RISK AND AFFORDABILITY IN ELECTRIC RATES

HOW THE TRANSFER OF FINANCIAL RISK FROM UTILITIES TO CUSTOMERS IMPACTS SERVICE AFFORDABILITY FOR UTILITY CUSTOMERS

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DISCLAIMER

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- The conclusions expressed in this presentation are those of the author and are not intended to represent the litigation or other positions of the Office of Attorney General Lisa Madigan

IT'S A FACT: ELECTRIC USAGE IS NOT INCREASING

Actual MWH usage has decreased in recent years:

Year	Total MWH Usage	
2011	131,318,667	
2012	132,551,942	
2013	133,445,659	1.9% decrease
2014	130,435,568	over six years
2015	126,951,888	
2016	128,766,097	

HOW HAVE UTILITIES RESPONDED TO THEIR CUSTOMERS' REDUCED USAGE OF ENERGY?

UTILITIES HAVE SHIFTED THEIR FINANCIAL RISKS TO CUSTOMERS.

- **Formula rates** guarantee recovery of all costs and forecasted plant investment from ratepayers, so operational risk is eliminated for the utility.
- **Decoupling*** ensures customers pay for risks associated with changes in weather or increased efficiency measures adopted by customers.
- **Uncollectibles riders** ensure the risk of bad debt is paid for by ratepayers, even while utilities control bad debt management.
- **Cash Working Capital** allowance provides a return on funds used to cover short-term needs pending revenue collection.

* As set forth in Section 9-107of the Public Utilities Act, 220 ILCS 5/9-107

UTILITIES HAVE SHIFTED FINANCIAL RISKS TO CUSTOMERS (CON'T)

- **Energy Efficiency formula rate** has ratepayers compensate utility with additional profits even as they conserve energy, both in terms of rate basing budgets and incentive payments for exceptional performance.
- **Various riders, surcharges** cover special investments and customers can't avoid them.
- **Customers now financing ComEd's corporate parent's losses** on two nuclear plants, despite Exelon's overall profitability.
- …and
    - **Utilities still demand deposits** to begin service.

WHAT HAVE BEEN THE REAL FINANCIAL CONSEQUENCES TO CUSTOMERS OF RISK SHIFTING?

- Customers bear greater risks associated with increased capital investments, as ratepayers must pay returns on utility rate base assets:
Ameren	2012 F.R. filing	$2,001,788,000	
	2018 F.R. filing	$2,951,568,000	47% increase
ComEd	2011 F.R. filing	$6,182,808,000	
	2018 F.R. filing	$9,512,615,000	54% increase

- FEJA ZECs: $230 million per year charged to ratepayers, giving Exelon a subsidy of approximately $150,000 per nuclear plant job per year, in spite of the risks that the subsidized plants will not be economically viable.
- FEJA Energy Efficiency profits: Ratepayers are charged more even as utilities take steps to help them use less., paying beyond 2040 even though programs themselves end in 2030.

FINANCIAL RISKS ASSOCIATED WITH THE PURCHASE OF ELECTRIC POWER, ONCE BORNE BY UTILITIES, ARE NOW PACKAGED AS "CUSTOMER CHOICE"

- As of May 2017, the ICC reports* 1.88 million Illinois electric customers are enrolled in customer choice programs, through municipal aggregation and switching initiated by individual customers.
- Prior to retail choice, Illinois utilities purchased power on the wholesale market without a profit mark-up, so market risks passed on to customers were based on informed utility decision-making. **
- "Customer choice" promoted to the public as economic benefit, yet decision-making is performed by customers ill-equipped to evaluate the complexities of the wholesale and retail power markets and the details of supplier offers.
- The result is that the risks associated with evaluating supplier offers are being borne by residential customers who so far have spent $400 million more on power between 2014 and 2017 than they would have had they agreed to let the utility company evaluate those risks.

* Illinois Commerce Commission, Office of Retail Market Development, 2017 Annual Report

**Today the Illinois Power Agency plays the same role in professionally evaluating market risks.

THE RISKS OF TECHNOLOGY AND SERVICE DEVELOPMENT ARE ALSO BEING BORNE BY RATEPAYERS, NOT UTILITIES

- Utilities have proposed that ratepayers bear the risks of research and development through pilot programs: accelerated deployment of smart meters, microgrids, pre-pay service.
- Costs and benefits of proposed research and "learnings" are rarely quantified or understood before financial responsibility is assigned to ratepayers.
- Overall affordability of rates gets lost in discussion, as typical ratepayer wants reliable energy at least cost rates, not risk management responsibilities.

HOW DOES RISK SHIFTING AFFECT AFFORDABILITY?

- Paying for investments through riders and other surcharges makes those with the least access to information responsible for the riskiest aspects of utility service
- More fixed charges means reducing usage doesn't always "pay," even as supply costs decline.
- As fixed charges on the bill become a bigger portion of the bill, customer control diminishes
- Residential Heating Customers Disconnections:

  ComEd: 34% increase in average disconnections, 2013 to 2016

  Ameren: 205% increase in average disconnections, 2013 to 2016

TRANSFER OF UTILITY BUSINESS RISKS TO CUSTOMERS NOT COVERED BY ASSISTANCE PROGRAMS

- PIPP enrollment is capped by available dollars and fills quickly

	2016	2017
Number of Households <150% FPL	1,114,245	1,092,303
Heating/cooling Bills “covered” By LIHEAP*	214,529	118,235

*Source: Energy Afforability Gap, 2017
http://www.homeenergyaffordabilitygap.com/03a_affordabilityData.html

WILL CUSTOMERS TAKE STEPS TO LESSEN THE IMPACT OF RISK TRANSFER?

- Participation rates in "Residential Engagement" programs is low (2016 data reported 2017):

	ComEd Residential Customers: 3,254,000	Ameren residential customers: 1,062,500
• Hourly Pricing :	ComEd: 11,820 (0.388%)	Ameren: 12,195 (1.15%)
• Peak Time Rebate:	ComEd: 149,798 (4.87%)	Ameren: 40,131 (13.5%)
• A/C cycling:	ComEd: 70,909 DLC switch (2.18%, all customers) 13,748 NEST (0.45%, smart meters only)	Ameren: N/A
• Smart Meter Devices (HAN):	ComEd: 391 ((0.0128%)	Ameren: 6
• Net Metering/Distributed Generation:	ComEd: 764 residential; 890 all classes;	Ameren – 656 residential; 847 all classes

CONCLUSIONS: DON'T PASS ON MORE RISKS TO UTILITY RATEPAYERS

- Customer "choice" for supply or dynamic pricing are no substitutes for affordability – the opportunity costs of engagement are high for most customers and information inequities are endemic to utility service.
- Average rates manage risk for most customers, who don't have the same access to information or apparent desire to spend time on risk management.
- Time-of-Use or Real Time Pricing rate designs must be Opt-In rate designs to avoid passing on more risks for those unable to manage risk (households with medical infirmities, inflexible job schedules, children, elderly).
- Don't charge monopoly consumers for services and supply that can be provided by private, competitive companies.   Let cost causers pay for extras (e.g., Electric Vehicle charging)

CONCLUSIONS (CON'T.)

- Investment Practices Must Be Guided by Least-Cost Utility Ratemaking Requirement:
  - Model investment decisions like a competitive marketplace player does.
  - Do (operational/customer) benefits exceed the cost?
  - Is this investment already offered in the competitive marketplace?
  - Not the job of the regulator to guarantee utility profits, or pay for "learnings" or services available in the competitive marketplace.