REVISED TESTIMONY OF JEFFREY R. BAILEY
DIRECTOR, RATE DESIGN & ANALYSIS
ON BEHALF OF DUKE ENERGY INDIANA, LLC
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jeffrey R. Bailey, and my business address is 1000 East Main Street, Plainfield, Indiana.

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

A. I am employed by Duke Energy Business Services, LLC, a utility affiliate of Duke Energy Indiana LLC ("DEI" "Petitioner" or "Company") as Director, Rate Design & Analysis.

Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I was employed by the Company (then known as PSI Energy, Inc.) in July of 1990 as Supervisor, Rate Engineering. I was subsequently promoted to Manager, Rate Engineering in 1991. I have held several positions in the Rate, Pricing, and Market Planning areas for the Company and its affiliates (Cinergy Services, Inc., which later merged into Duke Energy Business Services LLC) following the Cinergy Corp./PSI Energy, Inc./ The Cincinnati Gas and Electric Company transaction in 1994. In 1997, I accepted the position of Manager, Sales Analysis. In 2000, I joined the Financial Operations Department where I held the positions of Manager, Financial Projects, and Manager, Finance. I returned to the Rate Department in mid-2002. Following the merger of Cinergy Corp. with Duke

Power, I assumed my current position in the fall of 2006, and maintained this position following the merger with Progress Energy. Before joining the Company in July of 1990, I was employed by the Indiana Utility Regulatory Commission (the "Commission"). I began my employment there in 1983 as a Staff Engineer. I held several progressively responsible positions at the Commission, the last of which was Assistant Chief Engineer. My primary responsibility as Assistant Chief Engineer for the Commission was the supervision of the gas and electric sections that investigated rate and regulatory matters pending before the Commission.

I received Bachelor of Science degrees in Industrial Management and Engineering from Purdue University, West Lafayette, Indiana. I also received from Purdue University a Master of Science degree majoring in Industrial Engineering.

Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, RATE DESIGN & ANALYSIS.

A. As Director, Rate Design & Analysis, my responsibilities focus on the strategic aspects of the Company's pricing, and identifies, evaluates, and prioritizes pricing direction for the Company that meets both corporate and customer needs.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to describe:

- Changes that are made to the Company's major retail electric rate schedules;
- Proposed modifications to the Time-of-Use Service applicable to Rate LLF and Rate HLF, respectively;
- Proposed migration adjustment;
- Proposed pilots for residential and small commercial customers in anticipation of full AMI and Customer Connect deployment;
- Proposed experimental programs applicable to Rate LLF and Rate HLF
- The Company's long-term pricing strategy;
- Decoupling, and how it is an essential element to our future success in providing customers choices;
- And finally, I'll discuss the rate design commitments made in Cause No. 42873.

Please see the testimony of Mr. Roger A. Flick for discussion of general terms and conditions, various nonrecurring charges, *pro forma* adjustments, lighting schedules, and the Company's retail electric tariffs.

II. MAJOR ELECTRIC RATE SCHEDULES

Q. WHAT ARE THE COMPANY'S MAJOR RETAIL ELECTRIC RATE SCHEDULES?

A. The Company's major retail electric rate schedules include: Rate RS - Schedule for Residential and Farm Service ("Rate RS"); Rate CS - Schedule for Commercial Service ("Rate CS"); Rate LLF - Schedule for Low Load Factor Service ("Rate LLF"); and Rate HLF - Schedule for High Load Factor Service

("Rate HLF"). Together, these rate schedules and associated Riders comprise 97% of the Company's retail electric revenue requirement.

Q. WHAT WAS THE COMPANY'S APPROACH TO DESIGNING RATE RS?

A. We compiled a record of bills and sales during the period of July 2017, through June 2018, and used this information to derive what is commonly referred to as a frequency distribution. To verify the accuracy of the data, we then reconciled this distribution of bills and sales against the Company's books and records for the kilowatt-hours ("kWh") sold and revenues recorded in this period. The distribution of sales was then used to apportion the forecast data (calendar year 2020) into the respective blocks[1]. The rate was then designed to reflect proposed revenue levels after subsidy and excess revenue reductions for Rate RS based upon the criteria discussed below.

For Rate RS, we produced two distinct designs for presentation in this case. First, given the size of the increase, we constructed a rate that maintains a fairly consistent percentage increase across the spectrum of usage for residential customers to minimize the impacts. It is a reasonable, cost-based rate. Second, we produced a rate that is more driven according to our cost curves. The current structure of Rate RS includes a significant declining block structure that by itself would be difficult to justify today. Over the course of time, however, a number of riders have been applied to residential usage which ameliorated this effect. Our

[1] This description applies to all rates discussed below. The details are available as part of Minimum Standard Filing Requirements or work papers.

cost curves show that there is a decline in per unit cost as usage increases, but not as much as in the original declining block structure. The proposed structures reflect that finding.

Q. WHY HAS THE COMPANY PREPARED TWO SCHEDULES FOR RESIDENTIAL SERVICE?

A. As previously described, these rate structures are relatively similar; each has a declining block structure and similar Connection Charges. Please see Petitioner's Exhibit 8-A (JRB) for a direct comparison of the schedules. The schedule titled "Scenario 1" most closely represents our unit cost study and has slightly less of a declining block structure than the other. It also has a Connection Charge pegged closely to our actual cost to serve. The second rate titled "Scenario 2" has a slightly higher Connection Charge and declines somewhat more steeply than "Scenario 1".

"Scenario 2" is largely designed to minimize impacts to customers while "Scenario 1" most closely matches our unit cost study. "Scenario 2" has more of a declining block structure and presents a modest reduction in risk to the Company relative to "Scenario 1" by collecting more revenue in the Connection Charge and the first block relative to "Scenario 1". For this reason, "Scenario 1" is the proposed rate when joined with our decoupling proposal, while "Scenario 2" is the proposed rate structure in the absence of decoupling. Later in my testimony, I'll discuss how decoupling is an important component to the success of our future rate designs. Please see the testimony of Messrs. Pinegar and

Davey, Dr. Hansen, and Ms. Maria Diaz on the policy and technical issues of decoupling.

Q. ARE THERE OTHER SCHEDULES FOR RESIDENTIAL SERVICE?

A. Yes. We also provide service to all electric customers under an Optional High-Efficiency Residential Service. The structure of the rate follows that of Rate RS, but a 20% discount to usage over 1000 kWh is applied during the non-summer months. This rate has not been available to new customers since the last rate case. Our cost of service to this class of customers shows they are less costly to serve on a unit basis than basic residential service.

The availability of AMI data may allow us to further segment the market and make available additional new rates (including all electric rates) within residential service in the future. Because of this, we believe this rate should be retained for existing customers, albeit at a much lower discount on the tail block of 6.3%.

Q. PLEASE DESCRIBE THE CONNECTION CHARGE USED IN THE DEVELOPMENT OF THE RATE RS STRUCTURE.

A. In this case, the Company has maintained a more traditional definition of a customer charge, which includes meters and associated rate base and meter reading expenses. In addition, it includes customer accounts, customer service and information which encompasses allocated general and intangible rate base, and certain expenses including billing, bad debts, and customer service. We have not employed methodologies such as the minimum system method that could

significantly increase the charge. For the development of the two residential structures I mentioned above, the Connection Charges are $9.80 ("Scenario 1") and $10.54 ("Scenario 2"), respectively, compared to the current charge of $9.01 per month.

Q. WHAT IS THE EFFECT OF THIS RATE INCREASE ON A RESIDENTIAL CUSTOMER USING 1000 KWH PER MONTH?

A. Under "Scenario 1", a residential customer using 1000 kWh per month will experience an increase of $22.29 or 18.5%.[2] This reflects the change in the base cost of fuel and further reflects all applicable Standard Contract Rider's we expect to be in effect during the future test period, as well as those that have been modified to be included in base rates. The calculation showing the derivation of these amounts are shown on Petitioner's Exhibit 8-B (JRB). This fulfills the Minimum Standard Filing Requirement as found in 170 IAC 1-5-16(d).

Q. WHAT WAS THE APPROACH USED IN DEVELOPING RATE CS?

A. We developed this rate in a manner consistent with our above description of Rate RS. We have two similarly structured rates with one we propose to be joined with our decoupling proposal. A comparative table is shown in Petitioner's Exhibit 8-C (JRB), with the proposed structure with decoupling being "Scenario 1", and the other without decoupling being "Scenario 2".

Q. PLEASE DESCRIBE THE CONNECTION CHARGE USED IN THE DEVELOPMENT OF THE RATE CS STRUCTURE.

[2] Does not include the impacts of Utility Receipts Tax.

A. The CS customer charge was developed the same manner as the RS charge. For the development of the two small commercial structures, the Connection Charges are $9.27 (with decoupling) and $10.70 (without decoupling), respectively, compared to the current charge of $9.01 per month.

Q. PLEASE DESCRIBE THE COMPANY'S RATE DESIGN OBJECTIVES FOR RATE LLF - SCHEDULE FOR LOW LOAD FACTOR SERVICE, AND RATE HLF - SCHEDULE FOR HIGH LOAD FACTOR SERVICE.

A. Our rate design objectives for these rate schedules (hereinafter referred to as "power rate schedules" or "power rates") have not changed. The power rates are designed to unbundle our costs to provide more accurate price signals, and to reduce the inter-voltage subsidy and excess revenues. By "inter-voltage", I mean the differences in subsidy and excess revenues that exist within the class of customers by service level - or voltage – of the customers served. (Subsidy and excess revenues are produced when customers at a particular voltage level provide less than or greater than the class average rate of return, respectively.) This is a direction previously proposed and approved by the Commission. Historically, the Company has presented testimony justifying its power rate structures and making improvements where appropriate. In my judgment, only LLF secondary service indicates the need for any potential modifications. I discuss those modifications and the limitations of implementation below.

Q. WHAT ARE THE PROPOSED CONNECTION CHARGES FOR RATES LLF AND HLF?

A. The proposed Connection Charges are shown in Petitioner's Exhibit 8-D (JRB). In this case we have attempted to uphold the traditional definition of a customer charge as previously described, but reflect the differing voltage characteristic in providing service to these customers.

Q. WHAT CHANGES ARE PROPOSED TO RATE LLF?

A. The structure of Rate LLF for secondary served customers can be described as a rate structure within a rate structure. Overall, the rate has three hours use blocks: (1), the first at 190 hours use, (2), the next 110 hours use, and (3) usage greater than 300 hours use. The 190 hours use section contains a fairly aggressive declining block structure with four tiers. As previously described with Rate RS, the steepness of the declining structure has been somewhat ameliorated by numerous energy-related riders applied to the rate over time. However, our analysis has demonstrated that large secondary served customers can take advantage of the structure by having sufficient usage to rapidly fill the earlier, higher priced blocks, with a substantial balance priced out at the lowest cost block. Our analysis demonstrates that a complete hours-use structure, rather than kWh blocking, is more appropriate for this rate. However, revising the structure now, coupled with a significant increase, causes a sizable disparity in impacts to customers with increases well above average and below average. Because of that, we propose no changes to the Rate LLF secondary block structure.

Q. HAVE YOU PREPARED RATE STRUCTURES FOR RATE LLF?

A. Yes. Other than to conform to the revised revenue requirement and minimize impacts to customers, there are no proposed structural changes to Rate LLF.

Q. HAVE YOU PREPARED RATE STRUCTURES FOR RATE HLF?

A. Yes. Other than to conform to the revised revenue requirement and minimize impacts to customers, there are no proposed structural changes to Rate HLF.

Q. ARE THERE OTHER MODIFICATIONS TO THE COMPANY'S RATE STRUCTURES?

A. We have modified any remaining rates not discussed here to reflect the revised revenue requirement. Mr. Roger A. Flick will address changes to the lighting schedules.

Q. DOES THE COMPANY PROPOSE ANY NEW RATE SCHEDULES?

A. Yes. The Company proposes a new Rate USFL – Unmetered Small Fixed Load Service. This schedule accommodates small wattage equipment more fully described in the testimony of Mr. Roger A. Flick. This rate has been designed using the components of Rate CS with load factors significantly higher than the class average warranting a new classification of service.

III. MODIFICATIONS TO TIME-OF-USE SCHEDULES APPLICABLE TO RATES LLF AND HLF

Q. ARE THERE OTHER CHANGES REGARDING OPTIONAL TIME-OF-USE SERVICE APPLICABLE TO RATE LLF AND RATE HLF COLLECTIVELY REFERRED TO AS "TOU RIDERS"?

A. Yes. The Company proposes two changes to the TOU Riders. First, after review of load consumption and marginal cost data, the Company proposes to change the winter season and the On-Peak periods. Specifically, the month of March is included in the Winter season since it presents similar characteristics as the traditional Winter month of December. In addition, the Winter On-Peak period will be 6 a.m. to 2 p.m. and 6 p.m. to 9 p.m. Eastern Standard Time. This change extends the morning segment during the Winter from the current 7 a.m. to 1 p.m. Review of load consumption and marginal cost data show that the hours ending at 7 a.m. and 2 p.m. are 95% or more of the peak hour value and warrant the on-peak designation. The Summer On-Peak period will be 11 a.m. to 6 p.m. Eastern Standard Time. Second, historically, the TOU Riders have not received significant participation. Currently, only four customers receive service under the TOU Riders. From an allocation standpoint, the limited participation essentially results in a "special contract" for a limited number of customers. While Duke Energy Indiana does not propose to change the structure of the charges for this schedule, the charges have been redesigned to be revenue neutral to the class.

Finally, the Company proposes to eliminate the Rate Equalization Adjustment[3] since the Company has received feedback from customers suggesting that the Rate Equalization Adjustment is a provision that is unappealing.

[3] The Rate Equalization Adjustment is a derived factor that creates revenue neutrality relative to the customer's existing bill once moved to the TOU structure. It applies for a period of three years before the factor is eliminated from billing.

An objective of time-of-use rates is to better match the price signal to the Customer with the Company's cost to serve based on the time of consumption. This design potentially motivates customers to consume electricity more efficiently in an economic sense and therefore lower costs to serve all customers.

Q. DOES DUKE ENERGY INDIANA HAVE REVENUE CONCERNS RELATED TO THE REMOVAL OF THE RATE EQUALIZATION ADJUSTMENT?

A. Yes. The proposed TOU Riders have been developed as revenue neutral to their respective rate class. This ensures that the same test year revenues would be collected if all Rate LLF and HLF customers received service under the proposed TOU Riders respectively. However, opting into the optional TOU rate could reduce the Company's revenue collection when customers enroll in the TOU Riders by reducing their bill without changing their consumption behavior or pattern. Having said that, if a customer's current load is more suited to the TOU structure, we believe it should be available to them.

Q. WHAT DOES DUKE ENERGY INDIANA PROPOSE TO MITIGATE THE LOST REVENUE FROM MIGRATIONS TO THE TOU RIDERS?

A. To the extent customers reduce their bills under the TOU Riders relative to their former standard bill, Duke Energy Indiana proposes to include the shifts to these rates in the migration adjustment, which I describe in more detail below.

IV. MIGRATION ADJUSTMENT

Q. DOES THE COMPANY PROPOSE TO REFLECT LOST REVENUES FROM CUSTOMER MIGRATIONS IN ITS POWER RATE SCHEDULES?

A. Yes. Any time rates are redesigned or modified to produce a different revenue requirement, there is a potential that specific customers may be better off under a different rate schedule than the one under which they are currently billed. This is particularly true with our power rates, LLF and HLF, and their associated TOU Riders. The results of our migration analysis are shown on Petitioner's Exhibit 8-E (JRB). The table depicts the migrations from one available rate to another and would result in $4 million revenue loss. Our experience indicates that, even with notifications described below, only about 50% of customers will actually migrate to a different rate. Accordingly, we have reduced the total amount by 50% to $2 million. This amount has been proportionally allocated to the power rates based upon their respective revenue requirements.

Q. WHAT WAS THE CRITERIA FOR MIGRATION?

A. For a customer to be considered in our migration analysis, it must save at least five percent of its annual bill. Alternatively, customers who have the potential to save $600 annually, or more, are also included in this analysis.

Q. DOES DUKE ENERGY INDIANA HAVE A COMMUNICATION PLAN TO ENSURE THAT CUSTOMERS ARE PROPERLY NOTIFIED OF MIGRATION POTENTIAL?

A. Yes, we do. We have done this several times in the past and have had considerable success with it. We plan to notify customers following an order in this Cause through a customized letter that will detail the potential bill savings. We will follow this letter with a personal telephone call. If this fails to elicit a response from the customer, in some cases a personal visit with the customer will take place. This further helps to ensure that the amounts we have proposed for migrations are reasonable. Customers must sign the letter and return it to us to be placed on the new rate.

Q. WHY DOES THE COMPANY BELIEVE ITS PROPOSED RATE TREATMENT ASSOCIATED WITH EXPECTED MIGRATIONS IS REASONABLE?

A. Historically, the Company has been able to reflect the effects of customer migrations in the development of its rates. This is reasonable for several reasons. First, we provide rate options to our customers that allow them to select rates most favorable to their respective operations. Second, we put forth extensive effort to notify customers of potential bill savings. And, finally, we have a conservative approach in the development of the lost revenues from migrations.

V. NEW PROPOSED RESIDENTIAL AND SMALL COMMERCIAL PILOT RATES

Q. DOES DUKE ENERGY INDIANA PROPOSE NEW DYNAMIC PRICING PILOT RATES FOR RATES RS AND CS?

A. Yes. To better prepare to offer customers rate options when our Customer Connect Platform[4] functionality is available, the Company proposes three pilot rates for the Rate RS class and three pilot rates for the Rate CS class.

Q. PLEASE DESCRIBE THE DYNAMIC PRICING PILOT RATES.

A. The Company proposes three unique rate designs for each of two rate classes: Rates RS and CS. The basic pilot rate structures are identical for each rate class and are designed to be revenue neutral for each rate class. A description of the rate attributes of each of the three rate designs follows. For quick reference, a side-by-side comparison of the pilot rates is illustrated in Petitioner's Exhibit 8-F (JRB).

- Schedule CPP: Critical Peak Pricing – This design is most similar to the proposed standard tariff rate design, offering a declining block kWh energy rate, except during Critical Peak periods. It motivates customers to shift or reduce their electric consumption during the most critical supply days of the year. This pilot rate has the following attributes:
    - Connection Charge: This is a fixed $ per month charge to the customer matching the rate in the proposed Rate RS and CS tariffs.
    - Critical Peak Energy: The Critical Peak period is identified as Summer weekdays, excluding listed holidays, from 11 a.m. to 5 p.m. eastern standard time and Winter weekdays, excluding listed holidays, from 6 a.m. to 1 p.m. and 6 p.m. to 9 p.m. However, the Critical Peak period

[4] Please see the direct testimony of Ms. Retha I. Hunsicker regarding Customer Connect.

is not effective every weekday. The Company would be permitted to designate up to 20 Critical Peak days each year of the pilot. Additionally, in the event of a system emergency condition, a Critical Peak day can be designated even if the limit of 20 has been reached.

- All Other Energy: All other energy during a billing month will be billed similarly to Rates RS and CS using a declining block structure. However, note that the non-Critical Peak energy rates are generally lower than the corresponding energy rates in Rates RS and CS.

- Schedule VPP: Variable Peak Pricing – This design will test customer's willingness to increase the number of pricing events throughout the year. It departs from the standard tariff rate design by offering a flat kWh energy rate, except for days with Critical and High price periods. It motivates customers to shift or reduce their electric consumption during a greater number of days throughout the year. This pilot rate has the following attributes:
  - Connection Charge: This is a fixed $ per month charge to the customer matching the rate in the proposed Rate RS and CS tariffs.
  - Critical Peak Energy: The Critical and High Peak periods are defined as referenced above. The Company is permitted to designate up to twenty Critical Peak and twenty High Peak days each year of the pilot. Additionally, in the event of a system emergency condition, a Critical Peak day can be designated, even if the limit of twenty has been reached.

- All Other Energy: All other energy during a billing month will be billed through a flat $ per kWh charge.
- The non-critical Peak energy rates are lower than the Schedule CPP energy rates.

- Schedule VPP-D: Variable Peak Pricing with Demand – This design will test customer's willingness to increase their attention to electric consumption even further than the VPP structure by adding a demand charge to the rate design. While like the VPP design in all other aspects, the maximum monthly demand charge will motivate customers to shift or reduce their electric consumption during their high use periods by staggering their use of appliances. This pilot rate has the following attributes:
  - Connection Charge: This is a fixed $ per month charge to the customer matching the rate in the proposed Rate RS and CS tariffs.
  - Critical and High Peak Energy: The Critical and High Peak periods are defined and implemented as referenced above under VPP.
  - All Other Energy: All other energy during a billing month will be billed through a flat $ per kWh charge.
  - Demand: The customer's monthly billing demand is based on the maximum integrated 30-minute demand during the billing month.
  - The non-critical Peak energy rates are lower than the Schedule VPP energy rates.

Q. WHAT CUSTOMERS ARE ELIGIBLE TO PARTICIPATE IN THE PILOT RATES?

A. The pilot rates require Rate RS and Rate CS customers to have a smart meter installed and capable of being used to bill the customer since interval data is necessary to determine usage for the peak events. Customers who opt-out of a smart meter will not be eligible to participate. In addition, the Company will focus on the behavior changes motivated from the pilot rates and therefore will exclude customers who participate in other programs that provide similar motivation to alter their usage including Power Manager, those with qualifying facilities, or net energy metering applications. Customers will be required to have an email address and / or a text number and must be current on their bill. The Company will also monitor customer enrollments to ensure that a diverse set of customers are obtained to participate in the pilot rates. Specific to the Rate CS pilots, low power broadband equipment, municipal sirens, CATV and FOC customers, as described under Rate CS, are not eligible for this pilot since they are inherently unable to respond to the price signals provided by the Company.

Q. WHAT DOES DUKE ENERGY INDIANA HOPE TO LEARN FROM THE DYNAMIC PRICING PILOT RATES?

A. The Company's primary objective with innovative rate designs is to offer customers increased options with respect to how they consume and pay for electric service. It is anticipated that innovative dynamic designs can offer improved price signals that better align with cost causation, reducing the

Company's cost of service based upon price response. These rate design choices will be enabled with deployment of Smart Meter technology and the Customer Connect billing system. More innovative designs will incent load shifting, which reduces the Company's cost of service and ultimately contributes to lower overall rates. Increased choice also leads to higher customer satisfaction as customers gain more control over their electric costs.

More specifically, it is our belief that the pilots will help us learn and provide customers with the choice and control they want and have come to expect from all service providers. It is important to learn through the pilots if there are segments of customers who are interested to participate and save money through changes in their consumption behavior. The proposed pilots have the explicit goal of better reflecting cost causation and of evaluating customer behavior and acceptance to new rate designs. Learning how customers respond to price signals and their satisfaction with the pilots will better prepare the Company to offer rate choices to customers when Customer Connect functionality is available in the Fall 2022. In addition, the proposed pilots will help the Company identify processes necessary to support and communicate a dynamic rate design, evaluate customer response to dynamic price signals offered under each pilot design, and identify the tools and techniques necessary to educate participants on dynamic pricing to improve the overall customer experience and load response.

Q. HOW WILL THE COMPANY DEFINE SUCCESS FOR THESE PILOTS?

A. At its core, these are research projects. Success is very much tied to what we learn about our customers' preferences, and from those learnings providing choices to customers. Some of the specific insights we hope to attain are:

- Customer behavior before, during, and after Critical and High Peak Pricing events, *e.g.*, load reduction or load shifting;
- Customers likes or dislikes about the programs. This can be fairly extensive, such as the structure of the rate, the number of events, hours for on-peak periods, etc.;
- Customer satisfaction levels;
- Impacts to the Company's integrated resource plan.

Q. IS THERE POTENTIAL INTERACTION BETWEEN THE PILOT RATES AND THE COMPANY'S ENERGY EFFICIENCY AND DEMAND RESPONSE EFFORTS?

A. There could be. The Company hopes that customers become more aware of their consumption behavior through the price signals made available. Customers may in turn determine that load shifting and/or conservation efforts implemented can reduce their bills.

Q. HAVE TARIFF SHEETS BEEN PREPARED FOR THE PROPOSED PILOTS?

A. Yes, and they are attached to the testimony of Mr. Roger A. Flick in Petitioner's Exhibit 9-A (RAF). A side-by-side comparison of the rates is illustrated in Petitioner's Exhibit 8-F (JRB). Of additional note, the Company proposes to limit

participation to 500 participants in each pilot for a total across all six pilots of 3,000 participants. Although Smart Meters are being deployed, the new billing functionality of the Customer Connect system will not be available for several years. Therefore, there are aspects of the pilot implementation that will be done outside of the Company's billing system. Due to this more manual process, Company proposes the limits on participation. This may also require a short period of preparation time after Company receives approval to implement the pilots for the Company to prepare and launch marketing campaigns to acquire customers. Further, Company proposes to run the pilots for two years after their implementation and then close the pilots for an evaluation period. Participating customers may remain on the pilot rates at their option until Company evaluates the pilots, files with the Commission for a final disposition of the pilots, and receives the Commission's order on the Company's request.

VI. EXPERIMENTAL PROGRAMS APPLICABLE TO RATE LLF AND RATE HLF

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED NEW EXPERIMENTAL PROGRAMS FOR RATE LLF AND RATE HLF.

A. The Company proposes an Experimental Market Pricing Program and an Experimental Demand Management and Stability Program applicable to Rate LLF and Rate HLF. The tariff pages are available for review and attached to the testimony of Mr. Roger A. Flick in Petitioner's Exhibit 9-A.

The Experimental Market Pricing Program re-introduces what was historically known as the Real-Time Pricing Program. The purpose of this

program is to offer an opportunity for customers to manage their electric costs by providing an opportunity to shift load from higher cost to lower cost pricing periods, or to add new load during lower cost pricing periods. It would also allow customers to make short-term production runs without incurring the full cost of the typical demand charge. Load above a predetermined shape will pay market based prices, including energy delivery and ancillary service charges, and load below the predetermined shape will be credited.

The Experimental Demand Management and Stability Program is directed to those customers with significant ability to interrupt their load and make commitments to the stability of that load. In short, load greater than 75% of their average on peak demand is treated at market pricing, plus energy delivery and ancillary services charges, and no more than 25% of their load would be considered base usage. The balance of the load is required to be interruptible and must include at least 75 hours of economic events as well as a maximum of five emergency events. A term of five years is required to participate on this program. If a customer fails to maintain a non-coincident peak demand of at least 75% of the average on peak demand and 75% of the average monthly energy usage as compared to the 12-month period prior to commencement of the agreement, the customer will revert to the Company's Rate HLF or Rate LLF as appropriate. In addition, the customer will be required to refund one-half of all savings obtained from being on the rider for the lesser of the previous three years or commencement of the agreement.

Both of these new experimental programs indicate our willingness and commitment to providing pricing options which can assist our customers in meeting their need to manage costs.

Q. HOW WILL THE COMPANY DEFINE SUCCESS FOR THESE EXPERIMENTAL PROGRAMS?

A. As I mentioned above, we are essentially re-introducing real time pricing for one of the programs. We gained an extensive knowledge base from that experience, and know there is a wide range of customer behavior once on the program. I would suggest, then, that these offerings are more about customers learning about, and adapting to, more market based pricing exposure. While I offer no commitments, these programs are likely to assume a long-term presence in our product portfolio.

VII. LONG-TERM PRICING STRATEGY

Q. PLEASE DESCRIBE THE COMPANY'S LONG-TERM PRICING STRATEGY.

A. As I'm sure most are well aware, the Company has a well-established Smart Meter buildout, with additional plans for a new billing system known as Customer Connect. When both of these projects are fully deployed, a whole new world will be available to our customers. This new world will offer transparency not normally associated with the utility industry. Customers will be able to go to our website, link to their account, run scenarios on available rates for their type of service, and select the rate most suited to their needs. To facilitate that vision, we

are committed to providing voluntary rate options to customers that allow them more choices and greater control over their electric bills. Along with this, we have the goal of improving our pricing structures in program and product pricing to provide signals that more properly balance embedded and marginal costs, and move us toward a more time differentiated and dynamic pricing construct – and this is just in the initial stages. While well beyond the scope of this proceeding, additional evolution will take place, moving toward greater unbundling (transaction based) product pricing that will better accommodate renewable energy, and potential locational marginal pricing at the circuit level. This unprecedented level of transparency, however, presents some significant uncertainty for the Company, which I describe below.

VIII. DECOUPLING

Q. WHY IS THE COMPANY PROPOSING DECOUPLING FROM A RATE DESIGN PERSPECTIVE?

A. While we are initially employing pilots to gain experience in customer usage and adoption characteristics, our work has shown that the potential for revenue erosion is significant when pilots become fully available to the general populous of customers, potentially running into the tens of millions. Our proposal to decouple sales from usage for residential and small commercial service allows us to pursue this vision without financial harm. While many may focus on additional energy efficiency opportunities, or alternatively reductions in disincentives for utilities to pursue energy efficiency, by far and away the greatest potential for

harm to the utility is the revenue erosion from mass migration of customers across rate schedules, and particularly so if we intend to assist our customers in obtaining cost savings. There are many statistics that suggest a mature time of use program may attract 5% to 10% of the customer population, but the transparency afforded by new technology can make that number much higher, in my opinion. Thus, approval of our proposed decoupling mechanism properly aligns our interest with that of our customers and allows us to move forward with the vision we have described here.

IX. MERGER COMMITMENT

Q. PLEASE DESCRIBE THE RATE DESIGN COMMITMENT MADE BY THE COMPANY IN CAUSE NO. 42873.

A. In the above- mentioned Cause, the Company committed to file cost of service under both 4 CP and 12 CP methodologies. Similarly, the Company also committed to filing rate designs under both methods. Please see the testimony of Ms. Diaz for details on the class allocation differences under the two methodologies, which appear to be small from a revenue requirement perspective. The methodological difference does not materially alter any of the designs. Thus, from a rate design standpoint, we have computed the rates listed in Section II of my testimony on a 12 CP basis and filed them as work papers. Any interest in the remaining rates the Company will provide upon request.

X. CONCLUSION

Q. WERE PETITIONER'S EXHIBITS 8-A (JRB) THROUGH 8-F (JRB) PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?

A. Yes, it does.

Residential Billing Comparison
Rate RS

Line No.	Description (a)			Customer Bills and KWH (b)	Present Rates (c)	Monthly Revenue at Present Rates (d)	Proposed Rates (e)	Monthly Revenue at Proposed Rates (f)
1	**Connection Charge**			1	$9.01	$9.01	$9.80	$9.80
								$0.00
	Energy	Begin	End					$0.00
2	1st Block	0	300	300	$0.089116	$26.73	$0.150893	$45.27
3	2nd Block	301	1,000	700	$0.051948	$36.36	$0.122344	$85.64
4	End Block	1,001	and Over	0	$0.042634	$0.00	$0.110347	$0.00
5	Total Energy			1,000		$72.11		$140.71
6	**Standard Contract Riders***				$0.048188	$48.19	$0.001877	$1.88
7	**Calculated Revenue**					$120.30		$142.59
8	**Difference**							$22.29
9	**Percent Increase / (Decrease)****							18.5%

***Standard Contract Rider Summary Table**

	Present Rates	Proposed Rates
Standard Contract Rider 60 - Fuel Cost Adjustment	$0.012759	$0.000000
Standard Contract Rider 61 -Integrated Coal Gasification Combined Cycle Generating Facility Adjustment	$0.013991	-$0.001385
Standard Contract Rider 62 - Environmental Compliance Investment Adjustment	$0.003255	$0.000000
Standard Contract Rider 63 - SO_2, NOx, and Hg Emission Allowance Adjustment	$0.000008	$0.000000
Standard Contract Rider 65 - Transmission and Distribution Infrastructure Improvement Cost Rate Adjustment	$0.005402	$0.002207
Standard Contract Rider No. 66-A - Energy Efficiency Revenue Adjustment	$0.003871	$0.002321
Standard Contract Rider No. 67 - Credits to Remove Annual Amortization of Cinergy Merger Costs	-$0.001950	-$0.001498
Standard Contract Rider No. 68 - Midcontinent ISO Management Cost and Revenue Adjustment	$0.002835	$0.000000
Standard Contract Rider No. 70 - Reliability Adjustment	$0.000732	$0.000000
Standard Contract Rider No. 71 - Environmental Compliance Operating Cost Adjustment	$0.006403	$0.000233
Standard Contract Rider No. 72 - Federally Mandated Cost Rate Adjustment	$0.000124	$0.000000
Standard Contract Rider No. 73 - Renewable Energy Project Revenue Adjustment	$0.000757	$0.000000
Totals	$0.048188	$0.001877

*** Does not include the impacts of Utility Receipts Tax*

Connection Charges

Rate Schedule	Calculated Connection Charge	Proposed Connection Charge	Current Connection Charge	Increase	Percent Increase
Rate RS	$9.80	$9.80	$9.01	$0.79	8.77%
Rate CS	$9.27	$9.27	$9.01	$0.26	2.89%
Rate LLF					
Secondary	$23.24	$22.83	$14.00	$8.83	63.07%
Primary	$92.31	$109.43	$71.00	$38.43	54.13%
Primary Direct	$88.15	$109.43	$71.00	$38.43	54.13%
Transmission	$360.20	$360.20	$284.00	$76.20	26.83%
Rate HLF					
Secondary	$26.80	$26.80	$14.00	$12.80	91.43%
Primary	$103.93	$105.07	$71.00	$34.07	47.99%
Primary Direct	$111.14	$105.07	$71.00	$34.07	47.99%
Common	$478.23	$727.14	$284.00	$443.14	156.04%
Bulk	$1,002.94	$727.14	$284.00	$443.14	156.04%

Migration Impacts			
	LLF	**HLF**	**Total**
Rate Migration	$1,672,753	$2,268,620	$3,941,373
TOU Migration	$58,065	$0	$58,065
Total	$1,730,818	$2,268,620	$3,999,438
Less Overlap	$0	$0	$0
Net Migration	$1,730,818	$2,268,620	$3,999,438
Revenue Ask %	50%	50%	
Additional Revenue Ask	$865,409	$1,134,310	$1,999,719
Class Revenue Requirement	$556,367,343	$949,679,363	$1,506,046,706
Revenue Requirement %	36.9%	63.1%	
Adjustment Amount	$738,741	$1,260,978	$1,999,719

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information and belief.

Signed: Jeffrey R. Bailey Dated: 9/9/19

Jeffrey R. Bailey