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Senator Cindy O'Laughlin
201 W. Capitol Ave., Rm. 332
Jefferson City, Missouri 65101

Senator John Rizzo
201 W. Capitol Ave., Rm. 333
Jefferson City, Missouri 65101

Dear Senators O'Laughlin and Rizzo:

Thank you for your letter dated August 7th, expressing your desire for the PSC to reverse its position on time of use (TOU) rates for Evergy customers. I appreciate your interest in utility rate making, and I want to share some of the most recent data that Evergy shared with the Commission during our weekly agenda meeting on August 10th that was not available to you when you drafted your letter. That presentation was live-streamed and is available on the Commission's website for your review. I hope the information below clears up any misconceptions about Evergy's TOU rates.

Your letter stated that Evergy's TOU rates would *"be hard on families and bad for our economy. Additionally, this mandate may place vulnerable Missourians on a fixed income in danger of forcing them to choose between staying safe and saving money."*

The data from Evergy does not support those assertions. According to Evergy's analysis of actual energy usage of 498,000 households from the previous 12 months ending May 2023, 89% of Evergy Metro customers and 91% of Evergy West customers would save money or have little to no cost increase for energy usage on the default TOU rates, without any change in their energy usage levels or behavioral changes. In addition, Evergy commissioned a study by the Brattle

Group (a well-respected energy analysis firm frequently utilized by Missouri utilities), which estimates that over 70% of low-income households and seniors will immediately save on their energy costs without changing their usage. Hopefully this data will calm any fears that TOU rates will hurt vulnerable Missourians, when in fact they will be the segment of the population that benefits the most.

I also want to provide some historical context on mandatory rates. Every rate decision from the PSC is mandatory, as it automatically places customers into a rate they did not choose but were assigned. For years the only choice that would apply to customers is if they had a particular circumstance, such as electric heating, or installing your own solar panels. Most residential homes did not have a viable choice for their energy rates other than the rate they were assigned. The assertion that "the Missouri Public Service Commission has taken away this choice from hundreds of thousands of Missourians" is not reflective of what is happening. This is the first time residential homeowners were given four rate options regardless of their unique circumstances, such as those mentioned above. The Missouri PSC did not reduce the choices available to Evergy customers, but instead gave them more choices than they have ever had before.

What about my old rate?

Change is hard, and the desire to have things be how they always have been is a common theme in rate cases. That is why the TOU rates were designed with four options for consumers, including one remarkably similar to their old rate. The Peak Reward Saver rate is the closest to the old rate, with a 1 cent credit during off-peak and a .0025 cent – 1 cent increase during peak times. Evergy's own witness in their rate case stated that the "ultra-low" TOU rate is essentially a flat rate. It was even contemplated naming the now Peak Reward Saver rate as the Flat TOU rate. Still, it was decided that may not be very clear to the customer. Thus, customers with a strong desire for the status quo will find that the Peak Reward Saver will give them a remarkably similar experience to their old rates by design.

That being said, customers can choose the best rate for their family's needs. The data Evergy recently shared with the Commission shows the Peak Reward Saver (Flat TOU Rate) is the third most subscribed rate among those that have chosen their new rate, with more customers choosing rates that offer more savings opportunities. The number of households having already selected the rate that best suits their family has greatly exceeded Evergy's projections. Still, we have asked for weekly data to watch the trends to see which options customers choose most. (Upon request, we will gladly share that information with you when Evergy shares it with us.)

Also, it is worth noting that Evergy's old rates were not genuinely flat. They were inclining block rates during the summer, meaning the more energy you used, the more you were being charged. Evergy customers were paying more for their energy during the peak summer season, but they were never given the level of rate transparency and control that they will receive via the TOU rate structures to see their rates were increasing the more they used during peak hours.

Why TOU Rates?

Short Term: Immediate benefits to customers.

The number one complaint we hear at local public hearings during utility rate cases is that the customer has no choice. Their utility is the only electric provider in their area, and they can't find somewhere less expensive. Their only option to shoulder rate increases is to use less energy. Evergy's TOU rates allow customers to save money without using less energy. TOU rates will enable them to achieve additional savings by altering their energy usage if they choose to do so. Customers repeatedly tell us at local public hearings that they want their energy to be convenient and easy to use, they want to control their energy bills as much as possible, and they want some choice in how they spend their energy dollars. TOU rates provide all three of those requests.

Customers are experiencing drastically rising costs due to inflation. Family food budgets are taking a huge hit, and gas prices are climbing, etc. Allowing customers to manage their shrinking budgets to their best ability should also extend to their energy costs. While some families may choose not to change their energy usage and choose the Peak Reward Rate to keep their costs almost flat all year, others may wish to reallocate their money to other household needs and choose rates that have more opportunity for savings. Regardless of which rate they ultimately decide, it will be the one they believe is best for their family.

Long-Term: Avoided Costs

Vertically integrated utilities make money by building generation plants and growing their rate base. They earn a rate of return on that rate base, which benefits their stockholders. Conversely, ratepayers save money by avoiding the building of generation plants, which would increase the utility's rate base.

Looking into the near future, it is anticipated that the electricity demand will continue to grow in Evergy's footprint. The electrification of vehicles, increased computing power demands, the economic development growth in the KC region, and the attraction of data centers all point to a future of growing demand for electricity. Although Evergy has enough generation currently, there is the potential future need for additional generation to meet the peak demand times of heavy electric usage. These plants commonly referred to as "peaker plants," are typically only run during extreme events to ensure the grid does not go down, and enough energy is put on the grid to match what is extracted. Building new plants is expensive. Running them only a few days out of the year makes them even more costly.

Suppose a small percentage of households voluntarily lower their energy usage during peak times. The need to build a new plant can be avoided in that case. Offering a financial incentive to the rate payer via lower energy costs not only helps them in the short term by lowering their bills but also avoids a new plant being built, which would trigger a further rate increase for all of Evergy's customers.

Is this a new concept?

No. Missouri consumers are well-versed in demand pricing. When the Cardinals play the Cubs, or the Chiefs play the Broncos, ticket prices are higher than during other games because the demand is higher. Evening movie tickets are more expensive than matinee movie tickets, and weekend movie tickets are more expensive than weekday tickets. The most desired children's toy is expensive before Christmas and Hanukkah but is discounted a week later. The only difference in these examples is that it does not cost the Cardinals more for that ticket against the Cubs, nor is it more expensive to show a movie on the weekends, but it is more expensive to generate electricity during high-demand periods. Thus, TOU rates allow the market price signals to be delivered to energy customers when the actual cost to create the electricity is higher for the company and conversely when the cost to generate electricity is lower.

Why was Ameren allowed to keep their flat rate?

This is another concern we have heard from legislators. Evergy has had the technology to implement TOU rates for years. That technology gives customers near real-time energy usage information. Ameren more recently started to install that technology for residential customers. At the time of the Ameren rate case, only 70% of their customers had that technology available.

What if I don't like my rate, or I never got around to choosing a rate?

You can change it. Evergy is allowing unlimited changes to customer rates. For example, if you have a baby and are on maternity/family leave and your daily routine is different, call or go online to your account and change your rate with a click of a button. It will be effective the next day. When you return to work, you can change again. You may want to be on one rate during the school year, but it changes during the summer when the kids are home during the day. The technology gives you the maximum flexibility to adjust your rate based on your ever-changing family situations if you so choose. Consider this analogy, some people invest in mutual funds because they want to put money away and not think about it. Some choose to actively manage their investments. Customers can now select what level of engagement they wish to have with their energy usage, and change whenever it suits them.

Is there a concern that Evergy will reap a financial windfall of revenues due to TOU rates?

No. With 89-91% of customers expected to save money or have little to no bill increase, it is unlikely that the company will over-collect from customers. There is a greater possibility of under-collection if customers aggressively save on energy costs. It is important to note that a utility rate case generates a complex math figure of how much revenue the company must collect to fund its system and earn a rate of return on its investment. Rate design is an attempt to estimate how the company will recover those revenues; how much will be generated from the large industrial class, how much from the commercial class, and how much from the residential class, etc. It is never exact, and at times, companies have over-collected and at times, companies have under-collected. The PSC has mechanisms and procedures in place to address both these events.

Removing Subsidies

Another impact of the TOU rate design ordered in Evergy's last rate case was the removal of subsidies. In Evergy's old rates, one group of residential customers was subsidizing the rate of their neighbors due to the type of HVAC system in their neighbor's home. In Evergy's previous rate design, residential customers who do not directly use fossil fuels (natural gas, propane, etc.) in the heating of their homes were getting a discount on their rates compared to homes that directly utilized fossil fuels. Utility rates should not pick winners and losers, and one neighbor should not subsidize another's electricity bill based on the type of fuel their HVAC system uses. Instead, the costs to produce and deliver electricity to households should be as transparent as possible, treating all residential customers equally.

Electric Space Heating Customers

Despite the expected benefits from TOU rates that Evergy's analysis indicates, some customer segments may not directly benefit from the transition. However, this information is potentially misleading. The customers projected to not benefit from the transition to TOU rates are predominantly electric space heating customers. As mentioned above, many of these customers were previously enjoying a subsidized rate that was particularly favorable for high-usage customers. Removing this subsidized rate option will likely exacerbate TOU rates' impact on these customers. Based on Evergy's analysis, electric space heating customers will see an average monthly bill increase of \$3.92-\$9.75 under the default TOU rate before any change in energy usage. The Commission has encouraged Evergy, and Evergy has planned additional outreach and support for these customers to ensure they choose the best available rate for their families, so that those customers can reduce their electric bills. However, it is essential to note that this segment of ratepayers would have seen an increase in bills regardless if TOU rates were implemented due to eliminating their special subsidized rate.

Summary:

TOU rates provide customers with more choices in spending their energy dollars than ever before and offer rate options to those who want to keep as close to the status quo as possible while simultaneously providing avenues for those eager to save as much money as possible. The impact of TOU Rates are:

- 89-91% of Evergy customers will save or see little to no increase in their electricity bills, as compared to their electricity bills from the 12 months ending May 2023.
- This is the first rate increase where customers can use the same amount of energy as they have been accustomed to using yet potentially see their annual energy bills stay flat or decrease.
- Customers have more choices than ever to decide what rate is best for their family.
- Customers who want a rate as close to their old rate as possible (without any subsidies) can choose the Peak Reward Saver Rate, which is significantly similar to their old rate.

- Customers can switch between rate options as often as they want. If their family situation changes, they can change to a rate that best reflects their new needs. The old Evergy rates did not provide options to families if their family situation changed.

- In addition to potential immediate savings, customers may realize long-term savings by avoiding the need to build new plants to meet higher peak demand times and prevent the subsequent rate case that would follow to pass the costs onto the consumer.

- TOU rates have gotten Evergy customers to pay more attention to their electric use and utility bills. Web traffic has far exceeded Evergy's estimates, and customers educating themselves and choosing the best plan for their family is far ahead of projections.

What Evergy's TOU Rates are NOT:

- Evergy's TOU rates will not *"place vulnerable Missourians on a fixed income in danger of forcing them to choose between staying safe and saving money."* Evergy projects that 70% of seniors and low-income households will see **immediate savings** under the TOU rates.

- Evergy's TOU rates are not a *"top-down, big government directive telling people how to live their lives."* Instead, they provide the most price transparency and customer choice ever given to Evergy's customers.

- Evergy's TOU rates are not a "woke" green energy policy from the federal government. Evergy's TOU rates are agnostic to where the electricity comes from. Whether from a coal, natural gas, wind, solar, or nuclear facility. The rates reflect the increased costs to the company to generate electricity at certain times and the decreased costs to generate electricity at other times.

- The TOU rates are not a way to provide the company with a windfall of profits. A more considerable concern for the company is that people may primarily utilize the rates to reduce their energy costs and thus reduce the revenue to the company.

Hopefully, this information will be helpful in understanding the facts about TOU rates and how they benefit Missouri electric customers. I look forward to working together to help educate Missourians on the opportunities for more convenience, control, and choice with their energy dollars.

Sincerely,



Scott Rupp, Chairman
Missouri Public Service Commission

cc: Missouri Senators
Missouri House of Representatives Members