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Witness: Anne E. Ross
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

ANNE E. ROSS

UNION ELECTRIC COMPANY

d/b/a

AMERENUE

CASE NO. ER-2010-0036

**Jefferson City, Missouri
February 2010**

~~Staff~~ Exhibit No. 218
Date 3-15-10 Reporter KF
File No. ER-2010-0036

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Q. Please state your name and business address.

A. Anne E. Ross, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Economist with the Missouri Public Service Commission
(Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri-Columbia in 1986 with an
undergraduate degree in Business Administration. I graduated from the University of
Missouri – Columbia, with a Masters of Business Administration in 1989.

Q. Please describe your work experience.

A. I have been employed with the Commission as a Regulatory Economist since
1989. I have also been an adjunct professor at Columbia College since 1989.

Q. What has been the nature of your duties while in the employ of the
Commission?

A. The general nature of my duties at the Commission have included class cost of
service, rate design, large customer analysis, and low-income customer issues.

Q. Have you previously filed testimony before this Commission?

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1 A. Yes. Schedule 1 is a list of the cases in which I have filed testimony.

2 Q. Have you been involved with any of the current programs for the low-income
3 customers of Missouri investor-owned utilities?

4 A. I have been involved in setting up programs for low-income customers for the
5 following utilities:

- 6 • Union Electric Company – Gas Service
7 • Laclede Gas Company
8 • Kansas City Power & Light Company
9 • The Empire District Gas Company (formerly Aquila Networks – MPS & L&P)

10
11 In addition, I attended meetings related to the Experimental Low-Income Program
12 previously offered by Missouri Gas Energy.

13 Q. Have you been involved with any groups, committees, or other projects
14 relating to low-income customer energy affordability issues?

15 A. Yes. I attended meetings of the Cold Weather Rule and Long-Term Energy
16 Affordability Task Force set up in Case No. GW-2004-0452. I am the Staff representative on
17 the Low-Income Weatherization Advisory Policy Council, and attend meetings of the
18 Committee to Keep Missourians Warm.

19 Q. What is the purpose of your direct testimony?

20 A. On February 10, 2010, the Commission issued an ORDER DIRECTING THE
21 PARTIES TO ADDRESS THE CONCERNS RAISED BY AMERENUE'S LOW-INCOME
22 RESIDENTIAL CUSTOMERS. In this order, the Commission asked the parties in Case No.
23 ER-2010-0036 to file additional testimony "to address the feasibility of establishing an
24 experimental "very low-income" customer class that would be based upon the federal poverty
25 level." The Commission asked that the testimony address:

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- 1) the practicality of establishing such a class, including the effect on revenues and costs,
- 2) guidelines for inclusion in such a class
- 3) verification procedures for participants in such a class
- 4) the possible effect on the company's bad debt expense of such a class, and
- 5) whether such a class should be tied to the current industrial rate class or propose an alternate rate.

My testimony in this case is to respond to the Commission's Order and to provide Staff's response to the Commission's five (5) specific questions stated in its Order.

1. Practicality of Establishing a Specific Customer Class

Q. What is the practicality of establishing a specific customer class?

A. Given the short timeline to review and establish a specific customer class, it is impractical to do so given the necessary information that should be indentified to develop a new customer class, which I will discuss in my testimony. However, Staff will address to the best of its ability the concept of establishing an experimental "very low-income" customer rate.

Q. On what general bases are customers grouped into distinct rate classes?

A. In general, customer classes are composed of customers with similar cost characteristics, such as usage patterns and levels.

Q. What type of information would be needed in order to set up a separate class of customers based on household income level?

A. The most important data would be the customers' household incomes.

Q. Do utilities collect household income information from their customers?

A. No. Unless a customer voluntarily shares their household income level, or participates in a program such as the Low-Income Home Energy Assistance Program

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1 (LIHEAP), the utility has no information about the customer's household income. Only a
2 fraction of LIHEAP-eligible customers actually participate in those programs, so the majority
3 of low-income customers could not be identified by this means.

4 Q. Are there other sources of income data that could possibly be used to identify
5 customers who should be placed in a low-income customer class?

6 A. Yes, income data is collected from customers who participate in other
7 assistance programs, such as Temporary Assistance for Needy Families, Food Stamps, or
8 Federal Public Housing Assistance. This information would have to be obtained from the
9 provider of these programs, which could be difficult due to privacy issues and concerns.

10 Q. Does the inability to include all eligible low-income households in a "very
11 low-income" rate class create any issues?

12 A. Yes, Staff believes that a rate class should include all customers who meet the
13 criteria; in this case, all residential customers where the customer's household income falls
14 below a certain level. The inability to identify the majority of these customers is problematic
15 and leads Staff to believe that it would be preferable to address this problem with a program,
16 rather than a separate rate class.

17 Q. Setting aside the difficulty of identifying low-income customers, are there any
18 other factors that would need to be considered in the process of setting up separate low-
19 income rate class?

20 A. Information would need to be collected to determine whether there was a
21 difference in the cost required to serve these customers so that a cost-of-service or other study
22 could be performed.

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1 Q. Does Staff believe that there might be differences in the cost to serve low-
2 income residential customers vs. the remainder of AmerenUE's residential customers?

3 A. Yes, Staff believes that the cost to serve a very low-income customer might be
4 different than the cost to serve a residential customer at a higher income level.

5 Q. What types of costs might be different, and how would they differ?

6 A. The primary difference would be in customer-related costs. There are costs to
7 the utility associated with communicating with customers who are having trouble paying their
8 bills on time, as well as increased time spent working out payment arrangements for these
9 customers or providing information on utility assistance programs. Given the assumption that
10 lower-income customers have a higher rate of default on their utility bills, the costs related to
11 disconnection and bad debt would be different for this group of residential customers. In both
12 cases, Staff believes that it is possible that the cost to serve low-income customers would be
13 higher than that required to serve customers at higher income levels.

14 Q. Is there information currently available that would allow the parties to quantify
15 these costs to be used in this rate case?

16 A. No, and it is doubtful that the information could be collected, made available to
17 the parties, and analyzed in the very short time frame presented by this case.

18 Q. Does Staff have an alternative proposal to creating a new class of customers?

19 A. Yes. In light of the difficulties involved in setting up a separate class for low-
20 income customers, if the Commission believes that it is appropriate to mitigate the financial
21 burden on low-income customers in this case, Staff proposes that the Commission consider
22 establishing an experimental program to provide a discount on the non-fuel portion of the
23 residential rate for customers who are identified as low-income.

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1 Q. Why does Staff believe that a customer discount would be preferable to
2 creating a new separate rate class for these customers?

3 A. A main advantage of this type of program is that administratively it could be
4 designed and implemented more rapidly. It also would be a program that would be easier for
5 customers to understand.

6 **2. Guidelines for Inclusion**

7 Q. Which customers does Staff propose would be eligible for the discount?

8 A. Staff proposes that customers with household incomes that make them eligible
9 for the LIHEAP program would be eligible to participate in the discount program. At the
10 current time, households with income that does not exceed 135% of the Federal Poverty
11 Guideline (FPG) are LIHEAP-eligible. For a 4-person household, this would be
12 \$2,481/month.

13 As an alternative, 'tiered' discounts could be set up, with a higher discount for lower-
14 income customers. A third idea would be to restrict the program to a subset of LIHEAP-
15 eligible households, such as those with household income less than 75% of the FPG. For a 4-
16 person household, this would translate to a monthly income of \$1,378.

17 Q. How would these program eligible customers be identified?

18 A. Identifying customers eligible for a low-income customer discount program
19 has the same problems as identifying customers for a separate low-income customer class,
20 and would have to be based on the same information sources. Households that are currently
21 receiving LIHEAP benefits could automatically be enrolled in the discount program. In
22 addition, customers who are deemed eligible for LIHEAP or have an accepted application for
23 the low-income weatherization program could be screened for income eligibility. Those

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1 AmerenUE customers that meet the weatherization program's eligibility requirements could
2 be automatically enrolled in the discount program, since their utility provider information is
3 collected as part of the weatherization program application.

4 It is possible that information could be shared from other assistance programs;
5 however, this would require that the other programs that currently don't collect information
6 on applicants' utility provider begin collecting the information, which could be problematic.
7 Finally, AmerenUE would provide outreach to its customers to explain the program.

8 **3. Verification Procedures for Participants**

9 Q. How would customers that are eligible, but have not applied for the LIHEAP
10 or low-income weatherization program, enroll in the discount program?

11 A. The customer, or his/her representative, would initiate the application process.
12 Household income would be verified annually by the Community Action Agencies (CAA) in
13 AmerenUE's service territory, and the CAA could provide AmerenUE verification of the
14 customer's income eligibility. After the initial enrollment, AmerenUE could notify customers
15 90 days before their annual re-enrollment deadline, and provide information on the steps that
16 needed to be taken to continue to participate in the discount program.

17 Q. How should the discount be structured?

18 A. Staff proposes that the non-fuel portion of a customer's bill, estimated to be
19 about two thirds of the average residential customer's bill, be discounted by 50%.

20 Q. How did Staff arrive at this amount?

21 A. Staff does not have any AmerenUE specific data to rely on, but based on the
22 estimated impact and the experience of Staff personnel that deal with low-income customers,

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1 it is Staff's judgment that a 50% discount on the non-fuel cost of the customer's bill, along
2 with LIHEAP payments, would enable many customers to stay current on their electric bills.

3 Q. Would there be a specific application period, or would customers be allowed to
4 enroll at any time of the year?

5 A. Administratively, it would be beneficial for there to be a consistent application
6 period annually; however, customers' circumstances, i.e., job loss, illness or physical
7 displacement are not scheduled within a specified calendar period. Therefore, Staff proposes
8 that customers be allowed to apply at any time during the year for the discounted rate.

9 Q. Does Staff have an estimate of the number of customers that might participate
10 in a discount program?

11 A. As discussed earlier, income data on AmerenUE's customers is not available.
12 To develop a range of the numbers of customers that might participate in this program, Staff
13 relied on two sources.

- 14 • 2009 Missouri LIHEAP facts, published by the Campaign for Home Energy
15 Assistance¹. This report was used to determine the number of LIHEAP-eligible
16 customers in the entire state of Missouri, as well as the number of households
17 actually served in 2009. This report also contains information regarding the
18 percentage of Missouri LIHEAP customers with household income of 75% or less
19 of the FPG, and estimates that number to be approximately 56% of LIHEAP
20 recipients.
- 21 • EIA Electric Sales & Revenues 2008². This document was used to estimate the
22 percentage of Missouri residential electric customers served by AmerenUE. This
23 percentage was then applied to the information from the LIHEAP report to
24 develop a range of minimum and maximum participant numbers.

25
26 Q. How was this information used to develop an estimated number of discount
27 program participants?

¹ <http://liheap.org/liheap%20fact%20sheet/MO/liheap-MO.pdf>

² <http://www.eia.doe.gov/cneaf/electricity/esr/table6.xls>

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1 A. Since current LIHEAP participants could be automatically enrolled in the
2 discount program, this estimate was used as the minimum number of participants. Staff took
3 the percentage of Missouri residential customers served by AmerenUE (39%), and applied
4 that percentage to 147,000, which is the number of Missouri households who received
5 LIHEAP assistance in 2009. This resulted in a minimum estimate of 56,856 participating
6 customers.

7 The 2009 LIHEAP report also estimates that there are 912,400 households in Missouri
8 that are eligible for LIHEAP assistance. Multiplying this number by 39% results in an
9 estimate of 352,894 customers; this number was used as the upper bound in the Staff's
10 projections. Therefore Staff estimates that the number of participants if the Commission
11 determined that LIHEAP eligibility would be the criteria, would range from 56,856 to
12 352,894 customers.

13 In addition, similar calculations were done to develop an estimate of AmerenUE
14 customers with household income of 75% of the FPG or less. The estimated range of
15 participants given the criteria of 75% of the FPG is 31,839 to 197,621 customers.

16 Q. How did Staff develop an estimate of the cost of the discounts?

17 A. Staff witness Curt Wells provided a normalized estimate of residential
18 customer usage and revenue for the test year. The amount he provided indicates that an
19 average AmerenUE residential bill is \$930. One-third of that amount, or \$310 was used as an
20 estimate of the average discount per participant.

21 Q. What is the result of multiplying the estimated number of participants by the
22 \$310 average discount per participant?

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1 A. Given these assumptions, Staff estimates for a program providing a discount to
2 customers with household incomes of 0-135% of the FPG, Staff estimates that the program
3 could cost as little as \$17,625,360 or as much as \$109,397,410 per year.

4 If the program was restricted to those households with income at 0-75% FPG, results
5 in a lower bound of \$9,870,202 and an upper bound of \$61,262,398.

6 Q. Who does Staff propose pay for this discount program?

7 A. Staff proposes that the cost of the program be factored into the general level of
8 rates paid by all customers. It should be noted that the effect of this program will be an
9 increase in the bill paid by all other customers, including low-income customers who do not
10 participate in the program.

11 Q. Should the entire expected cost be factored into AmerenUE's current revenue
12 requirement?

13 A. No. Given the uncertainty as to the amount needed for this program, Staff
14 suggests that a portion of the expected cost be built into rates in the current rate case, with any
15 additional costs placed in a tracker for recovery in AmerenUE's next rate case.

16 **4. Effect on Company's Bad Debt Expense**

17 Q. How would AmerenUE's bad debt expense be affected by this discount
18 program?

19 A. Staff expects AmerenUE's bad debt expense to decrease as a result of the
20 discount program. It is hoped that the discount, along with any LIHEAP grants the customer
21 receives, will give low-income customers the ability to pay their bills, and keep their
22 electricity on. The relationship between assistance dollars and reduction in AmerenUE's bad

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1 | debt expense will not be one-to-one, but Staff does not know what the ratio will be. This is
2 | information that should be collected and tracked if the program is implemented.

3 | Q. How could the effectiveness of this type of program be evaluated?

4 | A. Staff recommends that as soon as possible after the implementation of the
5 | program, an independent evaluator be hired to evaluate the program. This is important so that
6 | the evaluator can begin collecting information at the beginning of the program. The
7 | information collected should include each customer's usage and billing history at the current
8 | address at the time the customer enrolls, as well as the customer's level of usage and billing
9 | history on a going-forward basis.

10 | Q. What are some problems associated with gathering the information needed to
11 | evaluate a program of this type?

12 | A. Low-income households move more frequently than the general public, which
13 | makes it difficult to gather past usage data. Low-income households may also take service
14 | under various household members' names, which also complicates the acquisition of
15 | historical usage data for a household.

16 | Q. Do any other Missouri utilities have assistance programs for their low-income
17 | customers?

18 | A. Yes. The Empire District Electric Company, Kansas City Power & Light
19 | Company, KCP&L Greater Missouri Operation Company, The Empire District Gas
20 | Company, and Laclede Gas Company currently have low-income customer payment
21 | assistance programs.

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1 **5. Tie to Current Industrial Rate Class or Alternate Rate**

2 Q. In your opinion, if the Commission establishes a very low income rate class,
3 should the differential between the rates paid by the residential rate class and the “very low-
4 income” rate class be tied to the rate of the current industrial rate class?

5 A. No. However, the design of Staff’s proposed discount program does require
6 the customer’s bill to be separated into fuel and non-fuel costs. Staff proposes that the
7 Commission, if the Commission continues AmerenUE’s Fuel Adjustment Clause (FAC), use
8 the Net Base Fuel Cost of the FAC to determine the fuel portion of the customer’s bill. If the
9 Commission decides to discontinue AmerenUE’s FAC, the Commission should use the
10 Staff’s fuel run to allocate to the summer and winter months the final fuel and purchased
11 power costs as determined by the Commission.

12 Q. Does this conclude your Direct testimony?

13 A. Yes, it does.

Anne E. Ross

EDUCATION

Bachelor of Science – Business Administration
University of Missouri, Columbia, MO – May 1986

Master of Science – Business Administration
University of Missouri, Columbia, MO – May 1989

PROFESSIONAL EXPERIENCE

Missouri Public Service Commission
Regulatory Economist II
September 1989 – Present

Member – Missouri Weatherization Policy Advisory Committee
2004 - Present

CASE PARTICIPATION

Case Number	Company Name	Testimony Issues
GR-90-50	Kansas Power and Light	Class Cost-of-Service
GR-90-120	Laclede Gas Company	Class Cost-of-Service
GR-90-152	Associated Natural Gas	Class Cost-of-Service
GR-90-198	Missouri Public Service	Class Cost-of-Service
GR-91-249	United Cities Gas Company	Class Cost-of-Service
GR-91-291	Kansas Power and Light	Class Cost-of-Service
GR-92-165	Laclede Gas Company	Class Cost-of-Service
GR-93-42	St. Joseph Light and Power	Class Cost-of-Service
GR-93-47	United Cities Gas Company	Class Cost-of-Service
GR-93-172	Missouri Public Service	Class Cost-of-Service
GR-93-240	Western Resources	Class Cost-of-Service
GR-94-0220	Laclede Gas Company	Class Cost-of-Service
GA-94-0127	Tartan Energy Company	Reviewed Application
GR-95-0160	United Cities Gas Company	Class Cost-of-Service
GR-96-0193	Laclede Gas Company	Class Cost-of-Service
GR-96-0285	Missouri Gas Energy	Class Cost-of-Service
GR-99-0042	St. Joseph Light and Power	Class Cost-of-Service

CASE PARTICIPATION (cont'd)

Case Number	Company Name	Testimony Issues
GR-2002-0356	Laclede Gas Company	Class Cost-of-Service, Large Customer Analysis
GR-2003-517	AmerenUE Gas	Class Cost-of-Service, Large Customer Analysis, Low-Income Customer Assistance
GR-2004-0072	Aquila Networks	Class Cost-of-Service, Large Customer Analysis, Low-Income Customer Assistance
GR-2004-0209	Missouri Gas Energy	Class Cost-of-Service, Large Customer Analysis, Low-Income Customer Assistance
GR-2005-0284	Laclede Gas Company	Class Cost-of-Service, Large Customer Analysis, Low-Income Customer Assistance
GR-2006-0387	Atmos Energy Corporation	Large Customer Analysis, Rate Design, Customer Conservation Programs
GR-2006-0422	Missouri Gas Energy	Large Customer Analysis, Rate Design, Customer Conservation Programs
GR-2007-0003	AmerenUE Gas	Large Customer Analysis, Rate Design, Customer Conservation Programs
GR-2007-0208	Laclede Gas Company	Large Customer Analysis, Rate Design, Low-Income Customer Assistance
GR-2008-0060	Missouri Gas Utilities	Rate Design, Low-Income Customer Assistance, Customer Conservation Programs
HR-2008-0030	Trigen – Kansas City	Large Customer Annualization
ER-2009-0089	Kansas City Power & Light Company	Low-Income Customer Assistance
ER-2009-0090	KCP&L Greater Missouri Operations Company	Low-Income Customer Assistance
GR-2009-0355	Missouri Gas Energy	Large Customer Annualization & Weather Normalization, Rate Design
GR-2009-0434	Empire District Gas Company	Rate Design, Large Customer Annualization