

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

AMEREN ILLINOIS COMPANY)
d/b/a Ameren Illinois,)
Revenue-neutral tariff changes) Docket No. 16-0387
related to rate design)

**DIRECT TESTIMONY OF DIANE MUNNS
ON BEHALF OF THE CITIZENS UTILITY BOARD AND
THE ENVIRONMENTAL DEFENSE FUND**

CUB/EDF Exhibit No. 1.0

October 4, 2016

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Diane Munns. My business address is 257 Park Avenue South, 17th Floor,
4 New York, NY 10010.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed as Senior Director of External Affairs, Clean Energy Program by the
7 Environmental Defense Fund (“EDF”).

8 **Q. ON WHOSE BEHALF ARE YOU SUBMITTING TESTIMONY?**

9 A. I am testifying on behalf of EDF and the Citizens Utility Board (“CUB”).

10 **Q. WHAT INTEREST DOES EDF HAVE IN THIS PROCEEDING?**

11 A. There is a clear connection among energy policy choices, such as the rate design changes
12 proposed in this proceeding, the electricity rates paid by residential customers, and
13 continued incentives for new technology deployment that can reduce greenhouse gas
14 emissions. EDF believe that the goals of Ameren, its customers and the environmental
15 community can be aligned and implemented to provide adequate revenues to Ameren,
16 affordable and fair rates for customers and environmental sustainability. To that end,
17 EDF supports cost-effective, structural solutions that favor solutions which generate
18 accurate economic price signals without cross-class subsidy.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. My testimony is intended to oppose the increased fixed charge proposed for Ameren’s
21 residential customers by Mr. Steven M. Wills in his testimony. The rationale, and
22 supporting analysis, offered by Ameren fails to demonstrate that changes should be made
23 to fixed charges as a means to transition to residential demand charges. My testimony

24 offers the Commission reasons why it should not adopt Ameren's proposed changes in
25 this docket and instead should monitor changes in Ameren's service territory, track
26 relevant pilot results and research from other jurisdictions and postpone any
27 consideration of further rate design changes, including residential demand charges, until
28 Ameren has deployed smart meters and has additional data to inform a change.

29 **II. QUALIFICATIONS**

30 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
31 **EXPERIENCE.**

32 A. I graduated with a B.A. from the University of Iowa in 1975 (cum laude, Phi Beta
33 Kappa). I graduated with a J.D. from Drake University in 1982 (Order of the Coif). I
34 worked at the Iowa Attorney General's office from 1982-1983. I worked at the Iowa
35 Utilities Board (Board) from 1983-2007, starting as Assistant Counsel and later promoted
36 to General Counsel. I was first appointed as a Board member (this is the same as
37 commissioner in other states) and later became the Chair and held this position for four
38 years. I also served as President of the National Association of Regulatory Utility
39 Commissioners (NARUC) while a member of the Board. During my term as president of
40 NARUC, I also served as co-chair of the National Action Plan for Energy Efficiency,
41 with Jim Rogers of Duke Energy as my Co-Chair. From 2007-2008, I was Executive
42 Director of Retail Energy Services for the Edison Electric Institute. From 2008-2014, I
43 was Vice President for Regulatory Relations and Energy Efficiency for MidAmerican
44 Energy Company ("MidAmerican"), until I assumed my present position with EDF.

45 **Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR DIRECTOR OF**
46 **EXTERNAL AFFAIRS, AT THE CLEAN ENERGY PROGRAM FOR THE**
47 **ENVIRONMENTAL DEFENSE FUND?**

48 A. I am responsible for defining the overall strategy for EDF Clean Energy Program's
49 external relationships, including identifying potential partners and nurturing shared
50 dialogue to maximize clean energy advances. I serve as a key contact point with external
51 partners, such as policymakers, industry allies and other non-governmental organizations
52 in the clean energy sector, and act as a national thought leader and expert on topics
53 including rate design, wholesale market reform, energy efficiency, grid modernization,
54 renewables, and utility business models.

55 **Q. PLEASE DESCRIBE YOUR EXPERIENCE IN THE AREAS OF RATE DESIGN.**

56 A. I frequently worked on and decided rate design issues during my thirty years in regulation
57 with the Iowa Utilities Board, the Edison Electric Institute and MidAmerican. As a
58 former commissioner and general counsel, I analyzed the impact of rate design in a
59 number of rate cases. I also worked on these issues during my time with MidAmerican
60 and with EDF. Since joining EDF, I have testified as an expert witness in a North
61 Carolina proceeding on valuing distributed resources in an avoided cost case and in
62 Texas (El Paso Electric Company) and Kansas (Westar) in cases involving rate design. I
63 participated as a witness in a Hawaii proceeding proposing new rate designs to
64 accommodate increasing penetration levels of distributed resources. I am actively
65 engaged in New York's Reforming Energy Vision case, which involves rate design and
66 valuing distributed resources issues, and I review EDF comments in New York,
67 California, Texas, North Carolina, Illinois, New Jersey and Ohio regulatory proceedings.

68 I most recently filed comments on the National Association of Regulatory Utility
69 Commissioners' draft Manual On Distributed Energy Resources (draft Manual) prepared
70 by NARUC's Staff Subcommittee on Rate Design, and available at:

71 <http://pubs.naruc.org/pub/88954963-0F01-F4D9-FBA3-AC9346B18FB2>

72 The draft Manual is an effort by NARUC to assist jurisdictions in navigating the
73 challenges, considerations, and policy development related to compensating distributed
74 energy resources and is expected to be finalized by NARUC at its annual meeting in
75 November 2016. [CUB/EDF Ex. 1.1](#)

76 **III. OVERVIEW AND SUMMARY OF TESTIMONY**

77 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

78 A. Mr. Wills requests the Commission approve a rate design that would have the flexibility
79 to transition to a three part rate, which would include demand charges, should Ameren
80 decide to propose such a structure in the future. Ameren Ex. 1.0 at p. 27, ll 576-580. He
81 does not propose use of a demand charge in this case. Instead he proposes that Ameren
82 recover a higher proportion of its costs through a fixed monthly charge and argues that
83 such a change would produce results most similar to the results that would occur under a
84 demand charge. Ameren Ex. 1.0 at p. 28 ll. 589-590. Ameren's proposal is premature,
85 inadequate, and unsupported in its conclusions. There are serious questions surrounding
86 the use of demand charges in the residential sector, such that any mechanism to transition
87 to such a charge is premature. I discuss how Ameren's proposal does not send a price
88 signal that aligns with cost causation for demand related costs, and, in fact, would send
89 signals to customers that are in conflict with previously stated goals of encouraging
90 residential customers to reduce energy usage and increase energy efficiency. Ameren Ill.

91 Co., Order on Rehearing, Docket 13-0476 (Sept. 30, 2014) at 41 Finally, I recommend
92 that the Commission not make any change without further study and investigation as to
93 how such a change would further the goals of the Commission

94 **IV. AMEREN'S PROPOSED RATE DESIGN CHANGE**

95 **Q. WHAT IS DRIVING THE NEED FOR RATE DESIGN CHANGE IN THE**
96 **ELECTRIC INDUSTRY?**

97 **A.** In its November 2015 resolution establishing a Staff Subcommittee on Rate Design,
98 NARUC recognized the increasing importance that rate design issues have on policy
99 development across the states, most notably as it applies to distributed energy resources.

100 The resolution noted the rapid growth of distributed generation is triggering both

101 legislative and regulatory proposals for additional changes in rate design around the

102 country. **Q. WHAT KIND OF CHANGE IS AMEREN EXPERIENCING THAT**

103 **NECESSITATES FURTHER RATE DESIGN CHANGES AT THIS TIME?**

104 **A.** I don't know. Witness Mills refers to an ongoing national discussion on the merits of
105 instituting residential demand rates, including numerous workshops and conferences
106 dedicated to the topic, .Ameren Ex. 1.0 at p. 26, ll 558-562. He acknowledges that the
107 dialogue is largely occurring in states that have had considerable penetration of rooftop
108 solar generation installations, which has led to a debate concerning cost shifting between
109 groups of residential customers under net metering frameworks and stress on traditional
110 cost recovery methodologies. Ameren Ex. 1.0 at p. 26 ll. 562-564 He specifically
111 mentions Arizona, California, Nevada, Kansas and Oklahoma as states where there have
112 been proposals under consideration. Ameren Ex. 1.0 at p. 26, ll. 561-564 He does not
113 explain whether and how these changes are occurring in Ameren's territory or say

114 anything that would justify consideration or adoption of the significant change he
115 proposes. Therefore, it is difficult to understand the imperative to change rate design at
116 this time, especially with adoption of a contentious rate design option such as residential
117 demand charges.

118 Q. **DOES THIS MEAN THAT AMEREN’S CUSTOMERS WILL NOT**
119 **EXPERIENCE THIS CHANGE IN THE FUTURE SUCH THAT RATE DESIGN**
120 **CHANGE WILL NOT BE NECESSARY**

121 A. No, we expect as Ameren to see changes in its customer usage as customers have
122 increasing access to distributed energy technologies and as prices fall. But we also expect
123 adoption rates of new technologies to occur at different paces and in different ways
124 across the country depending on customer base and geographic region.

125 In discussing the pace of change, the draft Manual says “[B]eing aware of the continual
126 pace of change and adoption rates of technologies by customers, a regulator can identify
127 appropriate strategies for addressing these changes in a more proactive manner.” (draft
128 Manual p 60) Witness Mills appears to agree, when he, in discussing AMI meter
129 deployment, says “the completion of the Company deployment would be the more
130 appropriate time to contemplate the possibility of transitioning to demand charges. At
131 that time, consideration can be given to customer bill impacts, customer education
132 regarding the new rate structure, and revenue stability.” Ameren Ex. 1.0 at pg. 27 lines
133 534-576.

134 We also agree and reiterate the caution expressed in the draft Manual “ Reforms
135 that are rushed and not well thought out could set policies and implement rate design
136 mechanisms that have unintended consequences such as potentially discouraging

137 customers from investing in distributed energy resources, or making investments in
138 distributed energy resources. (draft Manual p. 62)

139 **Q. WHAT IS THE CURRENT THINKING ON DEMAND CHARGES?**

140 A. Contrary to representations made by Mr. Wills that demand charges are becoming a viable
141 option for electric utilities today, there is ongoing, vigorous contention surrounding the
142 use of demand charges for the residential class. Ameren Ex. 1.0 at p. 26, ll 557-558.. In
143 the draft Manual intended to assist and guide regulators, there are a full five pages of
144 discussion devoted to design issues surrounding demand charges. (draft Manual, pp. 50-
145 54) The discussion concludes by saying, ‘[A]t the time of writing this Manual empirical
146 data for demand-based rate designs that are being implemented on a mandatory basis for
147 large investor-owned utilities is limited. Thus, regulators should be wary of counting on
148 unsupported, promised benefits and cautious when plausible harm may represent itself. It
149 may be that pilots which hold their customer’s harmless could be the best way forward.
150 Regardless, more data should be available as several utilities have submitted proposals to
151 regulators and legislators. Whatever the implications of these newer rates may be a
152 regulator must be comfortable with how they will interact with their jurisdiction’s unique
153 circumstances before implementing them.’ (draft Manual p. 53)

154 We agree, it would be premature to make a rate design change based on the
155 expectation or anticipation that demand charges will be instituted in the future and in the
156 manner proposed by Ameren. Once Ameren has meters in place to provide more specific
157 data, Ameren can make a proposal and there can be reasoned discussion of the
158 appropriateness of such a charge.

159 **Q. WHAT WILL AN INCREASE IN THE FIXED CHARGE ACCOMPLISH?**

160 A. Mr. Wills argues that the short-run demand-related costs of the distribution system are all
161 fixed in nature. Ameren Ex. 1.0 at p. 24, ll 508-530. This assumption underlies his
162 assertion that by allocating a portion of the demand-related expenses to the fixed charge,
163 he can mimic the impacts of a three-part rate in a two-part design. Ameren Ex. 1.0 at p.
164 32 ll. 671-673. But this conclusion ignores the many decisions to be made in crafting a
165 demand charge. As the draft Manual explains, “The demand charge success will be
166 largely driven by the fine details of the structures imposed.” (draft Manual p.50). There
167 has been no opportunity to discuss the details of demand charge design and currently,
168 there is no consensus as to the appropriateness of the design decisions made by Ameren.

169 An increase to fixed charges at this time does nothing to advance the transition to
170 demand charges and will negatively impact low income customers and energy efficiency
171 measures. In discussing the rationale for demand charges, the draft Manual states,” [I]f
172 the rates are understood by customers and loads can be shifted, then these demand
173 charges can incent customers to “shave” their peaks or shift usage to another time, and
174 with coincident rates, reduce the overall system peak.” (draft Manual p. 49) There is no
175 demonstration that this is the design and goal of Ameren’s proposal or that the fixed
176 charge increase would have that effect. So it is confusing how Mr. Wills can assert that
177 the proposed increase in a charge that cannot be avoided will transition customers to a
178 design that will incent them to change behavior and shift their peak. It will simply raise
179 fixed charges that could have the opposite effect of lowering volumetric charges resulting
180 is uneconomic or inefficient price signals and incenting additional usage.(draft Manual p.
181 54) According to the draft Manual “this potentiality also highlights the disconnect
182 between costs and their causation that a higher fixed charge may have. If higher usage

183 leads to increased investment, then it may be appropriate for the volumetric rate to reflect
184 the costs that will be necessary to serve it, which would point towards the appropriateness
185 of a lower fixed charge. In other words, it may be more reasonable to lower the fixed
186 costs and increase the volumetric rate, which would send a more efficient price signal.
187 (draft Manual p. 54)

188 **V. RECOMMENDATIONS**

189 **Q. WHAT DO YOU RECOMMEND REGARDING AMEREN'S PROPOSED RATE**
190 **DESIGN CHANGE FOR RESIDENTIAL CUSTOMERS?**

191 A. I recommend that the Commission reject Ameren's proposed rate design change, for
192 several reasons.

193 First, the Commission stated in Ameren's prior revenue-neutral rate design case
194 that it would consider changing the proportion of costs recovered through a fixed charge
195 if Ameren presented compelling evidence. Higher fixed charges were denied in the last
196 case because of concern over impact on smaller users and the disincentive high fixed
197 charges create for energy efficiency. Ameren did not address those concerns and there no
198 basis for adding additional amounts to the fixed portion of the bill.

199 Second, utility companies are increasingly seeking a change to rate design when
200 they are experiencing the impact of new technologies, often caused by increased
201 penetration of distributed solar resources. In this case, Ameren has not presented
202 evidence on this point, so it has failed to justify any need for change to the present rate
203 structure at this time.

204 Third, Ameren states that its goal is to develop a flexible rate structure that would
205 allow easy adoption of a demand charge in the future. But Ameren presented no

206 evidence as to whether it would be reasonable to adopt a demand charge in the future.
207 Policy experts disagree that demand charges are reasonable for residential customers.

208 **VI. CONCLUSION**

209 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

210 A. Yes, instead of accepting Ameren's proposal the Commission should monitor changes in
211 Ameren's service territory, track pilot results and research from other jurisdictions and
212 postpone any consideration of further rate design changes, including residential demand
213 charges, until Ameren has deployed smart meters and has additional data to inform a
214 change.

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