

Exhibit No.: _____
Issue(s): Low Income Exemption from
the MEEIA Rider EEIC Surcharge/
Class-Cost-of-Service
Study Comments/
Further Consideration
for the Commission
Witness/Type of Exhibit: Marke/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: ER-2014-0258

SURREBUTTAL TESTIMONY

OF

GEOFF MARKE

Submitted on Behalf of
the Office of the Public Counsel

**UNION ELECTRIC
D/B/A
AMEREN MISSOURI**

Case No. ER-2014-0258

February 6, 2015

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

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

Case No. ER-2014-0258

AFFIDAVIT OF GEOFF MARKE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Geoff Marke, of lawful age and being first duly sworn, deposes and states:

1. My name is Geoff Marke. I am a Regulatory 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 testimony are true and correct to the best of my knowledge and belief.




Geoff Marke

Subscribed and sworn to me this 6th day of February 2015.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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SURREBUTTAL TESTIMONY

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GEOFF MARKE

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

CASE NO. ER-2014-0258

1 **I. INTRODUCTION**

2 **Q. Please state your name, title and business address.**

3 A. Dr. Geoffrey Marke, Economist, Office of the Public Counsel (OPC or Public Counsel), P.O.
4 Box 2230, Jefferson City, Missouri 65102.

5 **Q. Are you the same Geoff Marke that filed direct and rebuttal testimony in ER-2014-**
6 **0258?**

7 A. I am.

8 **Q. Would you please summarize OPC's positions in which you have filed?**

9 A. As explained in my direct, rebuttal and surrebuttal (below) testimonies, OPC has provided
10 the following recommendations:

11 Rate Design (Under-Utilized Infrastructure Economic Development Rider):¹

- 12 • OPC suggested the following eligibility criteria:
- 13 ○ A Missouri county other than St. Louis County which has experienced a
 - 14 population decline as measured by the differences in population counted
 - 15 between the last two decennial censuses and which is projected to experience
 - 16 a decline in population going forward according to the Missouri Population

¹ ER-2014-0258 Direct Testimony of Geoff Marke p. 3-23.

1 Projection—Preferred Series; or a specific municipality within St. Louis
2 County that has been classified as a “distressed community” under § 135.530,
3 RSMo.

- 4 ○ That design be consistent with the Commission-approved Economic
5 Development Rider authorized for KCPL-MO and GMO with additional
6 criteria that includes:
- 7 ▪ Creation of new permanent full-time jobs in the designated
8 geographic location
 - 9 ▪ Minimum capital investment commitment
- 10 ○ Any revenue to be received from customer over the term of the contract
11 should be greater than the applicable incremental cost to provide electric
12 service—ensuring a positive contribution to fixed costs.
- 13 ○ And any rider should be temporal in nature, decreasing over time, and only be
14 available in conjunction with local, regional or state governmental economic
15 development activities where public support has been offered and accepted by
16 the customer to locate new facilities, expand existing facilities, or retain
17 existing facilities in the geographic location.

18 Class-Cost-of-Service Study Results:^{2,3}

- 19 • OPC submitted two studies. The preferred method, “average and 4CP,” and an
20 additional study for consideration the “average and excess 4NCP” if the Commission
21 rejects OPC’s preferred method.
- 22 • OPC also stated that an equal increase to the charges of each customer class as
23 proposed by Ameren Missouri only appears equitable. Such an approach fails to give

² ER-2014-0258 Direct Testimony of Geoff Marke p. 23-31.

³ ER-2014-0258 Rebuttal Testimony of Geoff Marke p. 12 - 22.

1 proper consideration to the differences in impact experienced by each rate class as a
2 result of any increased rate. That impact will be far from equitable.

- 3 ○ On a whole, Ameren Missouri's residential rate class has not recovered to
4 pre-recession level metrics in: jobs recovered, unemployment rate recovered,
5 GDP recovered, and home prices recovered.
- 6 ○ Additionally, Ameren Missouri residential ratepayers have seen an increase in
7 the past few years in both the number of surcharges on their bills and their
8 overall amount, which underscores the impact that the residential rate class
9 have experienced above and beyond the increase and proposed increase in
10 rates.

- 11 ● OPC suggests that the Commission strongly consider the affordability of service, rate
12 impacts and rate continuity as they examine this case.

13 Keeping Current/Keeping Cool pilot programs:⁴

- 14 ● OPC suggests continuing programs at current funding level with a tariff revision
15 emphasizing the requirement that recipients must also apply for LIHEAP and low-
16 income weatherization assistance.

17 Low-Income MEEIA surcharge exemption:⁵

- 18 ● OPC is concerned with the unintended consequences of failing to address the entire
19 class of low-income customers (current proposal would only apply to those who are
20 already receiving some form of assistance) and has suggested that interested
21 stakeholders explore this issue in greater detail in this rate case.
- 22 ● If the Commission elects to move forward with the proposed exemption, OPC is in
23 favor of Staff's suggestion to allocate associated costs equally among rate classes.

24

⁴ ER-2014-0258 Rebuttal Testimony of Geoff Marke p. 2-4.

⁵ ER-2014-0258 Rebuttal Testimony of Geoff Marke p. 8-11.

1 **Q. What is the purpose of your surrebuttal testimony?**

2 A. The purpose of this testimony is to respond to comments filed in rebuttal regarding Ameren
3 Missouri's:

- 4 • Exemption of low-income ratepayers from the Missouri Energy Efficiency
5 Investment Act (MEEIA) surcharges by Missouri Public Service Commission Staff
6 (Staff) witness Michael Stahlman.
- 7 • Class-Cost-of-Service (CCOS) study comments from Staff witness Sarah
8 Kliethermes, Missouri Industrial Energy Consumers (MIEC) witness Maurice
9 Brubaker and Ameren Missouri witness William Warwick.
- 10 • And further consideration in support of Public Counsel's position that an equal
11 increase in rates across customer classes does not represent an equitable outcome for
12 residential ratepayers.

13 **II. LOW-INCOME EXEMPTION FROM THE MEEIA RIDER EEIC**
14 **SURCHARGE**

15 **Q. Did Staff express any additional opinion on whether or not low-income ratepayers**
16 **should be exempt from the MEEIA surcharge?**

17 A. Staff continues to "neither propose nor oppose" Ameren Missouri's proposed exemption for
18 the Missouri Energy Efficiency Investment Act ("MEEIA"). Staff witness Michael Stahlman
19 suggested that if the Commission were to approve a low-income residential exemption that:

20 the costs of those charges be spread across all customer classes, excluding
21 opt-out customers, rather than the residential class alone. Similar to other
22 low-income programs in Missouri, the other residential customers are not the
23 causers of this cost any more than are the members of other customer
24 classes. If the Commission finds it appropriate to impose this exemption, it

1 makes the most sense to spread the cost among all of Ameren Missouri's
2 customer classes.⁶

3 **Q. Does Public Counsel support this suggestion?**

4 A. Yes. If the Commission were to approve the low-income MEEIA exemption, the equal cost
5 distribution rationale put forward by Mr. Stahlman is sound and appropriate. It also mitigates
6 some of the potential concern raised in my rebuttal testimony over the potential burden of
7 intra-class low-income ratepayers.

8 **Q. What does Public Counsel recommend?**

9 A. Public Counsel supports Staff's suggestion and continues to propose that interested
10 stakeholders explore the issues raised in my rebuttal testimony to ensure that low-income
11 customers that have not received some form of assistance are not made comparatively worse
12 off with this exemption.

13 **III. CLASS-COST-OF-SERVICE STUDY COMMENTS**

14 **Q. Did any parties respond to OPC's CCOS results?**

15 A. Staff witness Sarah Kliethermes felt that all of the CCOS studies results were roughly within
16 \$10/MWh of one another and were generally consistent as a guide to each class' fully-
17 allocated cost-of-service and did not have any specific comments over OPC's methodology.

18 MIEC witness Maurice Brubaker and Ameren Missouri witness William Warwick took issue
19 with one of OPC's studies, the average and four coincident peak (A & 4CP) method,
20 claiming that it effectively "double counts" average demand. Mr. Brubaker also believes that
21 OPC should have allocated off-system sales on a kWh basis whereas OPC allocated it using
22 the production demand allocation factor. Finally, Mr. Warwick argues that OPC failed to

⁶ ER-2014-0258 Rebuttal Testimony of Michael Stahlman, p.3 lines 14-19.

1 recognize a customer component associated with distribution investment and the related
2 expenses. I will answer each of these issues in turn.

3 **Q. Please respond to the appropriateness of introducing the A & 4CP method into this**
4 **discussion.**

5 A. Mr. Brubaker and Mr. Warwick believe that the average demand is “double counted” in the
6 A & 4CP method because it is already considered as a component of peak demand and is not
7 removed as it is in the Average and Excess method. To be clear, the methodological
8 justification for A & 4CP stems from the recognition that energy loads play an important role
9 in production plant costs. Considering that the cost of shared production facilities cannot be
10 attributed with precision to particular customer classes, the A & 4CP method produces an
11 outcome where demand allocations are assigned a reasonable proportion of cost causative
12 considerations based on the share of average demand and system peak demand. It is an
13 entirely appropriate lens from which to view a CCOS study and is further supported through
14 its inclusion into the NARUC Electric Utility Cost Allocation Manual.

15 **Q. Will this result in a greater emphasis on annual energy consumption than to peaks used**
16 **in the allocation of the investment in generation facilities?**

17 A. It will when compared to OPC’s other submitted study the “average and excess four non-
18 coincident peak” (A & E 4NCP) method.

19 **Q. Please explain.**

20 A. The A & 4CP method considers that some production plant costs are incurred in order to
21 provide adequate capacity during peak periods while other production plant costs are
22 incurred as a result of the need to provide energy at all hours of the day.

23 The load factor is used to estimate the portion of production plant costs that are incurred to
24 meet the requirement for energy at all hours of the day or year. A customer class’s load factor

1 will increase as more energy is consumed during off peak hours. As a result, the portion of
2 plant costs needed for base load or off-peak load will increase accordingly. Therefore, it is
3 appropriate to use the load factor to weight the average demand and the remaining amount
4 allocated to the peak demand.

5 Even though the A & 4CP method gives more weight to the annual energy consumption than
6 our other method, it does give consideration to the class and system peak demand in the
7 calculation.

8 **Q. Mr. Brubaker argues that it is not appropriate to allocate energy costs on the basis of**
9 **class energy requirements when using the A & 4CP method. Please comment.**

10 A. The A & 4CP allocates an appropriate energy amount when other costs incurred during all
11 other hours of the day outside of the peak load period are considered. Mr. Brubaker's high
12 load customers are not receiving a disproportionate amount of capital costs in the A & 4CP
13 method. They use the system at the same time as smaller, lower load factor customers and
14 benefit from economies of scale and off-system sales opportunities created by sharing
15 production facilities with a large residential and SGS customer base. Allocating energy costs
16 on the basis of class energy requirements is an appropriate allocation method regardless of
17 the allocation of production plant.

18 **Q. Please respond to the statement that OPC's off-system sales are improperly allocated.**

19 A. Mr. Brubaker's proposal to limit allocation of off-system sales to only an energy-based factor
20 is not appropriate because it fails to recognize that off-system sales revenues are dependent
21 on variable fuel costs as well as capacity costs associated with operation of the production
22 plant. Both of OPC's CCOS methods specifically incorporate both an energy-related
23 component and a demand-related component.

24

1 **Q. Please respond to Ameren Missouri's objection to how OPC allocated the customer**
2 **related component of the distribution plant and expenses or accounts 364-368?**

3 A. Ameren Missouri assigns each customer regardless of customer class, lot size, voltage
4 requirement or usage the exact same amount of costs for the following accounts:

- 5 • 364 Poles, Towers and Fixtures
- 6 • 365 Overhead Conductors
- 7 • 366 Underground Conduit
- 8 • 367 Underground Conductors
- 9 • 368 Line Transformers

10 OPC does not believe it is appropriate for an individual household to be assigned the same
11 costs as a large industrial or large commercial customer. It is incorrect to assume that these
12 facilities and their related non-demand allocation costs are equal. A large industrial or large
13 commercial customer is much more likely to have a larger lot size, higher clearance poles,
14 heavier conductors, larger conduits and a more costly transformer. Using a weighted meter
15 allocation for the non-demand related allocation to reflect these realities is appropriate

16 **IV. FURTHER CONSIDERATION FOR THE COMMISSION**

17 **Q. In your rebuttal testimony you gave the Commission statistical information regarding**
18 **the recovery of Ameren Missouri residential ratepayers from the recession. Do you**
19 **have any additional updated information?**

20 A. Yes. There were four economic indicators that were listed in my rebuttal testimony provided
21 from the National Association of Counties (NACo).⁷ These economic indicators are based on

⁷ NACo County Explorer: Mapping County Data State Search <http://explorer.naco.org/#>

four questions and are listed below along with the overall % of economic recovery for each indicator for the counties in which Ameren Missouri operates and are included in table 1:

Table 1: Pre-recession recovery status in counties Ameren Missouri operates

NACo Question	Economic Indicator	Recovery %
Has this county recovered to its pre-recession level of jobs by 2014?	Jobs Recovered	22.18%
Has this county recovered to its pre-recession low of unemployment rate by 2014?	Unemployment Rate Recovered	3.00%
Has this county recovered to its pre-recession level of GDP by 2014?	GDP Recovered	27.50%
Has this county recovered to its pre-recession level of median sales prices by 2014?	Home Prices Recovered	16.50%

The second economic indicator, unemployment rate recovered, requires further context, as that number omits “missing workers” estimates.

Q. What do you mean by missing workers?

A. Economists have known for some time that Americans are leaving the labor force at an unprecedented rate. Questions remain as to how much of this is a result of a weak labor market and how much of it is due to demographic factors. The government defines the “labor force” as everyone over the age of 16 who is either working (i.e. employed) or actively looking for work (i.e. unemployed).⁸ Missing workers are those potential workers who, because of weak job opportunities, are neither employed nor actively seeking a job. Because jobless workers are only counted as unemployed if they are actively seeking work, these missing workers are not reflected in the unemployment rate.

⁸ U.S. Department of Labor: Bureau of Labor Statistics http://www.bls.gov/dolfaq/bls_ques23.htm.

1 **Q. Does the current U.S. unemployment rate of 5.6% indicate that this is no longer an**
2 **issue?**

3 A. This is a misleading number for a variety of reasons. First, the Labor Department releases six
4 different measures of unemployment, using different assumptions for each one. The official
5 unemployment rate, also called U3, looks at the total unemployed as a percent of the civilian
6 labor force. The U1 rate only counts people who have been unemployed for less than six
7 weeks. On the other end of the spectrum, the U6 rate counts as unemployed individuals who
8 are working part time but wish to be working full time. The U6 rate also marks people who
9 do not have a job but have looked for one in the past year as unemployed. Table 2 shows the
10 most recent available seasonally adjusted measures of unemployment from the U.S.
11 Department of Labor for the United States (Dec. 2014) and the most recently available
12 adjustments for Missouri (Dec. 2013) with the U.S. estimates at the same time listed for
13 comparison purposes.

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1 Table 1: Department of Labor measures of unemployment^{9,10}

Class	Measure	Missouri Seasonally adjusted Dec. 2013	U.S. seasonally adjusted Dec. 2013	U.S. seasonally adjusted Dec 2014
U-1	Persons unemployed 15 weeks or longer, a percent of the civilian labor force	3.6	3.9	2.6
U-2	Job losers and persons who completed temporary jobs, as a percent of the civilian labor force	3.9	3.9	2.8
U-3	Total unemployed, as a percent of the civilian labor force (official unemployment rate)	6.6	7.4	5.6
U-4	Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers	6.8	7.9	6.0
U-5	Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force	7.6	8.8	6.9
U-6	Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.	11.6	13.8	11.2

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Q. What should readers note here?

A. First, that there are large variations in unemployment measurements based on how unemployment is counted. For example, the U-3 official unemployment rate would not include someone who worked one hour of work in a week and was paid at least \$20. In fact, there are a many variables that can influence the official unemployment rate. For example, if one has exceeded their unemployment benefits or were disqualified for improperly filing for benefits (or late in requesting benefits) they will not be counted as unemployed. If one starts

⁹ U.S. Department of Labor: Bureau of Labor Statistics. Alternative measures of labor underutilization <http://www.bls.gov/news.release/empsit.t15.htm>.

¹⁰ U.S. Department of Labor: Bureau of Labor Statistics. Alternative measures of labor underutilization, Missouri--2013 http://www.bls.gov/regions/mountain-plains/news-release/LaborUnderutilization_Missouri.htm.

1 collecting disability payments one will no longer be considered unemployed. Increases in
2 disability claims during the recession were no trivial matter. In Missouri alone, there was an
3 18.7% increase in disability recipients from 2006 to 2013 (the most recent available data).¹¹

4 **Q. Has anyone tried to quantify the number of missing workers compared to the**
5 **unemployment rate?**

6 A. The Economic Policy Institute estimates the total missing U.S. workers to be 6,100,000 as of
7 December 2014, including that estimate to the overall official unemployment rate would
8 increase it to 9.1%. The official unemployment rate and the adjusted rate with missing
9 workers are plotted in Figure 1 from 2006 to 2015.

10 Figure 1: Unemployment rate, actual and if missing workers were looking for work¹²



11 ¹¹ Social Security Administration: Research, Statistics, & Policy Analysis
http://www.ssa.gov/policy/docs/statcomps/ssi_sc/2013/index.html

¹² Economic Policy Institute. Economic Indicators: Missing Workers <http://www.epi.org/publication/missing-workers/>

1 **Q. What does this data impact your rebuttal testimony?**

2 A. It suggests that the 3% recovery in unemployment rates in counties where Ameren Missouri
3 operates and which was submitted in my rebuttal testimony likely understates joblessness
4 faced by many residential ratepayers.

5 This data only further highlights that an equal increase to the charges of each customer class
6 as proposed by Ameren Missouri is equitable in appearance only. Such an approach fails to
7 give proper consideration to the differences in impact experienced by each rate class as a
8 result of any increased rate; that impact will be far from equitable. Residential rate payers
9 utilizing Ameren Missouri's services already experience increases from surcharges on their
10 electric bills. Additional rate increases on top of that will only exacerbate the economic
11 hardship for many families. OPC continues to urge that the Commission strongly consider
12 the affordability of service, rate impacts and rate continuity as they examine this case.

13 **Q. Does this conclude your testimony?**

14 A. Yes, it does.