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Rate Design
Kind/Surrebuttal
Public Counsel
ER-2012-0166

SURREBUTTAL TESTIMONY

OF

RYAN KIND

Submitted on Behalf of
the Office of the Public Counsel

UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI

Case No. ER-2012-0166

September 7, 2012

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Union Electric Company d/b/a)
Ameren Missouri's Tariffs to Increase Its)
Revenues for Electric Service)


File No. ER-2012-0166

AFFIDAVIT OF RYAN KIND

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ryan Kind, of lawful age and being first duly sworn, deposes and states:

1. My name is Ryan Kind. I am a Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached affidavit are true and correct to the best of my knowledge and belief.




Ryan Kind

Subscribed and sworn to me this 7th day of September 2012.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037



Jerene A. Buckman
Notary Public

My commission expires August 23, 2013.

SURREBUTTAL TESTIMONY
OF
RYAN KIND
UNION ELECTRIC COMPANY
CASE NO. ER-2012-0166

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. Ryan Kind, Chief Energy Economist, Office of the Public Counsel, P.O. Box 2230,
3 Jefferson City, Missouri 65102.

4 **Q. ARE YOU THE SAME RYAN KIND THAT HAS PREVIOUSLY FILED REBUTTAL TESTIMONY**
5 **IN THIS CASE?**

6 A. Yes.

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A. The purpose of my rebuttal testimony is to respond to the rebuttal testimony filed by
9 Union Electric Company (UE or the Company) witness William Davis and the Natural
10 Resources Defense Council (NRDC) witness Pamela Morgan regarding the UE rate
11 design proposal to substantially increase the monthly customer charges for Residential
12 and Small General Service (SGS) customers. This testimony also responds to the
13 proposals made by NRDC witness Pamela Morgan to examine UE's declining block rates
14 that are applicable to winter use for Residential space heating customers.

1 **Q. WHAT ARE YOUR GENERAL REMARKS IN RESPONSE MR. DAVIS'S AND MS.**
2 **MORGAN'S TESTIMONY REGARDING UE'S PROPOSALS TO SUBSTANTIALLY INCREASE**
3 **ITS CUSTOMER CHARGES FOR RESIDENTIAL AND SGS CUSTOMERS?**

4 A. In his rebuttal testimony, Mr. Davis generally attempts to minimize the negative impacts
5 of customer charge increases while Ms. Morgan expresses a number of concerns about
6 adverse impacts from increased customer charges and the decrease in the usage rate per
7 kWh that would accompany substantial increases in customer charges.

8 **Q. MR. DAVIS PROVIDES SOME CALCULATIONS OF HOW THE BENEFIT COST RATIOS FOR**
9 **THE PARTICIPANT COST TEST (PCT) WILL BE AFFECTED BY INCREASING THE**
10 **RESIDENTIAL CUSTOMER CHARGE FROM \$8 PER MONTH TO \$12 PER MONTH. DO YOU**
11 **HAVE ANY COMMENTS ON THESE CALCULATIONS?**

12 A. The PCT cost benefit ratios calculated by Mr. Davis do not inform us of the quantity of
13 changes in energy efficiency program participation rates that will likely result from the
14 increased payback period on customer energy efficiency investments due to the decrease
15 in rates per kWh caused by moving from an \$8 customer charge to a \$12 customer
16 charge. If UE needs to raise the incentive levels for its residential energy efficiency
17 programs because of this increased payback period, then the energy efficiency programs
18 will become less cost effective and a lower level of load reductions will result from UE's
19 three-year MEEIA budget for energy efficiency programs. The decreased level of load
20 reductions would occur because the money in UE's energy efficiency budgets that is
21 available to pay incentives would be distributed to a smaller number of customers as
22 incentive amounts increased so program load reductions would decline in accordance
23 with the lower level of program participation (assuming the amount of load reduction per
24 participant remained constant).

1 **Q. DOES PUBLIC COUNSEL AGREE WITH THE TESTIMONY OF NRDC WITNESS PAMELA**
2 **MORGAN ABOUT HOW INCREASED CUSTOMER CHARGES ARE NOT CONSISTENT WITH**
3 **THE DIRECTION OF THE MEEIA STATUTE THAT “THE COMMISSION SHALL PERMIT**
4 **ELECTRIC CORPORATIONS TO IMPLEMENT COMMISSION-APPROVED DEMAND-SIDE**
5 **PROGRAMS PROPOSED PURSUANT TO THIS SECTION WITH A GOAL OF ACHIEVING ALL**
6 **COST EFFECTIVE DEMAND-SIDE SAVINGS?”**

7 A. Yes. Public Counsel agrees that the substantial increases in customer charges proposed
8 by UE would interfere with achieving this goal because of: (1) the decrease in the
9 incentive to conserve electricity that occurs as the price signal that customers receive for
10 each additional unit of usage (kWh) is diminished when cost recovery is shifted from the
11 rate per kWh to the customer charge and (2) the decreased energy efficiency program
12 participation rates that will occur as payback periods for customer energy efficiency
13 investments are increased by shifting cost recovery from rates per kWh to fixed
14 residential customer charges that do not vary based on usage or demand.

15 **Q. ARE THERE STEPS THAT UE COULD TAKE TO COUNTER THE INCREASED PAYBACK**
16 **PERIODS FOR EFFICIENCY INVESTMENTS THAT WOULD BE CAUSED BY THE**
17 **DOWNWARD PRESSURE ON KWH RATES ASSOCIATED WITH HIGHER CUSTOMER**
18 **CHARGES?**

19 A. Yes. The most obvious thing that UE could do in order to counter this increase in
20 payback periods for efficiency investments would be to raise the level of incentive
21 payments that it makes in order to encourage its customers to make greater investments in
22 energy efficiency. While increased incentives may be an effective tactic (subject to
23 program budget constraints) for countering the increase in payback periods, use of this
24 tactic would mean that fewer customers could participate in UE’s efficiency programs
25 since incentive budgets would be depleted more quickly. This would cause a decrease in

the cost effectiveness of UE's efficiency programs and interfere with the MEEIA "goal of achieving all cost-effective demand-side savings."

Q. DOES THE UNANIMOUS STIPULATION AND AGREEMENT APPROVED BY THE COMMISSION IN UE'S RECENT MEEIA CASE (CASE NO. EO-2012-0142) ALLOW UE TO MAKE CHANGES IN INCENTIVE AMOUNTS DURING THE IMPLEMENTATION OF UE'S MEEIA ENERGY EFFICIENCY PROGRAMS?

A. Yes. Paragraph 9 of that Stipulation and Agreement sets forth an expedited and streamlined process that UE can use to adjust incentive amounts. It was Public Counsel's understanding that this expedited and streamlined process was created so that UE would have the ability to respond quickly to sudden or unanticipated changes in market conditions affecting the performance of its energy efficiency programs. This process was not put in place so UE would have increased flexibility to increase incentive amounts in order to counter declines in customer interest in making energy efficiency investments as payback periods for those investments increase due to increases in the level of monthly customer charges.

Q. DOES PUBLIC COUNSEL SUPPORT NRDC WITNESS PAMELA MORGAN'S RECOMMENDATION FOR EXAMINING UE'S DECLINING BLOCK RATES THAT ARE APPLICABLE TO WINTER USE FOR RESIDENTIAL SPACE HEATING CUSTOMERS?

A. Yes, OPC generally supports this recommendation. OPC made a similar proposal in a previous UE rate case (Case No. ER-2010-0036) where I stated in my direct testimony that "Public Counsel believes that declining block charges are no longer an appropriate rate design for customers of Missouri regulated utility providers." I noted in that testimony that:

1 This type of rate structure is an artifact of an earlier era when energy was
2 not perceived to be a scarce resource with large environmental impacts
3 (and costs) resulting from usage of the fossil fuels that are relied upon to
4 provide utility service. Competition between electric, natural gas and
5 propane providers (especially for heating loads) was another factor that
6 contributed to the widespread use of declining block rates. For electric
7 utilities that built base load capacity that needed to be grown into,
8 declining block rates were a means of encouraging additional usage in
9 off-peak winter periods. The issue of utilizing excess baseload electric
10 capacity to help cover fixed costs has declined as Missouri loads have
11 grown to more fully utilize this capacity and as highly developed
12 regional wholesale markets have provided opportunities to make sales of
13 excess Missouri baseload capacity.

14 ...

15 The payback period for energy efficiency investments increases as utility
16 rates (at the margin) decrease. Therefore, customers considering energy
17 efficiency investments may decide not to proceed due to the lengthier
18 payback periods on certain investments from declining block rates.

19 ...

20 Utilities often offer incentives to customers for choosing higher levels of
21 energy efficiency and those customer investments where the payback
22 periods are impacted adversely by declining block rates may not occur
23 unless utilities offer higher incentives to offset the impact of declining
24 block rates. Of course, higher utility incentives lead to higher utility
25 costs that will eventually be paid for by customers.

26 **Q. HOW WAS THE ISSUE OF DECLINING BLOCK RATES ADDRESSED IN CASE NO. ER-**
27 **2010-0036?**

28 A. This issue was resolved in the First Unanimous Stipulation and Agreement in that case.
29 Paragraph 12 b in the First Unanimous Stipulation and Agreement stated that "With
30 regard to demand-side management programs, AmerenUE shall... prior to filing its next
31 general electric rate case, conduct a study addressing the elimination of declining block
32 rates for residential service in a revenue neutral manner, and will file the results of this
33 study in its next general electric rate case."

34 **Q. WAS THE AGREED UPON STUDY PERFORMED BY UE?**

1 A. Yes, the study was performed and it was addressed in testimony in UE's last rate case,
2 Case No. ER-2011-0028.

3 **Q. HOW DID THE COMMISSION ADDRESS THE ISSUE OF DECLINING BLOCK RATES IN ITS**
4 **REPORT AND ORDER IN CASE NO. ER-2011-0028?**

5 A. The declining block rate issue was addressed in the Commission's order as follows:

6 The Commission does not like declining block rates. They do not send a
7 proper price signal and tend to encourage the excessive consumption of
8 electricity. In addition, declining block rates may force residential
9 customers who conserve electricity to subsidize their neighbors who use
10 excessive amounts.

11 In the last case a stipulation and agreement required Ameren Missouri to
12 study the elimination of declining block rates. Not surprisingly, Ameren
13 Missouri's study concluded that elimination of the declining block rate
14 would cost the company money and would result in increased rates for
15 the customers who currently benefit from the rate. MDNR is the only
16 party that responded to Ameren Missouri's study, but that response dealt
17 only in generalities and provided very little detailed information to assist
18 the Commission in actually evaluating the merits of the elimination of
19 the winter declining block rate.

20 Unfortunately, there is just not enough evidence in this record to justify a
21 modification of the current rate design. The only thing that is clear is that
22 the elimination of the declining block rate would have an unfortunate
23 impact on the rates of those customers who use electricity for space
24 heating. If any party wants to try again to eliminate the winter declining
25 block rate in Ameren Missouri's next rate case, they will need to provide
26 the Commission with more information to justify that change.

27 **Q. WHAT DOES PUBLIC COUNSEL RECOMMEND AT THIS TIME FOR THE DECLINING BLOCK**
28 **RATE ISSUE?**

29 A. OPC generally agrees with the alternative proposal that appears on page 19 of Ms.
30 Morgan's rebuttal testimony. Given the Commission's decision on this issue in Case No.
31 ER-2011-0028, which stated in part that "The Commission does not like declining block
32 rates," the steps recommended by NRDC witness Pamela Morgan in her alternative

Surrebuttal Testimony of
Ryan Kind

1 proposal are appropriate and the Commission should order UE to take the recommended
2 actions.

3 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 **A. Yes.**