke
Chief Economist
Office of the Public Counsel

EXHIBIT NO: 299-8

MEMORANDUM

To: Missouri Public Service Commission Official Case File,
Case No. ER-2019-0374

From: Geoff Marke, Chief Economist
Missouri Office of the Public Counsel

Subject: Response to Select Commission Directed Questions

Date: May 6, 2020

Rate Design, Other Tariff and Data Issues

OPC - Public Counsel did not list a position on Rate Design sub-issue f, what is the appropriate customer charge.

Although the Global Stipulation, now joint position statement, called for the customer charge to remain at $13.00 per month, Empire took the position that the customer charge should increase to $19.00 per month.

What is OPC's current position, if any, as to the appropriate customer charge and why?

Response: The charge should remain as is at $13.00.

I strongly believe this is a red herring issue deliberately selected to distract the Commission from this Company's poor operational performance and regulatory filing.

Allow me to explain:

It is no secret that the residential customer charge has been a historically volatile and contested issue in most every rate case. A ("relatively") low residential customer charge has also been a consistent and singular issue that both consumer advocates and environmentalists (and now the PSC Staff based on the guidance of the 2020 Regulatory Assistance Project ("RAP") Cost Allocation Manual) can unite around, because a lower fixed customer charge enables customers to control their bills and can lead to increased positive externalities (e.g., energy efficiency adoption, conservation practice, etc…).

The fact that the residential customer charge was an explicit spelled-out provision in the non-unanimous Global Stipulation should surprise no one given the parties that signed on. As such, because rate design is not a revenue requirement issue *and* it is an agreed-to provision by all signatory parties *and* to which Public Counsel did not object (because it was also Public Counsel's filed position) it should *not* be an issue. Yet, here I am responding to Commission-directed questions as to what Public Counsel's position is now that Empire is already backtracking from the non-unanimous Global Stipulation and is continuing to ask for a nearly 50% increase to Empire's residential customer charge.[1]

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[1] From my perspective, this zero-hour backpedal is entirely consistent with how Empire has conducted itself publically and throughout this case. This includes, <u>but is not limited to</u>:

> 1) Claiming top quartile JD Power scores when it in fact it was one of the worst scored utilities in the nation (116 out of 138) in the bottom quartile;
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> 2) Publically highlighting its community-focused charitable giving in this rate case when in fact Empire is the only regulated utility whose shareholders have not contributed a cent to its low income bill assistance programs. In fact, Empire's charitable donations have not exceeded a half a million dollars in any year despite operating in a service territory with 13 out 16 counties having a larger poverty rate than the state average and despite collecting more than half a billion in revenues each year for the last three years;
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> 3) Affirming to its shareholders in its annual sustainability report that Empire provides more affordable energy that other Missouri utilities when in fact SNL data shows average annual bills for Empire customers are the fourth largest for IOU's in the United States, and EIA data shows Empire having a more expensive price than all but two co-operative utilities in Southwest Missouri;
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> 4.) Putting forward a Class Cost of Service Study and a proposed Weather Normalization Adjustment but neglecting to tell regulators, OPC and the Commission that its data billing data is statistically unreliable due to the Company's continued inability to perform the most basic of all retail functions—providing an accurate and reliable charge for the services rendered to its (*captive*) customers;
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> 4) Asserting that Stranded Assets need to be treated "in a fair and responsible manner" publically in a competitive bid for a large utility and then not treating Empire ratepayers fairly or responsibly by not disclosing to regulators, OPC or the Commission that its self-imposed stranding asset, the Asbury Power Plant, has not been operational since December 12, 2019; and now
>
> 5) Dismissing the global stipulation it literally just entered into to argue *a rate design issue* in which the residential customer charge should increase 46% above the already highest state-wide amount which would have the immediate effect of categorically eroding any customer-centric actions including energy efficiency and solar investment financial savings (past tense) and adoption opportunities (future tense). This, despite the fact that Empire's own data is unreliable *and* Empire is requesting a regulatory risk-shifting mechanism onto its ratepayers in the form of the weather normalization rider.
>
> It should not be lost on the Commission that the aforementioned issues (and many others: e.g., affiliate transactions and FAC) are potentially multi-million dollar issues that have enormous implications for captive ratepayer's quality and cost of service made all the more important now that those customers find themselves in the middle of global economic recession and pandemic. Yet it is the residential customer charge that Empire wants the Commission to be distracted with.

The Staff, National Housing Trust, Renew Missouri, and Public Counsel all filed testimony in support of maintaining the current residential customer charge and to not increase it.[2] There are a variety of sound economic and policy reasons articulated in those combined testimonies, but Empire largely ignored those arguments, filing approximately five pages in response. Empire's argument is three-fold:

1.) Despite the unreliable billing data used to inform Empire's class cost of service study, the results are "similar" to the results of Empire's last class cost of service study in 2014;
2.) Staff's reliance on the 2020 RAP guidance for informing modern Class Cost of Service studies is not as methodologically sound as the 1992 NARUC manual; and
3.) It is not fair to penalize high usage customers.

I struggle to see why these arguments are a rational basis to raise the customer charge, let alone seemingly back-track from the non-unanimous Global Stipulation, unless this action is explicitly designed to be a distraction from the large tangible dollar issues present in this case.

Nevertheless, regarding this issue, my recommendations have not changed. I still firmly believe that a significant rate reduction is required to provide just and reasonable rates to customers, and that given the economic realities and shelter-in-place provisions being experienced by residential customers, that the rate decrease should be allocated to the residential customer class through volumetric rates. Furthermore,

1.) All of the CCOS studies in this case are flawed because of Empire's inability to consistently provide a bill to its customers for services rendered. Pointing to a 2014 study *that the Commission did not adopt* in 2014 as the basis for changing the customer charge in 2020 is nonsensical;
2.) I concur with Staff that the 2020 RAP manual (*Electric Cost Allocation for a New Era*) more accurately reflects the appropriate allocation of costs for a modern utility that operates

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[2] Importantly, in its CCOS Study Staff *did* calculate a lower residential customer charge than what it recommended. Staff's Class Cost of Service Study states, p. 14, 7-12: "Residential Customer Charge: **The functionalized residential customer charge calculated within Staff's CCOS is $11.91**. Costs included in the calculation of the Residential customer charge are the costs necessary to make electric service available to the customer, regardless of the level of electric service utilized. Examples of such costs include monthly meter reading, billing, postage, customer accounting service expenses, as well as a portion of the costs associated with the required investment in a meter, the service line ("drop"), and other billing costs." The fact that Staff's study supported a lower residential customer charge and I still recommended to maintain the current charge at $13.00 is driven by my lack of confidence in Empire's billing data.

in a market such as SPP than the twenty-eight-year-old NARUC manual that did not contemplate a RTO market dispatch; and

3.) It is incumbent on Empire to provide the billing analysis to inform assertions of "fairness" and customer impact. It has not (see also #1).

In support of my position, I am including the results of Empire's 2015 residential customer energy survey from its appliance usage saturation study used to inform its triennial IRP and unsuccessful MEEIA applications. I had strongly advocated for Empire to update this information, but to no avail. Nevertheless, if Empire wants to rely on its 2014 CCOS study to inform its rate design in 2020, I suppose it is appropriate to provide the 2015 survey data on residential customer usage and relevant demographics during that same period.

<u>2015 Empire Residential Customer Annual Energy Survey</u>

Percentage Overall	Demographics	33% Low 0 to 8,850 kWh	34% Medium 8,851 to 15,750 kWh	33% High + 15,751 kWh
77%	Own residence	28%	34%	38%
23%	Rent residence	48%	35%	17%
20%	1 person in household	58%	29%	13%
40%	2 people in household	33%	38%	29%
40%	3+ people in household	20%	33%	47%
81%	Single-family detached house	30%	34%	36%
4%	Single-family house attached to other	45%	38%	17%
4%	Multi-family with 2-4 apartments/units	58%	38%	4%
4%	Multi-family with 5+ apartments	64%	32%	4%
6%	Mobile/Manufactured Home	26%	29%	45%
13%	Home is less than 1,000 square feet	57%	31%	12%
34%	1,000 to 1,499 square feet	38%	39%	23%
25%	1,500 to 1,999 square feet	25%	37%	38%
19%	2,000 to 1,999 square feet	21%	39%	49%
9%	Home is more than 3,000 square feet	21%	21%	58%
26%	Home is built prior to 1970	49%	36%	24%
23%	1970-1989	31%	35%	34%
19%	1990 – 1999	28%	32%	40%
24%	2000 – 2009	22%	35%	43%
8%	2010 to present	39%	30%	31%
30%	Annual Household Income < 30K	45%	33%	23%
27%	30K – 49K	33%	40%	27%
23%	50K – 74K	25%	35%	40%
20%	75K +	23%	39%	48%

A number of inferences can be drawn from the aforementioned 2015 data, but on a whole, high-usage energy customers are high earners, homeowners, live in larger homes and have newer homes. On the other hand, low-usage customers are low-income earners, renters, live in small spaces and/or have older homes. Neither are absolutes, but the data supports usage trends seen in literally every other utility residential household usage profile that I have examined. Empire is no exception. Importantly, my recommendation does not penalize high-usage customers. A $13.00 residential customer charge would still remain the largest for an investor-owned electric utility in Missouri.

OPC - What would be the impact to residential ratepayers to increase the customer charge?

Response:

This is a non-revenue requirement issue, but generally, low-usage customers would pay more, and high-usage customers would pay less. As such, it would vary depending on the customer's usage. An increased fixed charge would correspond to a decrease in the volumetric charge, and as a result, customer-control of his bill (and attendant actions: energy efficiency, solar, conservation) would be diminished. Since the customer billing data is statistically unreliable due to Empire's continued inability to provide its customers an accurate charge for the services rendered, I only can make broad generalizations. My response to the previous question provided an overview of usage demographic and household usage patterns from 2015. I concluded, that on a whole, low-income customers would be negatively impacted and high-income customers would benefit. But there would be exceptions on both ends as well.

I firmly believe that this case should result in a significant revenue requirement decrease for customers. If the Global Stipulation is no longer valid (based on Empire's back-out), and this case were to result in a rate increase, I still recommend that the residential customer charge remain at $13.00 because I have no confidence in Empire's billing data and because I am seriously concerned about the immediate needs of customers given the current economic climate. When the disconnection moratorium is lifted, customer arrearages will be an issue. To the extent customers can have any control over their finances, I believe it is incumbent upon us to give it to them. This moment, in the middle of the COVID-19 crisis, seems especially inappropriate to be taking control away from customers.

Estimated Bills

Empire - What number and percentage of customers only receive estimated bills in a 12 month period?

Response:

I direct the Commission to the Rebuttal Testimony of Geoff Marke, p. 6, 6-7. I have included a modified table for reference in table 2.

Table 2: Empire estimated bills by month 2017-2019

	2017 Estimated Bills	2018 Estimated Bills	2019 Estimated Bills
January	742	5,594	1,730
February	362	10,639	663
March	232	19,393	1,114
April	521	14,469	682
May	545	20,874	1,011
June	354	17,894	997
July	1,866	17,982	2,864
August	637	14,388	5,557
September	1,001	6,309	9,681
October	509	15,534	19,306
November	2,769	9,810	15,593
December	11,517	9,644	25,578

Empire - Witness Brent Baker states in his surrebuttal testimony that Empire notified its union staff in 2017 that it was going to be switching to AMI meters and then goes on to state that it struggled to maintain adequate meter reading staffing in 2018.

What connection if any did the announcement of switching to AMI meters have with the decline in meter reading staff?

Response:

I would merely point out that spikes in estimated bills before or during AMI deployment have not been a problem for any other utility to my knowledge. Evergy Metro and West managed to fully deploy AMI meters without estimated bills issues, and Ameren Missouri, who is at the same stage of planning/deployment as Empire, has not experienced any spike in estimated bills, or drop in service quality. Empire is an outlier.

It is also important to note that Empire felt compelled to file testimony requesting monthly retention and attraction bonuses for utility lineman in the direct testimony of Jeffery Westfall. Empire did not make a similar request for its customer service or meter readers (or any other area of services). Furthermore, Empire did not disclose that poor service quality in customer billing was/is a problem that needed to be rectified. This information was only obtained through discovery spurred by customer comments submitted in EFIS, at the local public hearings, and in the Change.org petition demanding that the Missouri Public Service Commissioners investigate Empire's estimated billing practices, poor service quality and excessive cost. It is reasonable to conclude that there are likely other variables impacting the prolonged, two-year spike in estimated bills than simply a comment to union employees in 2017 that AMI would be deployed "in the future." The fact that the issue was not rectified since that comment (over 25,000 estimated bills during the month of December of 2019) and not brought to regulators' attention underscores the little value Empire's management places on its quality of service and the lack of concern it has that they will actually be held accountable for their inactions. Consider for a moment that the Commission now has to ask direct questions to Empire to get a response.

Questions Regarding the Global Stipulation and Agreement

All parties - Paragraph 9 of the Stipulation and Agreement lays out a detailed list of metrics Empire will need to report to Staff and OPC regarding estimated meter reading and billing.

If Empire fails to meet these metrics what corrective actions should be taken?

Public Counsel is not a signatory to the non-unanimous global stipulation. As such, Public Counsel did not opine on the agreed-to reporting metrics drafted with Staff regarding Empire's estimated billing problem. To the extent that the Commission feels the need to have periodic empirical support verifying that Empire is doing its job Public Counsel does not oppose this condition of the global stipulation.

That being said, in my earlier testimony I recommend <u>**an explicit reduction of 60 basis points on top of the Company's allowed return on equity ("ROE")**</u>. That recommendation has not changed.

This recommended reduction is a result of the bottom quartile of service that Empire has provided to its captive customers for its upper quartile in cost. I believe Empire's two-year prolonged spike in estimated bills is arguably the most important contributing factor in this profit reduction recommendation, but it is not the only thing that has led to this recommendation.

Simply put, if the Commission adopts my recommendation, I am confident that Empire's estimated bills will be in line with the rest of the electric utilities in the state (AMI or not). However, I do not believe that a reduction in estimated bills alone will propel Empire into the top quartile of customer service (like APUC has claimed). Empire needs to place a greater emphasis on quality of service and not merely neglecting it to focus on increasing its rate base. A reasonable explicit reduction in ROE should make that point.

Strong economic regulation is meant to serve as a proxy for the market for natural monopolies. If a private company were providing consistent bottom quartile quality of service at the most expensive price, customers would exercise other options with their wallet. Captive customers do not have that luxury and depend on the Commission to provide the appropriate level of oversight that holds utilities accountable for their actions. An explicit reduction in ROE of 60 basis points is more than appropriate and is supported by empirical data provided in my testimony.