Exhibit No.:	
Issue(s):	Surge ProtectionProgram
Witness:	Steven M. Wills
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Union Electric Company
File No.:	ET-2021-0082
Date Testimony Prepared:	September 18, 2020

MISSOURI PUBLIC SERVICE COMMISSION

FILE NO. ET-2021-0082

DIRECT TESTIMONY

OF

STEVEN M. WILLS

ON

BEHALF OF

UNION ELECTRIC COMPANY

D/B/A AMEREN MISSOURI

St. Louis, Missouri
September 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. Steven M. Wills, Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri" or "Company"), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. What is your position with Ameren Missouri?

A. I am the Director of Rates & Analysis.

Q. Please describe your educational background and employment experience.

A. I received a Bachelor of Music degree from the University of Missouri-Columbia in 1996. I subsequently earned a Master of Music degree from Rice University in 1998, then a Master of Business Administration ("M.B.A.") degree with an emphasis in Economics from St. Louis University in 2002. While pursuing my M.B.A., I interned at Ameren Energy in the Pricing and Analysis Group. Following completion of my M.B.A. in May 2002, I was hired by Laclede Gas Company as a Senior Analyst in its Financial Services Department. In this role, I assisted the Manager of Financial Services in coordinating all financial aspects of rate cases, regulatory filings, rating agency studies and numerous other projects.

In June 2004, I joined Ameren Services as a Forecasting Specialist. In this role, I developed forecasting models and systems that supported the Ameren operating companies' involvement in the Midwest Independent Transmission System Operator, Inc.'s ("MISO")[1] Day 2 Energy Markets. In November 2005, I moved into the Corporate Analysis Department of Ameren Services, where I was responsible for performing load research activities, electric and gas sales forecasts, and assisting with weather normalization for rate cases. In January 2007, I accepted a role I briefly held with Ameren Energy Marketing Company as an Asset and Trading Optimization Specialist before returning to Ameren Services as a Senior Commercial Transactions Analyst in July 2007. I was subsequently promoted to the position of Manager, Quantitative Analytics, where I was responsible for overseeing load research, forecasting and weather normalization activities, as well as developing prices for structured wholesale transactions.

In April 2015, I accepted a position with Ameren Illinois as its Director, Rates & Analysis. In this role I was responsible for the group that performed Class Cost of Service, revenue allocation and rate design activities for Ameren Illinois, as well as maintained and administered that company's tariffs and riders. In December 2016, I accepted a position with the same title at Ameren Missouri.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe certain elements of a new, voluntary surge protection program ("Program") that the Company is proposing to implement. Company witness Jared Schneider explains the nature of the service the

[1] Now known as the Midcontinent Independent System Operator, Inc.

Company proposes to provide to its customers on an optional basis, along with many of the programmatic details of the offering and the overall Program economics. I will discuss one of the basic principles underlying the Company's development of the Program as an extension of its base provision of electric service to its customers to the benefit of Program participants and the general body of the Company's customers. As discussed in greater detail by Mr. Schneider, the basic principles underlying the Program include improved service, affordability, flexibility, fair value, and transparency. My testimony will primarily focus on the principle of affordability, while Mr. Schneider addresses the remaining basic principles underlying the Program. I will also comment on some elements of the pricing of the service, and the expected financial impacts of the Program on the Company and its customers.

III. THE PROGRAM AND AFFORDABILITY

Q. Please briefly describe the Program the Company is proposing to implement.

A. The Program is described in greater detail in Mr. Schneider's testimony, but in summary, it involves the Company's installation of devices, known as collars, that connect to the Company meter that are designed to prevent electrical surges from passing through the meter into the home. Such surges, although rare, can cause substantial damage to appliances and electronics in the home. The surge protection device is intended to nearly eliminate the risk of such damage to the customer's electrically connected property. The Program also provides warranty coverage for certain appliances in the unlikely event that the surge protection device fails and a surge damages those appliances.

It is important to note that this is a completely voluntary program that residential customers may elect to participate in, based on their own preferences and risk tolerance for surge events. To the extent that a customer does not value the protection the Program offers, there is no need for them to participate. However, the Program is expected to provide long-term benefits for all customers, including helping to keep customer rates as affordable as reasonably possible while delivering the electric services customers want, need, and deserve.

Q. Please address the basic principle of affordability and how the Program supports that principle.

A. By offering this Program as an extension of the Company's regulated electric service, both the costs and revenues from the Program will be included in the revenue requirement of the Company when setting rates in the future. As Mr. Schneider discusses in his direct testimony, the Program is cost-effective because its revenues are expected to exceed its costs. This is true under a range of scenarios that represent a realistic spectrum of expectations regarding Program participation and other key Program parameters. Another way of saying this is that analyses show that the Program will over the long run produce additional revenues over its costs which will then offset some of the other costs in the Company's revenue requirement. These excess revenues displace the need for some amount of retail electric service revenues that are otherwise needed to cover the revenue requirement, with the result being that the Program is expected to ultimately reduce rates for all customers – including those who did not participate in the Program. By definition, rates that are lower than they otherwise would have been are rates that are more affordable.

Q. Why should the Commission support new regulated product or service offerings that enhance the affordability of electric service?

A. Because doing so is a win-win for the utility and its customers, and promotes the public interest. It is a win for the utility because the utility can provide better service at a lower cost and in some cases, as in this instance, do so while growing its total revenues. It is a win for customers because the voluntary participants who get the enhanced service get something they want and need, and other customers get lower rates even though they chose not to participate. It is also in the public interest generally because the Commission is able to regulate such products and services and thus protect customer interests while also ensuring that the utility's rates are just, reasonable, and as affordable as possible, consistent with the need to provide the electric services customers want, need, and deserve.

Q. Are there other reasons that the Commission should be open to considering such new products and services?

A. Yes. Simply put, utility offerings such as this are frankly necessary to meet rising customer expectations given the even more central and still growing role electricity plays in everyone's lives. A program such as this surge protection program gives customers a new choice to elect an enhanced service level from the Company – with minimal obligation – based on that customer's preferences.

Q. Is meeting those expectations something you believe the Commission does and should value?

A. Yes, and I need look no further than my own very recent experience associated with the Company's adoption of more modern rate designs, including time of use offerings. As the Commission is aware, in the Company's last electric rate review, I was deeply involved in the testimony, settlement, and approval process that marked the beginning of the Company's journey to provide new time of use residential rate offerings that provide more choice and control for customers regarding management of their energy bill. Similarly, this Program can increase the amount of choice and control customers have related to their electric service, where interested customers can choose to achieve a greater level of protection from electrical surges that might otherwise impact their service on rare occasions.

Q. Are programs such as this a part of a larger affordability strategy for Ameren Missouri?

A. Yes. Ameren Missouri is proud of its longstanding position as a low cost energy provider, and has been focused on maintaining that position by considering customer affordability in all aspects of its business. Customer affordability is in fact considered a key strategic initiative across all Ameren Corporation subsidiaries. As a result, the Company is focused on innovation, both in terms of finding new ways to leverage technology and data to reduce the levels of its more traditional utility operating costs, but also in developing new sources of revenue that can contribute to covering some of the Company's revenue requirement and keeping rates low.

Cost savings affordability initiatives focus on reducing the ongoing level operations and maintenance ("O&M") expenses of the Company and include efforts such as providing new digital tools to employees in the field to increase the efficiency of their work, increasing automation to reduce repetitive manual office tasks, implementing efficient preventative maintenance strategies, and transforming corporate support services operations to promote efficiency. These cost reductions are eventually passed dollar for dollar through to customers in the form of lower O&M expense in the revenue requirement used to set rates in each rate review.

As I have discussed, initiatives to increase revenues also promote affordability, as these new revenues can displace the need for some amount of retail electric service revenues otherwise required of the basic rate classes. This Program is a perfect example of the type of innovation that can create revenues that cover some of the revenue requirement and favorably contributes to overall affordability of basic electric service. Other affordability initiatives focused on increasing revenues include the Company's economic development and electrification activities (including the Charge Ahead Electric Vehicle program approved by the Commission in 2019), all of which are designed to encourage new loads that provide revenues above the marginal cost of serving them, and therefore contribute to covering fixed costs and ultimately reduce rates for all customers from levels that would otherwise be required to cover those fixed costs.

IV. PROGRAM PRICING AND FINANCIAL IMPACTS

Q. How did Ameren Missouri develop the price of the surge protection service?

A. The price of $9.95 per month, as described in Mr. Schneider's direct testimony, was informed by a number of different perspectives. The Company calculated the expected cost per customer of the service over the life of the Program to establish a cost-based floor for the potential price under consideration. The Company also reviewed pricing of similar offerings of other companies, and did consumer research to assess the value of the service to customers. Typically regulated pricing in Missouri has been pretty strictly governed by the type of cost of service analysis that I first mentioned as having established the minimum price the Company considered. However, regulated pricing can consider things like the value the customer places on the service received, and competitive market information.

In his frequently cited "Principles of Public Utility Rates," Dr. James Bonbright acknowledges value of service and competitive pricing as legitimate considerations that can supplement the cost of service standard in utility rate making. Dr. Bonbright states regarding the use of competitive pricing information in rate setting:

> Regulation, it is said, is a substitute for competition. Hence its objective should be to compel a regulated enterprise…to charge rates approximating those which it would charge if free from regulation but subject to the market forces of competition. In short, regulation should be not only a substitute for competition, but a closely imitative substitute. (Bonbright, page 93)

I believe these other pricing considerations of value of service and competition are particularly relevant for a voluntary program like this one where customers have a choice whether or not to engage in the Program at the price level offered – particularly where, as here, one of the basic principles underlying the Program is to help promote affordability of electric service for all customers.

Further, value of service and competitive market information are uniquely available to a regulated proceeding in this circumstance, since many utilities have undertaken surge protection programs as unregulated activities. The prices offered by these utilities are not the outcome of cost of service inquiries by their regulators, but are governed by the value that adopting customers perceive in the service. This market data relating to unregulated surge protection service enables us to truly take to heart, in the context of this Program, of

Dr. Bonbright's discussion of a regulated price that is "closely imitative substitute" for the competitive price. However, another way to think about this is to consider the rate as if it is fully cost based, but that cost of service for the Program includes some amount of administrative and general expenses (i.e., Company overhead) that is reflected in the general revenue requirement. Under this perspective, those overhead costs that are covered by Program revenues are "allocated away" from the retail revenue requirement for the basic service classifications, reducing rates for all.

Q. If other utilities have undertaken such programs on an unregulated basis, why is the Company proposing it as a regulated service?

A. I cannot speak to the decision making process of other utilities as to why they prefer to offer this service as an unregulated offering. To the extent that the price they charge exceeds the basic costs of providing the service, these companies may be able to realize a rate of return that exceeds the rate of return allowed by their regulatory authorities for their programs. Under such a perspective, these utilities are not adopting such a program to make their electric service rates as affordable as possible. The Company, however, views this service as a natural fit with, and extension of, its existing regulated electric service relationship with its customers. It not only provides another way to meet our customers' energy-related needs and expectations, and provides them another choice about the services that they can receive from the Company, but as I explained earlier, it does so while putting downward pressure on rates and promoting affordability.

Q. In Mr. Schneider's testimony, he provides an overview of the expected Program economics. How will the costs and revenues of the Program specifically impact customers and the Company?

A. The financial analysis conducted by Mr. Schneider establishes the overall pool of net benefits that are expected to arise from the Program under reasonable worst, expected, and best cases. The costs and benefits reflected in the revenue requirement of the test year of any Company rate case will establish exactly how the financial results from the Program will impact the revenue requirement and ultimately retail rates each time new rates take effect. Changes in Program costs and revenues between rate cases will impact the Company's bottom line through regulatory lag. This lag will give the Company a financial incentive to operate the Program as efficiently as possible, and to be as effective as possible in marketing the Program to grow participation. Based on the expected case financial model sponsored by Mr. Schneider, I have modeled the allocation of net benefits between the Company and its customers based on illustrative rate case timing assumptions to demonstrate the effects of lag and rate cases.

Q. Please discuss the results of your modeling of rate case timing on the financial results of the Program.

A. For this analysis, I assumed rate cases would occur every twenty-one months. This is based on the average time between the effective dates of the last five Company rate cases. While actual rate case timing varies and can be driven by a number of business factors, this timing is generally consistent with history and provides a good basis for assessing regulatory lag associated with the Program.

Under this assumption, new rates would next go into effect around January 2022. Assuming the Program is approved by the Commission and begins operation in 2021, there would be a small net cost reflected in rates in that case. The net cost is a result of some startup costs of the Program that are juxtaposed against a revenue base that is just beginning to build as enrollment grows. In total, the Program would represent about a half million dollar increase in the revenue requirement in the first such rate case. However, the impact in *every* future rate case from that point forward would be expected to be a net benefit, lowering the revenue requirement that must be covered by retail revenues from traditional electric service. Figure 1 below shows the annual revenue requirement impact of the Program expected over time (positive numbers represent a net benefit, or reduction in the retail revenue requirement). The step changes reflected in Figure 1 represent the timing of the implementation of new rates from future assumed rate reviews with a new net impact of the Program reflected in the revenue requirement establishing those rates.

Figure 1: Annual Net Benefit/(Cost) in Rates

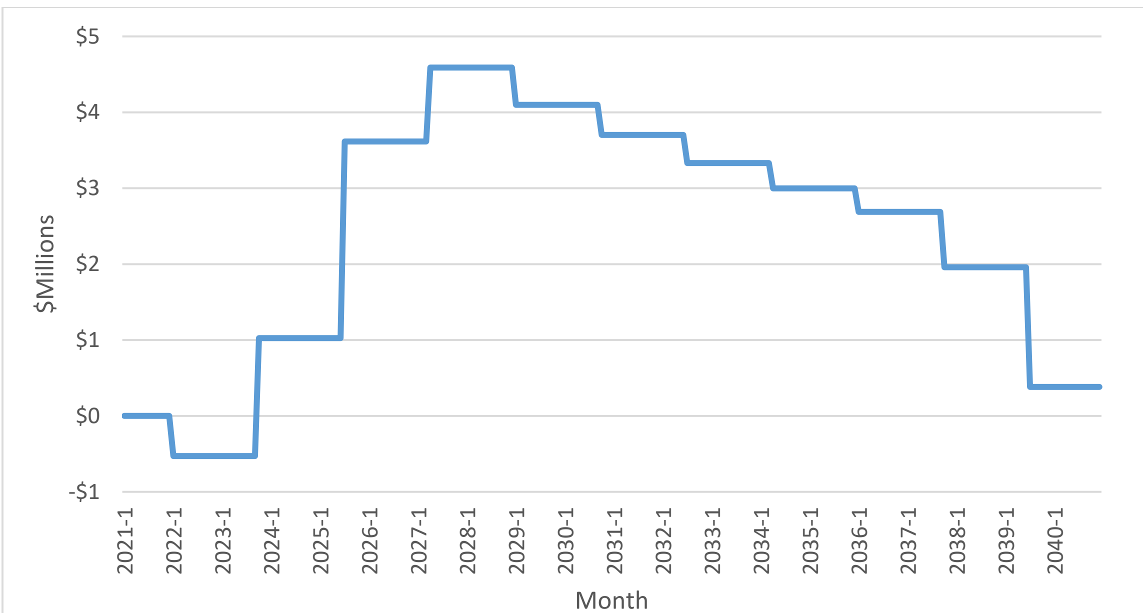

Table 1 below shows the net benefits/(costs) by year, and subdivides those into the portions that would impact all customer rates versus those that would impact the Company's bottom line. The interpretation of the columns in Table 1 is as follows: the "Total" column shows the difference between expected Program revenues and costs in any given year as a net benefit (negative numbers are a net cost). The "Amount in Rates" column shows the amount of that net benefit/(cost) that existed as of the true-up date of the last rate review, which is therefore causing then current rates to be lower/(higher) than they otherwise would. This is the amount of Program benefit/(cost) impacting affordability for all customers at any given point in time. The "Amount not in Rates" is that portion of the net Program impact that is accruing to the Company's bottom line in any given year through the operation of regulatory lag.

Table 1: Net Program Benefits/(Costs) ($Millions)

Year	Amount in Rates	Amount Not in Rates	Total
2021	$0.0	-$0.6	-$0.6
2022	-$0.5	$0.7	$0.2
2023	-$0.1	$1.3	$1.2
2024	$1.0	$1.6	$2.6
2025	$2.3	$1.6	$3.9
2026	$3.6	$1.2	$4.8
2027	$4.3	$0.2	$4.5
2028	$4.6	-$0.5	$4.1
2029	$4.1	-$0.2	$3.9
2030	$4.0	-$0.3	$3.7
2031	$3.7	-$0.2	$3.5
2032	$3.5	-$0.2	$3.3
2033	$3.3	-$0.2	$3.1
2034	$3.1	-$0.2	$2.9
2035	$3.0	-$0.3	$2.7
2036	$2.7	-$0.3	$2.4
2037	$2.5	-$0.6	$1.9
2038	$2.0	-$1.0	$1.0
2039	$1.2	-$1.1	$0.1
2040	$0.4	-$0.7	-$0.3
Total	$48.7	$0.0	$48.7

Observe in Table 1 that the first year of Program operation, prior to the effective date of rates in the first rate case following Program inception, the Company experiences a small net loss. Then once the first rate case concludes, that small net loss increases revenue requirement slightly. As the Program grows, the Company generates some earnings by retaining a certain amount of net benefits through regulatory lag. Again, this positive lag gives the Company an incentive to cost effectively grow participation in the Program. But at the same time, the net benefits in rates also grows steadily until the Program matures and reaches a steady state. The benefits persist in rates throughout the time horizon of the analysis.[2] Overall, though, given the strong expectation for net benefits from the Program, the economic impacts are favorable for both the Company and its customers for the duration of the Program other than during the short ramp up required to reach a profitable scale.

Q. Please summarize your testimony.

A. The Surge Protection Program proposed by the Company is an innovative means of providing enhanced service to customers that desire enhanced protection from surges, but also of promoting the overall affordability of the electric service offered by the Company. While the scale of the Program is relatively small in the grand scheme of the Company's operations, the concept of exploring innovation to improve service and drive down rates can be powerful. The Company is committed to activating all of the levers that it can to promote affordability of service for its customers, and this is just one small piece of a larger strategy to execute on that commitment. In combination with other cost savings initiatives, economic development activities, beneficial electrification activities, and other

[2] As Mr. Schneider discusses in detail in his direct testimony, please note that this analysis tracks the fifteen year life cycle of the first set of surge protection devices that would get installed over the first five years as the Program ramps up. The Company intends to continue to operate the Program over the long term, meaning that surge collars would get replaced with new devices as the life of the collars ends and the "steady state" net benefits would continue to be reflected in rates going forward. This means that the "tailing off" of the net benefits depicted above would not occur but instead, the benefits would continue.

innovative programs, we can help meet rising customer expectations for improved service, with greater levels of choice and control, all while improving the affordability of the overall electric system.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Union	)	
Electric Company d/b/a Ameren Missouri	)	File No. ET-2021-____
for Approval of its Surge Protection Program.	)	

AFFIDAVIT OF STEVEN M. WILLS

STATE OF MISSOURI	**)**
	) ss
CITY OF ST. LOUIS	**)**

Steven M. Wills, being first duly sworn on his oath, states:

1. My name is Steven M. Wills. I work in the City of St. Louis, Missouri, and I am employed by Union Electric Company d/b/a Ameren Missouri as the Director of Rates & Analysis.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of 14 pages and no Schedule(s), all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3. Further, under the penalty of perjury, I declare that the information contained in the foregoing and attached testimony is true and correct to the best of my knowledge and belief.

/s/ Steven M. Wills
STEVEN M. WILLS

Sworn to me this 18th day of September, 2020.