

Utility Consumer Issues

City of Independence, Missouri

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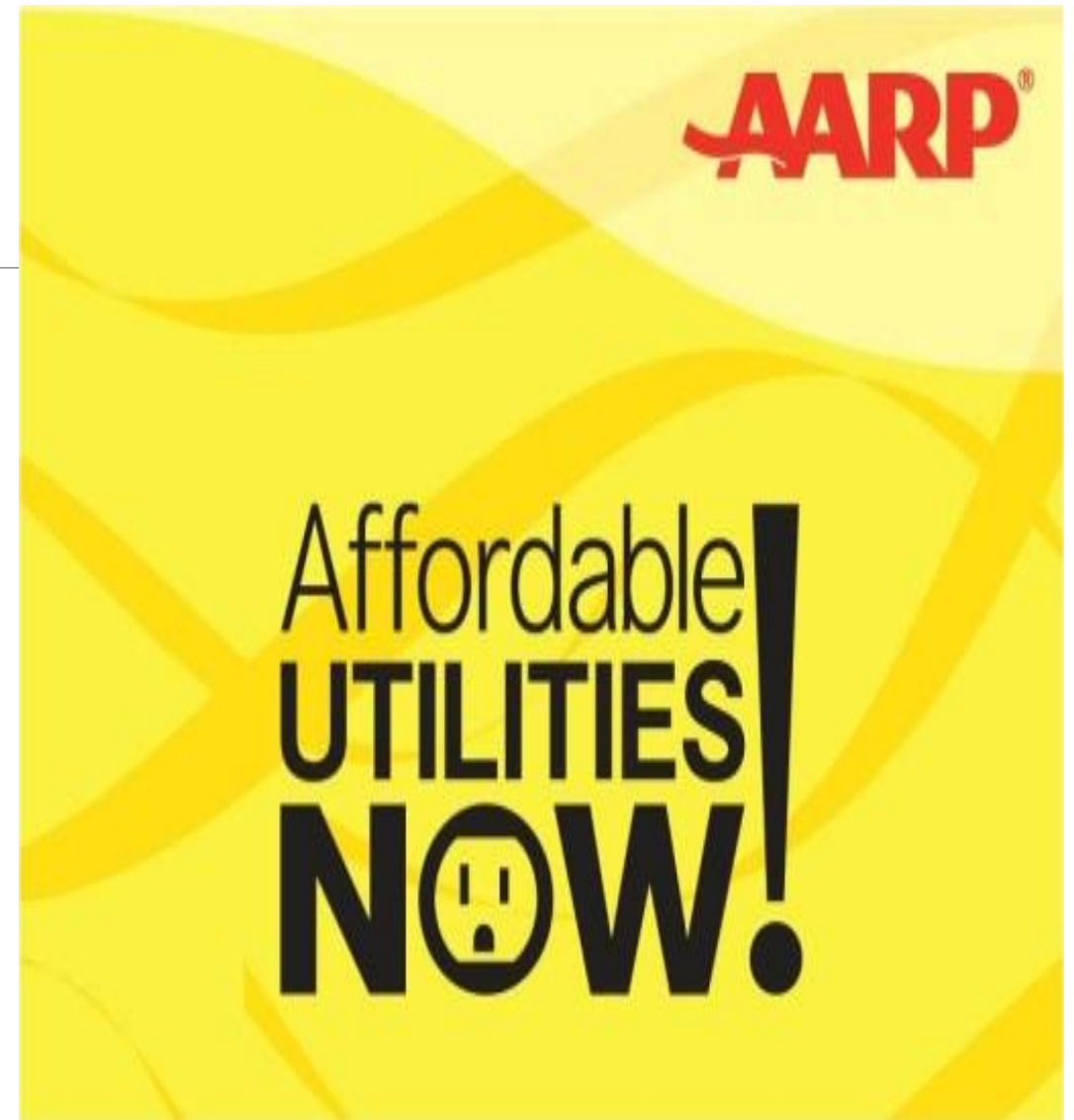


Who is AARP?

AARP is a non partisan, non profit, social change organization with a membership that helps people 50+ have independence, choice, and control in ways that are beneficial and affordable to them and society as a whole.

AARP has over 748,000 members in the state of Missouri.

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- **AARP is an advocate for the rights of people 50 and older, a great many of whom live on a fixed or limited income.**
 - **A major priority of AARP is to protect consumers from unaffordable expenses for essential energy services.**
 - **AARP fights for fair and affordable utility rates.**



Some AARP Utility Consumer Priorities

This year, AARP's multi-state utility work has included:

- Promoting transparency and accountability in utility ratemaking methodologies,
- Opposition increases in utility customer charges,
- Opposition to extra surcharges and riders,
- Opposition to various new trackers for costs currently recovered in base rates,
- Opposition to consumers being forced to pre-pay for large power plant projects which are not yet providing service (Construction Work In Progress).
- Advocating against “teaser rates” in restructured states,
- Opposing ratepayer bailouts for deregulated merchant power plants (OH; IL).
- Advocating that all electric grid users pay their fair share of costs.

Why are Utilities Rates Regulated?

- Electric, Natural Gas distribution, Sewer and Water services are “natural monopolies”, providing an essential service.
- Thus these services are either provided by:
 - investor-owned private companies and have their rates set by the Missouri Public Service Commission,
 - or by elected bodies, such as a Municipal City Council or an Electric Cooperative Board
- Transportation services and Telecommunication services were formerly considered natural monopolies, but are now largely deregulated as to price.
- 22 states, such as Illinois, have deregulated the *generation* of electricity (“restructured”), but not Missouri.

Missouri Public Service Commission (MoPSC)

- Since 1913, this administrative agency regulates for-profit investor-owned utilities, setting rates for electric, natural gas, water and sewer companies, including:
 - Ameren Missouri (Union Electric Company)
 - Laclede Gas Company (including MGE)
 - KCPL (including KCPL-GMO)
 - Empire District Electric Company
 - Missouri-American Water Company
- Does not regulate electric coops or municipal utilities, such as:
 - Metropolitan Sewer District of St. Louis (MSD)
 - City Utilities of Springfield
 - Independence Missouri Power & Light
 - With these entities, consumers rely primarily upon their elected officials for rate protection.

Typical Utility Rate Design

- Customer Charge – fixed part of your monthly bill (\$4.00-10.00)
 - Includes the cost of meters and the administrative cost of billing and collecting revenue from a customer. These costs do not change with customer demand or energy usage.
 - Including distribution system operations and maintenance costs in this component is controversial.
- Commodity Charge – variable part of your monthly bill, which will vary with usage. Sometimes there will be a seasonal differential -- higher charges in the higher demand months (summer).
- Surcharges
 - i.e., Fuel Adjustment Charge (FAC) for electric utilities / Purchased Gas Adjustment (PGA) for natural gas
 - Infrastructure surcharges
 - Renewable Energy and/or Energy Efficiency trackers.
 - The implementation and design of these mechanisms are controversial, due to the mismatch of financial factors and incentives/disincentives created.

Why High Customer Charges are Bad Public Policy

1. Impact on vulnerable customers:

- **Seniors** use less than the average:

Homes with a head of household 65 years old and older use 85% of the energy consumed by the average household.

- A large majority of **low-income consumers** are small users.
- Small users overall tend to carry a **higher energy burden** than the average customer.

Energy Spending by Income

	National		
	Gas	Electricity	
All Consumers	359	1,388	
Less than \$5,000	180	825	
\$5,000 to \$9,999	178	902	
\$10,000 to \$14,999	204	954	
\$15,000 to \$19,999	243	1,101	
\$20,000 to \$29,999	261	1,192	
\$30,000 to \$39,999	305	1,295	
\$40,000 to \$49,999	351	1,367	
\$50,000 to \$69,999	344	1,417	
<i>\$70,000 and more</i>	<i>518</i>	<i>1,749</i>	
\$70,000 to \$79,999	421	1,538	
\$80,000 to \$99,999	435	1,580	
<i>\$100,000 and more</i>	<i>586</i>	<i>1,891</i>	
\$100000 to \$119,999	491	1,722	
\$120,000 to \$149,999	553	1,787	
\$150,000 and more	685	2,103	

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- Lower usage charges result in less financial incentive to conserve or to pursue energy efficiency measures; the economic reward for these efforts are minimized.
- Numerous stories regarding the sacrifices that small users makes in an attempt to reduce the size of their household energy bills.

A high customer charge minimizes the financial reward for trying to control your own utility bill!



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A controversial inquiry involving allocation of certain costs by customer counts versus usage.

Distribution costs actually vary based upon the amount of usage and demand for energy.

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If customer-owned solar energy is the problem, why should all small users be punished? Fix the DG or solar connection charge issues instead.

Other Questions regarding the Sawvel and Associates, Inc. “2014-2015 Electric Cost of Service and Rate Design Study”:

- Length of the Plan: Is **five years** too long of a period to lock in energy rate increases?
- Customer Class Shifts: Is it fair for residential homeowners have their electric bills increased by **0.5%** in order to decrease electric bills for large commercial customers, i.e., large general service customers (-6.6%) and large power customers (-8.4%).

Other Questions (cont.)

- Unrestricted Funds: Is there enough transparency and accountability for these funds? Is there a danger of funds being diverted to non-utility purposes? Is \$23-25 million still too high?
- Is it necessary to create New Surcharges for piecemeal purposes? (i.e., new proposed “Regulatory and Environmental Compliance Rider” Schedule REC-1)

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