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BEFORE THE ARIZONA CORPORATION COMMISSION

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2015 DEC -9 P 4: 23

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION)
 OF UNS ELECTRIC, INC. FOR THE)
 ESTABLISHMENT OF JUST AND)
 REASONABLE RATES AND CHARGES)
 DESIGNED TO REALIZE A REASONABLE)
 RATE OF RETURN ON THE FAIR VALUE)
 OF THE PROPERTIES OF UNS ELECTRIC,)
 INC. DEVOTED TO ITS OPERATIONS)
 THROUGHOUT THE STATE OF)
 ARIZONA, AND FOR RELATED)
 APPROVALS.)

DOCKET NO.: .E-04204A-15-0142

**TESTIMONY OF CYNTHIA ZWICK ON
BEHALF OF THE ARIZONA
COMMUNITY ACTION ASSOCIATION
REGARDING RATE DESIGN**

The Arizona Community Action Association submits the testimony of Cynthia Zwick in the above-captioned docket.

RESPECTFULLY submitted this 9th day of December, 2015.

Cynthia Zwick
 Executive Director
 Arizona Community Action Association
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Arizona Corporation Commission
DOCKETED

DEC 09 2015

DOCKETED BY	<i>BTM</i>
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3 of December, 2015 with:

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DIRECT TESTIMONY OF
CYNTHIA ZWICK ON BEHALF OF THE
ARIZONA COMMUNITY ACTION ASSOCIATION

December 9, 2015

1 **Q. Please state your name and business address.**

2 A. My name is Cynthia Zwick. My business address is 2700 N 3rd St., Ste. 3040, Phoenix,
3 AZ 85004.
4

5 **Q. What is your position at the Arizona Community Action Association?**

6 A. I serve as the Executive Director of Arizona Community Action Association (ACAA).
7 I've served in this position since 2003.

8 **Q. Please describe your background and work experience.**

9 A. ACAA is a non-profit organization that advocates on behalf of Community Action
10 Agencies and the low-income community throughout Arizona. ACAA works with
11 community partners throughout the state to: educate the community about issues related
12 to poverty, improve public policy, and ensure low-income families have access to the
13 tools needed to become and sustain self-sufficiency.
14

15 **Q. What is the purpose of your testimony today?**

16 A. The purpose of my testimony today is to ensure that the priorities of low-income
17 customers are considered in the ratemaking aspects of this rate case. Specifically, my
18 testimony today will address:
19

- 20 • Our request that the CARES rates be maintained and the current discount
21 honored;
- 22 • The eligibility of the CARES rates is expanded to 200% of the Federal Poverty
23 Guideline;
- 24 • The doubling of the mandatory "fixed" fees for low-income residential customers
25 is rejected; and
- 26 • The exclusion of the DSM surcharge from CARES rates is maintained.
27
28

1 **CARES RATE**

2 **Q. WHAT CHANGES HAVE BEEN PROPOSED FOR THE CARES RATES?**

3 A. The company has proposed to freeze the current CARES customer rates and reduce the
4 discount to a flat \$10 per month discount.
5

6 **Q. HOW WILL THIS IMPACT LOW-INCOME CUSTOMER'S BILLS?**

7 A. The change in CARES discounts will substantially affect low-income customers, with the
8 most egregious effects focused on low-use customers. This is demonstrated in Table 1:
9

10 **Table 1: CARES Customer Bill Impact**

Usage (kWh)	Current CARES bill	New RES-01 bill with CARES Discount	Monthly Bill Increase	Percent Increase in Monthly Bill	Annual Increase in Energy Bill
300	\$20.37	\$34.02	\$13.65	67.00%	\$163.80
600	\$45.27	\$62.04	\$16.77	37.04%	\$201.25
900	\$77.15	\$92.06	\$14.92	19.33%	\$178.99
1200	\$106.85	\$122.08	\$15.23	14.26%	\$182.82
1500	\$135.98	\$152.11	\$16.13	11.86%	\$193.51

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18 As is demonstrated in the table above, by moving from a percentage discount to a flat
19 discount, low-use customers' bills are substantially increased. Low-income customers on
20 average use less electricity than their more affluent counterparts in order to keep their
21 utility bills affordable. To that end, the percentage discount has been useful to encourage
22 conservation, offering more substantial savings for customers who keep their energy use
23 low. By freezing the current CARES rate and making the new CARES discount a flat
24 rate, this incentive to conserve has been removed, and the consequences are laid bare in
25 Table 1. Customers using very little energy will see a 67% bill increase, while customers
26 using several times that amount of energy will see a proportionately smaller increase.
27
28

1 Compared to the price increase seen by RES-01 customers, CARES customers will see a
2 larger total increase at every usage level, and a much larger percentage increase at each
3 level.
4

5 Table 2: Customer bill comparison on RES-01 rate

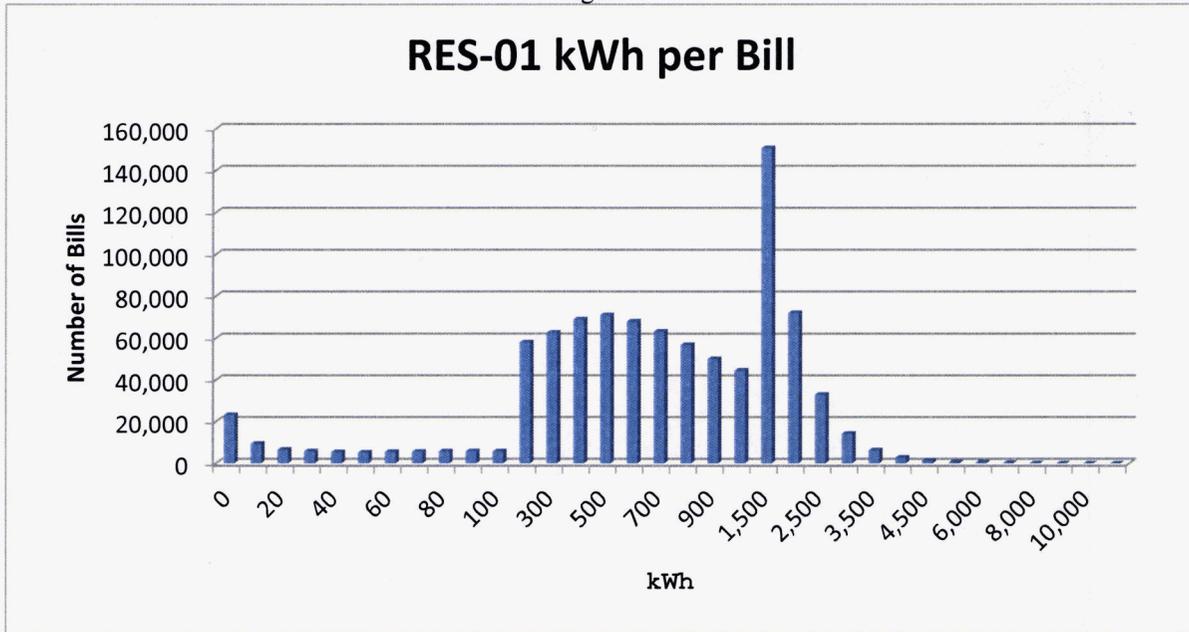
kWh usage	Old Price	New Price	Monthly Increase	Annual Increase	Percent Increase
300	\$35.14	\$44.02	\$8.88	\$106.54	25.26%
600	\$63.30	\$72.04	\$8.75	\$104.95	13.82%
900	\$92.95	\$102.06	\$9.11	\$109.31	9.80%
1200	\$123.44	\$132.08	\$8.64	\$103.71	7.00%
1500	\$154.34	\$162.11	\$7.76	\$93.13	5.03%
1800	\$185.25	\$192.13	\$6.88	\$82.55	3.71%

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12 As it stands, the new CARES discount is effectively taken away by the updated rate
13 design. New CARES customers will receive a \$10 monthly credit, but the mandatory
14 “fixed” fee is being increased by \$10, effectively setting the credit to \$0. By having their
15 discounts taken away, low-income are being forced into real financial hardship. As was
16 discussed in my November 6, 2015 testimony, half of all renters are cost-burdened, and
17 65% of food bank clients report being forced to choose between paying for food and
18 utilities in the past 12 months. Such an abrupt increase in fixed charges while taking
19 away benefits will only further harm these vulnerable families, forcing them into even
20 more difficult situations where they’re forced to choose between paying for housing, or
21 food, or keeping the lights on.
22

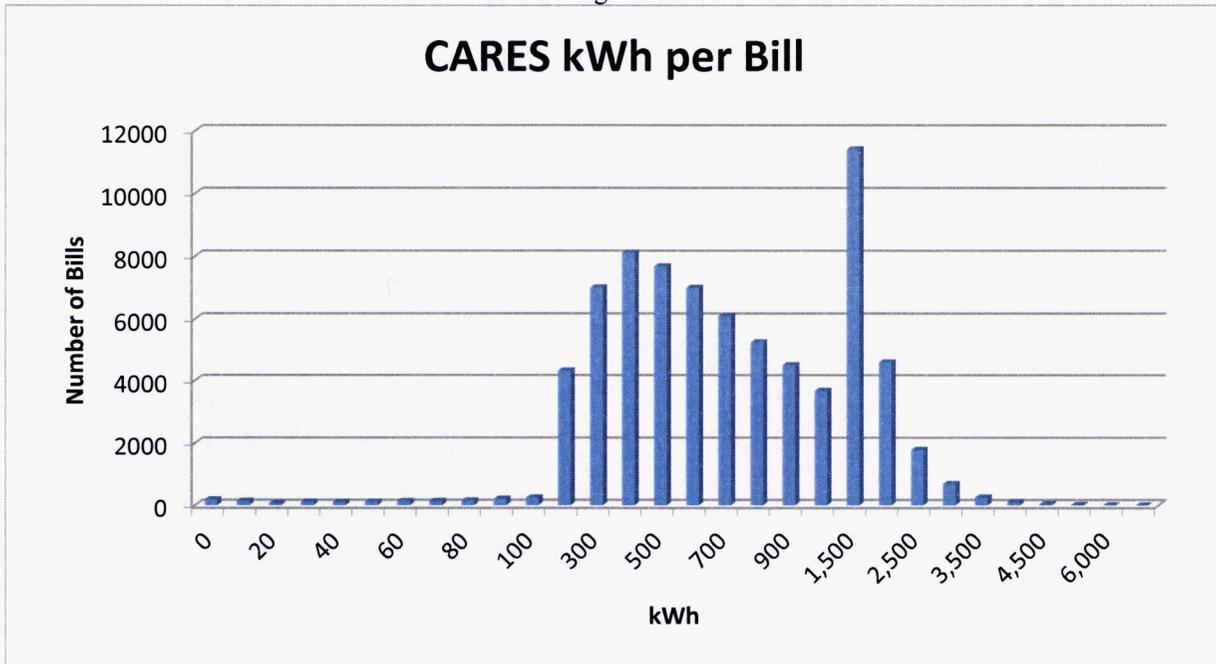
23
24 Taking a more granular look at customer usage, we can see that the most frequent bill for
25 a CARES customer is in the 400 kWh range, while the most frequent RES-01 bill is in
26 the 500 kWh range (Figures 1, 2). CARES customers also have lower total bills, and a
27 much tighter concentration of bills below 1,000 kWh. The savings incentive of the
28

1 current CARES rate has certainly contributed to this trend of conservation, and freezing
 2 the current CARES rate and eliminating the percentage discount would remove that
 3 incentive, likely increasing consumption and making bills less affordable and
 4 manageable.
 5

6 Figure 1



17 Figure 2



1 **Q. How does a bill impact like this affect a low-income customer's quality of life?**

2 A. One important factor in low-income energy consumption is their housing stock. Low-
3 income households often live in substandard houses with poor insulation, drafty rooms,
4 leaky roofs, and inefficient appliances. As such, a disproportionate amount of their
5 energy is leaking out the walls or being used up by old and inefficient appliances. This
6 can make conservation even more difficult, as the energy required to keep poor housing
7 stock comfortable is greater than the energy required for a newer house in better
8 condition. With that in mind, increasing a low-income customer's bill by as much as
9 67% could have disastrous consequences for those families. As you'll recall from the
10 testimony submitted November 6, 2015, Arizona now has the third highest poverty rate in
11 the country, and the fourth-highest rate of residents in deep poverty. Energy
12 unaffordability can cause food insecurity and increased hospitalization rates, which utility
13 assistance programs can ameliorate.¹ High utility bills are a primary driver of
14 homelessness for families with children. In the survey performed by the Federal Reserve
15 that demonstrated 47% of households were unable to pay a \$400 emergency expense,
16 39% said the largest expense they could cover with cash on hand is \$100, while an
17 additional 16% said they could cover an expense between \$100 and \$200. These new
18 rates constitute a several hundred dollar expense that low-income households are unable
19 to avoid and must be able to pay immediately. This rate increase could easily be the
20 crisis that pushes these families over the edge that was demonstrated by the Federal
21 Reserve's research. Low-income discount rates, such as the CARES rate, can provide a
22 bulwark against these negative consequences. Implementing such a rate shock on low-
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28 ¹ <http://www.ncbi.nlm.nih.gov/pubmed/17079530>

1 income, low-use customers will certainly spawn untold crises, and it is irresponsible for
2 UNSE to augment its revenue by taking so much from their customers with the very least.

3 **Q. What do you recommend should be done for the CARES rate?**

4
5 A. The CARES rate should remain unfrozen and the current discount rate should remain
6 available for eligible customers. Low-income and senior customers depend on affordable
7 electricity; effectively removing the CARES discount by setting it to the same value as
8 the mandatory fixed fee increase will make electricity much less affordable for customers
9 whose lives could be most damaged if they can't access it. As was described in greater
10 detail in the November 6, 2015 filing, the CARES rate is currently under-enrolled
11 considering the poverty of the areas served by UNSE; UNSE should work with the
12 community it serves in order to increase the total number of CARES customers.

13
14 **CARES ELIGIBILITY**

15 **Q. What is the current eligibility level for CARES customers?**

16
17 A. Currently, CARES customers must be at or below 150% of the Federal Poverty Guideline
18 to be eligible for CARES. That results in the following limits:²

19
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Persons in Family/ Household	150% Federal Poverty Guideline - Annual Income	150% Federal Poverty Guideline - Monthly Income
1	\$17,655.0	\$1,471.25
2	\$23,895.0	\$1,991.25
3	\$30,135.0	\$2,511.25
4	\$36,375.0	\$3,031.25

25 For a family of three to make it on just over \$2500 a month requires extremely difficult
26 choices about which essential items can be skipped or decreased in the family budget. In
27 this context, the CARES rate is an invaluable tool to help families stay afloat.

28 ² <https://aspe.hhs.gov/2015-poverty-guidelines>

1 **Q. Does the CARES discount rate reach all of the customers who need it?**

2 A. No. According to the MIT Living Wage calculator, the following are the required
3 incomes for a given household to support itself. I also included 200% of the Federal
4 Poverty Guideline as a reference:
5

6

Persons in Family/ Household	Living Wage, Mohave County	Living Wage, Santa Cruz County	200% Federal Poverty Guideline
1	\$20,284	\$20,270	\$23,540
2	\$44,363	\$43,210	\$31,860
3	\$56,101	\$54,948	\$40,180
4	\$72,711	\$70,295	\$48,500

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12 As is demonstrated in the table above, most households at 200% of the Federal Poverty
13 Guideline do not make a living wage, and as a result have to go without essentials in their
14 daily lives. Extending the CARES discount up to 200% of the Federal Poverty Guideline
15 would ensure that these customers have another tool in their arsenal to make ends meet,
16 to avoid hardship, and to avoid issues with missed payments and arrearages, which will
17 ultimately benefit the company.
18
19

20 **FIXED CHARGES**

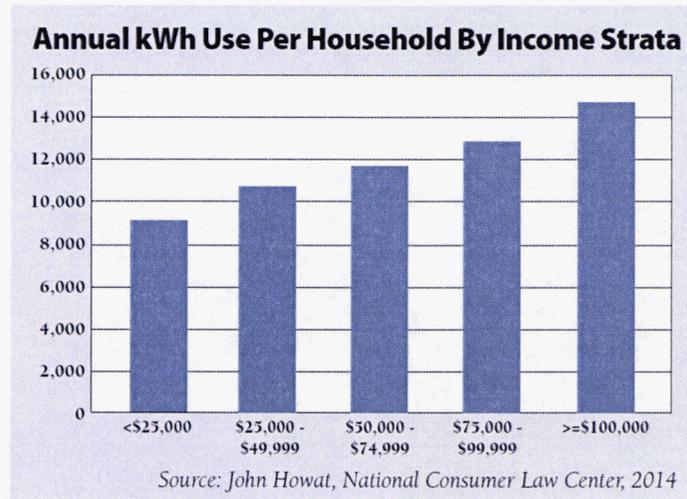
21 **Q. What has UNSE proposed to do with regards to its residential fixed charges?**

22 A. UNSE has proposed to increase the “fixed” mandatory fees on residential customers by
23 100%, from \$10 per month to \$20 per month.
24

25 **Q. How does this affect low-income customers?**

26 A. Significantly, disproportionately, and unfairly. Low-income customers, along with
27 elderly customers, use less energy per household than the average population. These
28 households do this in order to control monthly budgets, often in spite of structural

1 impediments to energy conservation, such as inefficient living spaces or limited control
2 over their home environment. When surveyed, low-income consumers reported more
3 diverse and creative strategies for saving energy than other, more affluent households
4 displayed.³
5



15 Nationally, low-income households who make less than 150% of the Federal Poverty
16 Guideline use 14% less energy than the average of all households. In Arizona, the
17 difference is even more staggering, with low-income customers using 25% less energy
18 than the average household. In UNSE's territory, CARES customers use 8% less energy
19 than residential customers on average. Low-income customers use less power because
20 it's all they can afford, and because decreasing usage helps to control their bills and
21 manage household budgets. Households headed by a senior – defined as a person 65
22 years of age or more – similarly use much less energy than the average population.
23 Nationally, senior households use 14.2% less energy than non-senior households. In
24 Arizona, senior households use on average 25.1% less energy than non-senior
25
26
27

28 ³ It's not all about "Green": Energy Use in Low-Income Communities

1 households.⁴ Many seniors are on a fixed income budget, and as such they need to
2 conserve energy to make ends meet. If their bill increases by \$10 per month before
3 they've even turned a light on, adding an annual expense of \$120 per year, that could put
4 a real strain on these vulnerable households' budgets. For reference, an individual at the
5 poverty line makes \$11,770 per year, or \$981 per month. This additional \$120 annual
6 expense represents one percent of their total annual income, which is a significant charge
7 to pay before they've used any electricity. Furthermore, home energy bills are at the
8 "top of the stack" for low-income and elderly households because the potential
9 consequence of not paying for household utilities is the risk of losing service. With this
10 loss of service, there comes a very real possibility that one will lose their home. The only
11 other expense that is similar is a household's rent or mortgage payment. Given the high
12 priority of utility bills, low-income families face sacrificing other absolute necessities in
13 order to pay for home energy. Household members skip meals or buy lower quality food;
14 they don't take necessary medications or take a dose lower than prescribed, and don't see
15 the doctor when they need to. Other needs such as transportation to and from work,
16 clothing, and school supplies become a luxury. In this light, the energy burden of 14% for
17 low-income households and 19% energy burden for households in extreme poverty
18 represent a household crisis, as these bills are much steeper for low-income households
19 than the average population, and not paying them could result in real hardship, including
20 homelessness.

21
22 In listing his criteria for a sound rate structure, James Bonbright states an essential
23 criterion as "fair-cost apportionment objective, which invokes the principle that the
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28 ⁴ EIA, 2009. Prepared by NCLC.

1 burden of meeting the total revenue requirements must be distributed fairly and without
2 arbitrariness, capriciousness, and inequities among the service and so as, if possible, to
3 avoid undue discrimination.”⁵ The doubling of mandatory fees constitutes an unfair
4 apportionment of costs on low-use customers, who overwhelmingly tend to be low-
5 income and elderly, while high-use customers in larger houses avoid paying their fair
6 share.
7

8 **Q. What if any impact will increased fixed charges have on residential customers**
9 **saving energy?**
10

11 Doubling the fixed charges in low-income households will not only disincentivize saving,
12 but it would lead to customers having less control over their energy bill and more
13 wasteful electricity use.
14

15 **Q. What is the typical load profile of a low-income customer?**

16 As a result of minimal discretionary energy use, a majority of low-income customers
17 have a relatively flat load profile and high load factor. This is explained by households
18 below the poverty line being less likely to have air conditioning, primary home heating,
19 and other appliances that contribute to peak load (Figures 3-6).⁶
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28 ⁵ Bonbright, James C. “Principles of Public Utility Rates,” 2nd Edition.

⁶ EIA RECS Survey, 2009 data

Figure 3

Air Conditioning Use vs Household Income, USA

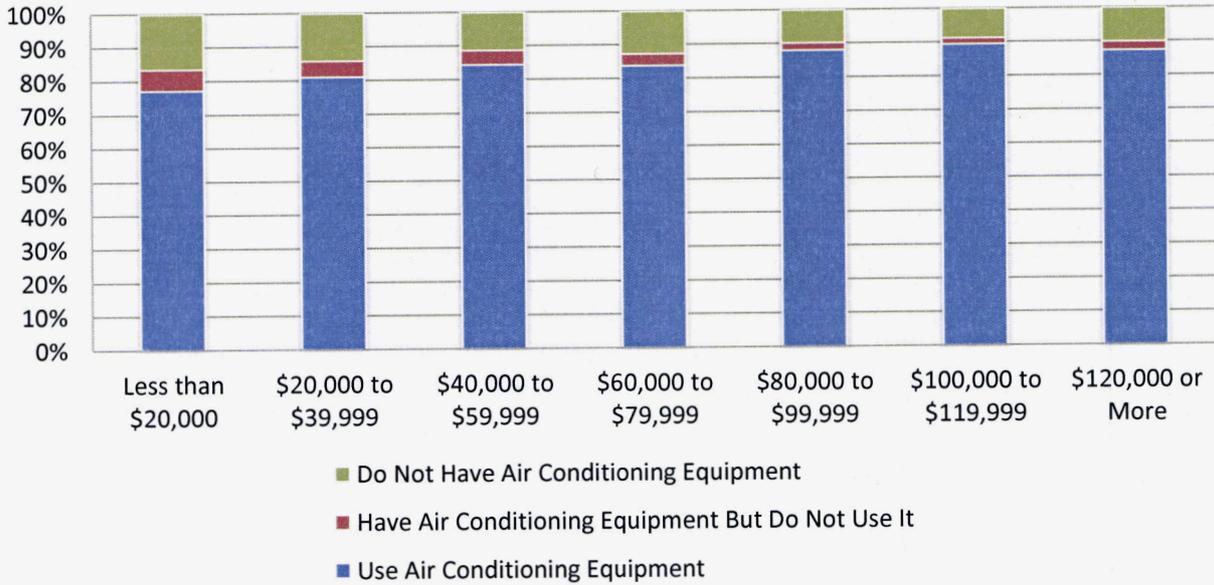


Figure 4

Air Conditioning Use vs. Household Income - Arizona

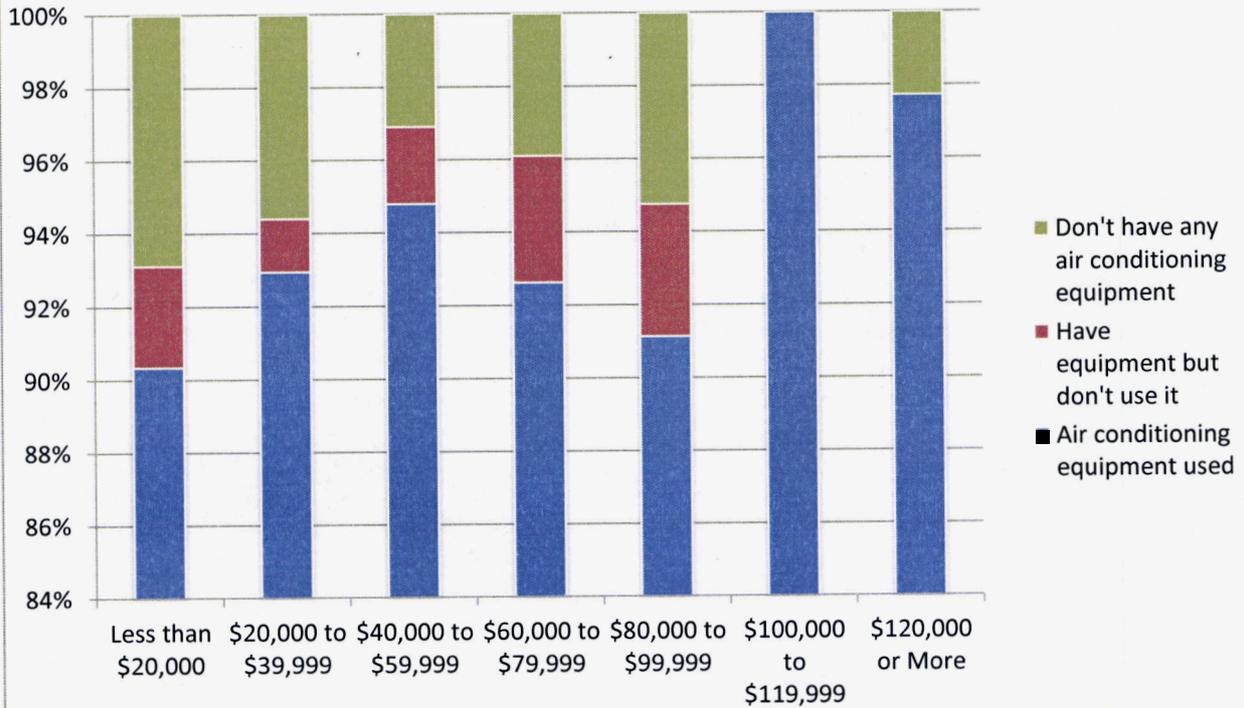


Figure 5.

Households That Do Not Have or Use Heating Equipment by Income - USA

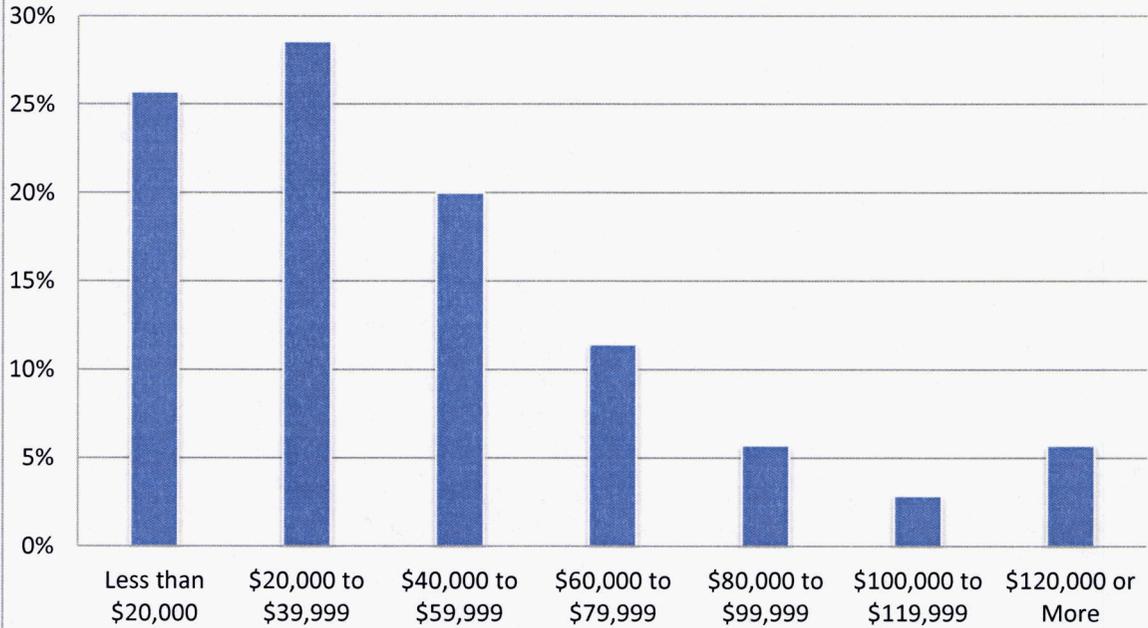
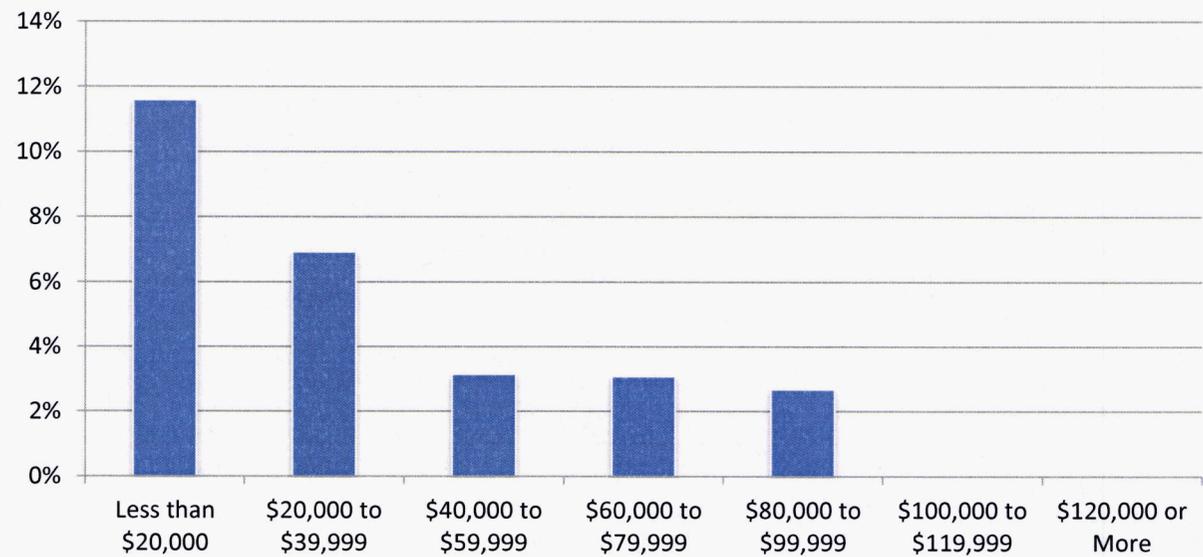


Figure 6

Households That Do not Have or Use Heating Equipment by Income - Arizona



1 According to the testimony of Dallas J. Dukes, customers who exhibit a higher load
 2 factor use the electric system more efficiently and therefore more cost effectively. The
 3 updated rates were nominally designed to reward such customers with decreased rates.
 4 However, in these situations, low-use customers, who are overwhelmingly low-income
 5 and elderly, will see a larger overall price increase and a substantially larger percentage
 6 increase in their electric bills (Table 3).
 7

8

9 **Table 3: Customer bill comparison on RES-01 rate**

kWh usage	Old Price	New Price	Monthly Increase	Annual Increase	Percent Increase
300	\$35.14	\$44.02	\$8.88	\$106.54	25.26%
600	\$63.30	\$72.04	\$8.75	\$104.95	13.82%
900	\$92.95	\$102.06	\$9.11	\$109.31	9.80%
1200	\$123.44	\$132.08	\$8.64	\$103.71	7.00%
1500	\$154.34	\$162.11	\$7.76	\$93.13	5.03%
1800	\$185.25	\$192.13	\$6.88	\$82.55	3.71%

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 15 For customers who move from the current CARES rate to the proposed CARES rate, the
 16 impact is much starker (Table 4).
 17

18 **Table 4: CARES Customer Bill Impact**

Usage (kWh)	Current CARES bill	New RES-01 bill with CARES Discount	Monthly Bill Increase	Percent Increase in Monthly Bill	Annual Increase in Energy Bill
300	\$20.37	\$34.02	\$13.65	67.00%	\$163.80
600	\$45.27	\$62.04	\$16.77	37.04%	\$201.25
900	\$77.15	\$92.06	\$14.92	19.33%	\$178.99
1200	\$106.85	\$122.08	\$15.23	14.26%	\$182.82
1500	\$135.98	\$152.11	\$16.13	11.86%	\$193.51

1 Because low-income households generally reside in homes that are less energy efficient
2 than average residences, in order to lower their energy bills, low-income households
3 lower their usage by the unwelcome choice of doing without.
4

5 **Q. How does the increase in fixed charges affect the public policy goals of energy**
6 **efficiency?**

7 A. Analysis by the Regulatory Assistance Project shows that the difference between a
8 progressive and regressive design can have a large effect — 15 percent by one estimate,
9 but it could be more — on customer usage. In this case, allocating an increased amount
10 of revenue recovery to mandatory fees decreases the incentive for customers to conserve
11 energy, as their usage has less of an effect over the total bill. High fixed charges directly
12 reduce incentives for customers to conserve energy by reducing the payback on
13 investments in efficient appliances, insulation, or other residential or business
14 improvements. They also reduce the ability of customers to control their own bills
15 through their own consumption decisions.
16
17

18 As a result, customers are less likely to take on conservation efforts, which works against
19 the public policy goals of the Energy Efficiency Resource Standard, going against the
20 public interest.
21

22 **Q. Has the National Association of State Utility Consumer Advocates taken a position**
23 **on Mandatory “Fixed” Fees?**

24 A. Yes.

25 **Q. What is that position?**

26 A. The National Association of State Utility Consumer Advocates (NASUCA) “opposes
27 proposals by utility companies that seek to increase the percentage of revenues recovered
28

1 through the flat, monthly customer charges on residential customer utility bills,” citing its
2 “long tradition of support for the universal provision of least-cost, essential residential
3 gas and electric service for all customers.” NASUCA “urges state public service
4 commissions to reject gas and electric utility rate design proposals that seek to
5 substantially increase the percentage of revenues recovered through the flat, monthly
6 customer charges on residential customer utility bills – proposals that disproportionately
7 and inequitably increase the rates of low usage customers, a group that often includes
8 low-income, elderly and minority customers, throughout the United States.”⁷

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10
11 **Q. Have other organizations publicly opposed increased mandatory “fixed” fees for**
12 **residential customers?**

13 A. Yes. The Christian Coalition of America⁸ and the AARP⁹ have both issued statements
14 opposing increased mandatory fees, citing the need for customers to have control over
15 their energy bills in order to maintain an affordable household budget.
16

17 **Q. What recommendations do you have?**

18 A. The Corporation Commission should maintain the mandatory “fixed” fees at \$10 per
19 month for CARES customers and it should not approve the company’s proposed 100%
20 increase.
21

22 **DSM CHARGE**

23 **Q. WHAT HAS BEEN PROPOSED FOR THE DSM CHARGE FOR CARES**
24 **CUSTOMERS?**

25
26 ⁷ THE NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES RESOLUTION 2015-1, “OPPOSING GAS
AND ELECTRIC UTILITY EFFORTS TO INCREASE DELIVERY SERVICE CUSTOMER CHARGES”

27 ⁸ Americans Deserve Economic & Energy Security at Home <http://americaspathtoprogress.com/op-eds/>

28 ⁹ “A Higher Utility Bill Before You Even Turn On the Lights?” <http://blog.aarp.org/2015/08/31/a-higher-utility-bill-before-you-even-turn-on-the-lights/>

1 A. UNSE has proposed to eliminate the exclusion of the CARES rate from the DSM
2 surcharge.

3 **Q. DO YOU SUPPORT THIS PROPOSAL?**

4
5 A. No.

6 **Q. WHY NOT?**

7 A. With the exception of the weatherization program, low-income customers are unable to
8 access the benefits and opportunities presented by the Demand Side Management
9 program. Low-income customers should not be forced to pay into a program from which
10 they will receive almost no benefit. Furthermore, low-income customers often live in
11 substandard housing stock, with drafty rooms and inefficient appliances. As such, low-
12 income customers use more energy per square foot than households that are not low-
13 income.¹⁰ This makes conservation that much more difficult for vulnerable customers, as
14 decreasing energy consumption to a typical amount, per square foot, could require
15 sacrifice and deprivation that could amount to sacrificing a safe and healthy home to
16 make ends meet.

17
18
19 **Q. What is your recommendation for the DSM surcharge for CARES customers?**

20 A. I recommend that the Corporation Commission maintain the exclusion of the CARES rate
21 from the DSM surcharge. Many low-income communities haven't recovered from the
22 financial crisis of 2008, and there is no reason to exact further charges from vulnerable
23 communities to force them to pay for programs in which they won't be able to
24 participate.
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¹⁰ EIA 2009 RECS survey

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes it does. Thank you.**

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