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Issues: Rate Design, Essential Service Rate
Witness: Robert (Bob) Quinn
Sponsoring Party: Missouri Association for Social Welfare
Type of Exhibit: Direct Testimony
Case No.: ER-2007-0002

AMERENUE ELECTRIC RATE CASE

DIRECT TESTIMONY

OF

ROBERT (BOB) QUINN

MISSOURI ASSOCIATION FOR SOCIAL WELFARE

December 29, 2006

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY OF
ROBERT (BOB) QUINN

MISSOURI ASSOCIATION FOR SOCIAL WELFARE

CASE NO. ER-2007-0002

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MRW Exhibit No. 800
Case No(s). ER-2007-0002
Date 3/28/07 Rptr KE

Q. Please state your name and address.

A. My name is Robert (Bob) Quinn. My business address is the Center for Social Justice, 606 East Capitol Avenue, Jefferson City, Missouri 65101.

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

A. I am employed by the Missouri Association for Social Welfare as the Executive Director. MASW is a statewide organization of volunteer members that provides leadership, research, education and advocacy on public policy issues of social and economic justice.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Missouri Association for Social Welfare, an intervener in this case.

Q. Please describe your education and relevant experience.

A. I earned my bachelor's degree in political science at Butler University in Indianapolis in 1978. I earned my master's degree in political science at the University of Missouri – St. Louis in 1980. My formal experience as a public policymaker began the next year when I was appointed to the Planning and Zoning Commission in my original hometown of Ferguson, Missouri. In 1982 I was appointed to fill a vacancy on the Ferguson City Council, and the people of the Third Ward subsequently elected me to two two-year terms. As part of my City Council duties, I served for two years as Secretary, then two years as Chairman, of the North Area Cable Television Authority, a 21-city consortium with a common Cable TV franchise; under federal law at that time, the panel I chaired was the regulatory authority for the local Cable TV franchise, and we

held formal rate proceedings and conducted oversight of the franchisee's performance. In 1986 the people elected me to the first of my three terms in the Missouri House of Representatives. During my tenure in the House I served on the Energy and Environment Committee, which often dealt with legislation affecting the Public Service Commission and utility regulation. I also served on an interim committee that developed legislation that would ultimately create the statewide "One Call" or "1-800-DIG-RITE" program. After my service in the legislature I was involved in public policy as a registered lobbyist for about eight years. Although I was primarily involved with issues involving public schools, I did work with the Public Service Commission during the establishment of the so-called "e-rate" that would guarantee discounted rates for advanced telecommunications services to schools. In September, 2001, the Commissioners of the PSC hired me as Executive Director for the agency. As Executive Director of the Public Service Commission for more than three years, I learned a great deal about utility regulation through formal and informal means from the PSC's own staff, from utility executives and consultants, and from formal workshops and seminars at the National Association of Regulatory Utility Commissioners (NARUC), the Financial Research Institute (FRI) at the University of Missouri – Columbia, and others. I participated in the negotiations that resulted in the settlement agreement in the AmerenUE case in 2002. I left the PSC in January, 2005 and, after some public policy-related research and consulting work, I became Executive Director of MASW in August, 2006.

Q. What is the purpose of your direct testimony in this case?

A. The purpose of my testimony is to demonstrate the need for creating what I am calling an "essential service rate" in the final rate design for residential customers, and to suggest ways to do so.

Q. What is the public policy objective of the essential service rate?

A. The public policy objective is to provide maximum relief and/or protection to those residential customers who expend the highest proportion of their monthly income on utility bills; most typically, these are low income families or individuals. According to United States Department of Energy, low income families typically spend 12.6% of their income on energy bills, while the average for all U.S. families is 2.7% of income going for energy bills. [Source www.yourenergyfuture.org/charts/Low_Income_Families.pdf]. But the essential service rate concept also recognizes that residential customers who are not low income, but are by no means wealthy, also expend a higher proportion of their income on utilities than do those whose financial means are greater.

Q. Please explain the essential service rate.

A. The essential service rate would be the rate per kilowatt hour (kWh) charged to a residential customer for the number of kWh needed to provide essential service to a typical low income residence. According to the Energy Information Administration (U.S. Dept. of Energy), based on 2001 data, the typical household occupied by persons whose income is below the federal poverty line used 8,152 kWh annually, or approximately 680 kWh per month.

[Source www.eia.doe.gov/emeu/recs/recs2001/ce_pdf/enduse/ce1-3e_hhincome2001.pdf]. Now AmerenUE and/or the PSC staff may have numbers specific to the AmerenUE service territory, and that could mean a number other than 680 would be more appropriate as the starting point for calculating the essential service rate. The EIA numbers are also annual, and it would make sense to create different essential service rates for the summer cooling months and for the other months of the year. For purposes of illustrating how the essential service rate would work, I will use 680 kWh per month as the typical electrical use of a below-the-poverty-line household. EIA data also shows that households in the West North Central U.S., the region that includes Missouri, typically use 80% to 85% of their electricity to run essential appliances like the refrigerator, HVAC, laundry and so on, with the remainder used for arguably non-essential purposes such as home entertainment electronics. [Source www.eia.doe.gov/emeu/reps/enduse/er01_wnc_figs.html]. Various models could be used to determine the percentage of electric usage in the typical low income household which is essential, but if we assume approximately 88%, that would produce 600 as the monthly kWh that would be billed at the essential service rate. If AmerenUE's rates are reduced as a result of this case, all of that reduction would be realized in the essential service rate, so that the savings would fall on the first 600 kWh each residential customer paid for each month. If AmerenUE's rates increase as a result of this case, the increase, insofar as

residential rates are concerned, would fall entirely on kWh consumed above the first 600 each month for each residential customer.

Q. How would the essential service rate operate in the context of a fuel adjustment clause?

A. This is a very important point. The essential service rate kWh threshold, which I have established as 600 per month for purposes of this illustration, would be fully protected from any fuel adjustment clause. The premise of a fuel adjustment clause is that the risk inherent in the volatility of fuel costs for the utility will be transferred from the utility, where it has historically resided, to the ratepayers. As a matter of public policy, the state – in this case, the Public Service Commission – should not render decisions that make life harder for those whose lives are already hard. Any fuel adjustment clause granted to AmerenUE in this case should be structured so that the essential service rate kWh threshold is guaranteed, that the cost of powering those essential household appliances for a typical low income household will not increase, no matter what happens to the price of AmerenUE's fuel.

Q. Are there other ways to achieve the same public policy objective?

A. It would be possible to establish a separate rate per kWh for low income ratepayers. In my judgment, that would create an undue administrative burden on the utility, and puts the onus on the ratepayer to file for the special rate and provide documentation about income – and then possibly be dropped from the program if they work too much overtime or otherwise barely exceed the income cutoff at some point – and would therefore not be in the

public interest. A special rate for low income ratepayers also creates an unfair burden for families of modest means, who would not qualify for the special rate but nonetheless often struggle to pay their monthly bills. It is an argument in favor of the essential service rate that it protects the first 600 kWh each month – which, again, is a reasonable number I am using to illustrate how the program would work – for each and every household. According to EIA data, the typical household with 2001 income in the $30,000 to $49,999 range used 10,545 kWh annually, or approximately 880 kWh each month. For such households, protecting the first 600 kWh of their monthly usage would protect 68% of their bill from any rate increase or fuel adjustment clause increase. Households in the next $20,000 income bracket down – i.e., $10,000 to $29,999 – typically used 8,906 kWh annually, or approximately 740 kWh monthly. These households would have roughly 80% of their monthly bill protected from increases with the essential service rate. The highest income category EIA segmented was $50,000 or more, with typical electrical usage in those households at 13,131 annually, or nearly 1,100 each month. Roughly 55% of this usage would not be subject to increases. I would note that as income increases, one generally finds larger residences and more use of electricity, so that the highest income households would no doubt see well over half their monthly kWh usage subject to such increases as may be granted in this case, if any.

Q. Are concepts similar to the essential service rate used in other jurisdictions?

A. Yes. I am aware of the following examples. The City of Seattle, Washington has established what it calls a "lifeline rate," which is similar in design and purpose to the essential service rate I am proposing here. [www.seattle.gov/light/news/issues/RateProc/Docs/glossary.pdf]. The New Hampshire Public Utilities Commission adopted a program in which low income ratepayers would pay approximately 4.5% of their household income for electric service, and also directed utilities to explore additional discount billing options for what they call the "initial usage block," a concept similar to the essential service rate. [Public Utilities Commission of New Hampshire, DE 06-079, Order No. 24,664, September 1, 2006]. Other jurisdictions provide discounted rates for low income ratepayers, including New York [New York State Department of Public Service, Case No. 04-E-0572, December 15, 2004) and Texas [Public Utility Commission of Texas, Rule 25.344].

Q. Does AmerenUE currently charge different rates to residential customers for the first number of kWh each month as opposed to kWh above that number?

A. Yes, but in exactly the opposite way as we are proposing in the essential service rate. Under its tariff setting rates effective April 1, 2004, AmerenUE charges residential customers a flat 7.64 cents per kWh during the summer cooling months (June through September). But in the other eight months, the rates are 5.42 cents per kWh for the first 750 kWh each month, and 3.66 cents per kWh for each kWh over 750. Based on EIA data I have cited above, this means that low income households typically pay the higher rate of

5.42 cents for every kWh they use, while ratepayers with larger incomes in larger homes actually pay a reduced rate on their usage for non-essential purposes. As an example, the electricity I use to play with my son's video game system is about one-third cheaper per kWh than the electricity a low income family uses to refrigerate and cook their meals. That is an unjust public policy, which can be corrected by adopting the essential service rate.

Q. Is the essential service rate inconsistent with AmerenUE's proposed rate design in this case?

A. No, because one can reasonably conclude from AmerenUE's rate design testimony in this case that the company considers it good public policy to protect residential ratepayers from the full brunt of their proposed rate increase, with a greater proportion of that increase to fall on the other classes of ratepayers. The company has considered the impact of its rates on the household budgets of its residential customers, and concluded that it is good public policy to minimize that impact. The essential service rate goes the next step, and considers that electric rates impact residential customers in proportion to their economic circumstances, and yet all have the need of essential electric service for their basic kitchen appliances, heating and cooling. The essential service rate extends AmerenUE's stated intent to protect the residential class relative to the other classes of ratepayers, to protecting within the residential class those customers most in need of protection and placing any increase only on those kWh above the essential service level.

Q. How can the essential service rate be included in the final resolution of this rate case?

A. The essential service rate is the sort of innovative measure that can be incorporated by agreement of the parties in this case. In that way, it is similar to the community development corporation that was included in the settlement agreement for the AmerenUE case in 2002.

Q. Does this conclude your testimony?

A. Yes, this concludes my testimony. Thank you.