

FILED
December 23, 2020
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF THE CITY OF CRAWFORDSVILLE,)
INDIANA, BY AND THROUGH ITS MUNICIPAL)
ELECTRIC UTILITY, CRAWFORDSVILLE)
ELECTRIC LIGHT AND POWER, FOR APPROVAL)
OF A NEW SCHEDULE OF RATES AND CHARGES)
FOR ELECTRIC SERVICE AND FOR APPROVAL)
TO MODIFY ITS ENERGY COST ADJUSTMENT)
PROCEDURES)**

CAUSE NO. 45420

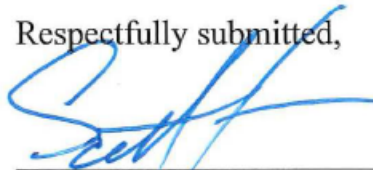
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

PUBLIC'S EXHIBIT NO. 6

**TESTIMONY OF OUCC WITNESS
SERGIO HUNT**

December 23, 2020

Respectfully submitted,



Scott C. Franson
Attorney No. 27839-49
Deputy Consumer Counselor

TESTIMONY OF OUCC WITNESS SERGIO G. HUNT
CAUSE NO. 45420
CRAWFORDSVILLE ELECTRIC LIGHT AND POWER

I. INTRODUCTION

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

2 A: My name is Sergio G. Hunt, and my business address is 115 West Washington St.,
3 Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as
6 an economist, with the official job title of Utility Analyst, in the Electric Division.
7 A summary of my educational and professional background, as well as my duties
8 and responsibilities at the OUCC, can be found in Appendix A.

9 **Q: What is the purpose of your testimony?**

10 A: I explain my analysis of the cost of service study ("COSS") NewGen Strategies and
11 Solutions, LLC ("NewGen") generated and Crawfordsville Electric Light and
12 Power ("CEL&P" or "Petitioner") used to develop its rate request in this Cause. I
13 also explain my analysis of CEL&P's proposed rate design. Specifically, I address
14 CEL&P's: 1) discrepancies in COSS data versus rate design data; 2) COSS
15 corrections; and 3) demand charges and demand ratchets proposals. I also address
16 weather normalization. Ultimately, I recommend the Commission require CEL&P
17 recover its cost of serving the General Power ("GP") rate class through energy rates
18 and customer charges only and deny CEL&P's proposal to implement demand
19 charges and demand ratchets for its GP rate class. The OUCC also recommends the

1 Commission deny CEL&P's proposal to impose demand ratchets on the Primary
2 Power rate class.

3 **Q: Please describe the examination and analysis you conducted to prepare your**
4 **testimony.**

5 A: I reviewed CEL&P's petition, direct testimony and discovery responses related to
6 the topics I cover in my testimony. I also participated in teleconferences¹ with
7 CEL&P and NewGen personnel.

8 **Q: To the extent you do not address a specific item or adjustment, should it be**
9 **construed to mean you agree with CEL&P's proposal?**

10 A: No. Excluding any specific adjustments or amounts CEL&P proposes does not
11 indicate my approval of those adjustments or amounts. Rather, the scope of my
12 testimony is limited to the specific items addressed herein.

II. CEL&P COST OF SERVICE STUDY AND RATE DESIGN

13 **Q: How was CEL&P's COSS conducted in this Cause?**

14 A: Based on my review, NewGen appears to have conducted CEL&P's COSS in a
15 similar process as the one outlined in the National Association of Regulatory Utility
16 Commissioners' ("NARUC") "Electric Utility Cost Allocation Manual". As
17 explained in more detail in Petitioner's Exhibit No. 4, the Direct Testimony of Joe
18 Mancinelli, NewGen functionalized, sub-functionalized, and classified all costs in
19 CEL&P's revenue requirement. Costs associated with customer and energy

¹ Teleconferences held on October 19, 2020 and November 5, 2020.

1 classifications were directly measured based on the number of billed customers in
2 each class and based on each class's net energy for load.

3 To calculate demand contributions of each class, NewGen used hourly load
4 data collected by CEL&P's Advanced Metering Infrastructure ("AMI") meters for
5 each rate class. CEL&P does not have 100% AMI meter deployment. However, I
6 found no issue with the AMI meter distribution and sample size for purposes of
7 calculating demand contributions for each class during the test year used in this
8 COSS. AMI meters provide hourly load data, and this data was used to calculate
9 each of the rate classes' sample Sum of Max Demand ("SMD"), NCP, CP, and
10 IMPA's CP. IMPA's CP calculation is important for CEL&P's COSS because
11 IMPA's billing demand is determined by the amount of CEL&P's demand
12 coinciding with IMPA's system peak. However, the CP for IMPA does not always
13 align with CEL&P's. NewGen calculated load factors for rate classes and used
14 those factors to estimate demands for rate classes without significant demand data
15 and as a check on rate classes with only partial demand data. NewGen then applied
16 these load factors to the overall population to estimate each rate class's contribution
17 total peak demand measurements.

18 Some of CEL&P's larger customers within its Primary Power rate class
19 have interval meters that provide load data for these customers on a five-minute
20 interval. AMI data, like that from these interval meters, allows CEL&P to better

1 understand its customers' load habits, which is an ongoing benefit from CEL&P's
2 continued deployment and use of these meters.

3 Once NewGen estimated the contributions to demand, energy, customer,
4 and directly assigned costs, it calculated the cost to serve each rate class. NewGen's
5 subsequent rate design process used the results from the COSS as a guide.

6 **Q: Are there any discrepancies between the data used in the COSS versus the rate**
7 **design?**

8 A: Yes. The GP rate class billing demand used in the COSS was modeled as being
9 approximately 20 MW lower than was used in the calculation of rates for that rate
10 class. The values used in the COSS and in the calculation of rates should be the
11 same, so CEL&P should correct this discrepancy.

12 **Q: Did CEL&P file corrections to its COSS along with related testimony on**
13 **October 23, 2020?**

14 A: Yes. CEL&P corrected the AMI meter data it uses but does not directly collect.
15 Tantalus is a third-party vendor that provided NewGen the hourly AMI data for use
16 in CEL&P's COSS study. When this hourly data was time-stamped and used in the
17 COSS, it was assumed to be recorded Eastern Time ("ET"). However, after the
18 OUCC inquired about customers' unusual peak demand habits, it was discovered
19 the time stamps were in Coordinated Universal Time ("UTC"). Once the error was
20 recognized, CEL&P reran the COSS with the correct time-stamped hours. This
21 correction resulted in a significant change to the rate classes' contributions to
22 IMPA's CP.

23 Most notably, the residential class had a much larger contribution to
24 IMPA's CP, and the corrected COSS shows the residential rate class would require

1 a 26.2% rate increase to fully cover its allocated costs. In contrast, CEL&P's
2 original COSS showed only a 17.1% residential rate class increase. Petitioner's
3 Exhibit 4, the Corrected Direct Testimony of Joseph A. Mancinelli, lists all changes
4 NewGen implemented as a result of this correction. However, even with these
5 changes in the COSS, CEL&P did not make any changes to its proposed rates.

III. DEMAND CHARGES AND DEMAND RATCHETS

6 **Q: Please describe CEL&P's proposal to implement demand charges and**
7 **demand ratchets for its GP rate class.**

8 A: CEL&P is proposing the imposition of new demand charges for the GP rate class.
9 This rate class is currently billed using only an energy and a customer charge.
10 CEL&P is also proposing new demand ratchets for the GP rate class. NewGen and
11 CEL&P staff stated both in testimony² and during a technical call³ with OUCC
12 staff that IMPA billing shifts are the reason for this change in rate design.

13 IMPA has increased the proportion of CEL&P's bill related to demand
14 relative to energy and, in response, CEL&P seeks to increase the share of cost
15 recovery coming from its demand charges. CEL&P also wants to send pricing
16 signals to these GP customers to pay attention to their maximum monthly demand.

17 **Q: Does the OUCC have concerns with CEL&P's proposed GP rate class demand**
18 **charges?**

19 A: Yes. The OUCC does not contest the general idea that rate recovery should at least
20 somewhat mirror costs the utility incurred, and it does not contest the theory that
21 demand-related costs should be recovered by demand charges, with the same said

² Cause No. 45420. Petitioner's Exhibit 4. Corrected Direct Testimony of Joseph A. Mancinelli

³ Teleconference on November 5, 2020.

1 for energy-related costs. However, the OUCC is concerned about imposing
2 demand-related charges and ratchets on CEL&P's smallest customers, which are
3 found in its GP rate class. To my knowledge, none of Indiana's regulated electric
4 utilities impose a demand charge or ratchet on their smallest commercial
5 customers.⁴

6 Not only would CEL&P be the first Indiana rate-regulated utility to impose
7 demand charges and ratchets on its smallest commercial customers, the OUCC
8 questions the efficacy of using demand charges for this rate class. The energy
9 demand topic can be a complex one for a small customer to understand and, when
10 the OUCC inquired in a teleconference,⁵ CEL&P indicated there have been no
11 discussions with these customers to prepare them for the effects of demand charges
12 or ratchets.⁶ Customer price signals work only if customers have adequate
13 knowledge about and access to meaningful options to change their load habits. An
14 energy charge is a relatively simple price signal customers know. If a customer
15 wants to lower its energy bill, it needs to lower its electricity use throughout the
16 month. Lowering a customer's maximum monthly demand is a different concept
17 and requires some relatively sophisticated insight into how a customer can reduce
18 this part of its bill. If demand charges are to have the intended effect on incenting
19 customer actions, customers need, at a minimum, to understand these charges and

⁴ While the size (in kW demand) of the smallest customers upon whom demand charges are imposed varies by utility, none of Indiana's utilities impose demand charges (or ratchets) on their smallest commercial customers at this time.

⁵ Teleconference on November 5, 2020.

⁶ Teleconference on November 5, 2020.

1 how these charges affect their bills. Further, they need the ability to make changes
2 to their demand; otherwise, these charges become simply randomly imposed
3 charges that will serve neither the interests of the customer nor CEL&P. The larger
4 the customer, the more likely they are to understand these charges and have options
5 available for affecting their demand. The OUCC's concern about demand charges
6 imposed on the GP rate class is grounded in the fact that CEL&P's proposal would
7 affect its smallest commercial customers.

8 **Q: Does the OUCC have concerns with CEL&P's proposed demand ratchets for**
9 **its GP rate classes?**

10 A: Yes. Demand ratchets provide a counterintuitive incentive structure for customers,
11 especially if those customers do not have significant control over their monthly
12 demand. Ratchets are used to make demand-related revenues for utilities more
13 consistent. The argument is a customer with a high maximum demand, even in a
14 single month, requires the utility to build generation and other assets to service that
15 high maximum demand. Absent a ratchet, the utility only receives the demand
16 revenue for the one month; therefore, it may not be able to recover all costs required
17 to build its system for that high level of demand. However, a small distribution
18 utility like CEL&P does not own generation, and IMPA does not impose a demand
19 ratchet upon it. As previously mentioned, CEL&P meets all its demand and energy
20 needs through wholesale transactions with IMPA. Because IMPA does not have a

1 demand ratchet for its members, CEL&P has significantly less need for a ratchet
2 compared to a generation-owning utility.

3 Furthermore, during the ratchet period, demand charges and demand
4 ratchets have some contradictory incentives. During the ratchet period, the
5 customer will pay for demand whether it is used or not used. Therefore, the demand
6 charge is a sunk cost with a consequent zero marginal cost, which serves only to
7 diminish the customer's incentive to reduce its demand.

8 Perhaps most importantly, similar to demand charges, demand ratchets
9 assume customers have control and knowledge of their demand. The OUCC
10 contends small customers in CEL&P's GP class do not have enough influence or
11 understanding over their monthly demand to warrant either a demand charge or a
12 demand ratchet.

13 **Q: Does the OUCC have concerns with CEL&P's demand charges currently**
14 **being applied to CEL&P's Primary Power class?**

15 A: No. There are a few reasons why the OUCC is not concerned with CEL&P's
16 Primary Power class's demand charges. First, this rate class already had demand
17 charges approved and implemented prior to this case. Second, Primary Power rate
18 class customers have higher demand than those in the GP rate class. Primary Power
19 rate class customers are more aware of their monthly demand and are better
20 equipped to manage their monthly load.

21 **Q: Does the OUCC oppose CEL&P's request to apply demand ratchets to**
22 **customers in its Primary Power class?**

23 A: Yes. Based on Petitioner's Attachment JAM-3, titled "Rate Design Model with
24 Corrected Cost of Service Input," CEL&P's proposed Primary Power class demand

1 ratchet creates a less than a 1% increase in billing demand. However, in responding
2 to an OUCC inquiry during a teleconference about a specific customer's very high
3 billing demand leading to this small effect,⁷ CEL&P investigated its data and
4 determined there was an error. The correct total percent increase in billing demand
5 is 0.05% for the entire Primary Power rate class.⁸ A majority of CEL&P's Primary
6 Power customers would experience no change in their test year billing demand from
7 the imposition of the ratchet. As discussed above regarding the GP rate class, a
8 demand ratchet creates little benefit for CEL&P because it does not own its
9 generation, and also due to how IMPA bills CEL&P. Due to the absence of need
10 for a Primary Power class demand ratchet, combined with the marginal effect the
11 proposed demand ratchet would have on the Primary Power class's billing demand,
12 the OUCC recommends the Commission deny CEL&P's proposed Primary Power
13 rate class demand ratchets.

IV. WEATHER NORMALIZATION

14 **Q: Did NewGen use weather normalization as a part of CEL&P's COSS?**

15 A: No, NewGen did not conduct any weather normalization as part of its cost of service
16 analysis.

17 **Q: What is the purpose of accounting for weather normalization in a COSS?**

18 A: Normalizing weather in a COSS would prevent incorrect allocation of costs due to
19 the test year temperatures being significantly different than a normal year. If the

⁷ Email sent to the OUCC by CEL&P counsel on November 12, 2020, following up on a teleconference held on November 5, 2020.

⁸ The corrected data was presented in an email from CEL&P to the OUCC.

1 test year was abnormally cold, measurements of usage among the customer classes
2 would incorrectly allocate greater costs to residential customers than if it were a
3 normal year.

4 **Q: Is the fact that CEL&P did not perform a weather normalization fatal to its**
5 **cost of service analysis?**

6 A: No. Most municipal utilities do not have data available to perform a weather
7 normalization analysis, and the OUCC does not oppose using CEL&P's cost of
8 service analysis in absence of a weather normalization. I raise the issue to highlight
9 the fact that a cost of service analysis for a small utility like CEL&P, while useful
10 and important, has more uncertainty than for utilities with more data availability.

V. CONCLUSION AND RECOMMENDATIONS

11 **Q: What does the OUCC conclude regarding CEL&P's COSS and rate design in**
12 **this Cause?**

13 A: While CEL&P's COSS and rate design approach is typical and generally follows
14 the NARUC "Electric Utility Cost Allocation Manual" in its execution, the OUCC
15 has concerns about some of CEL&P's rate design proposals. CEL&P proposes to
16 impose demand charges and demand ratchets on the GP rate class. As explained
17 above, customers as small as those in the GP rate class do not typically receive a
18 demand charge because they are largely unable to understand or control their
19 demand. Demand ratchets are used to help utilities smooth their billing demand for
20 cost recovery of generation assets, but CEL&P has no generation assets.
21 Additionally, IMPA imposes no ratchet on CEL&P. While CEL&P has demand-
22 related cost components for its transmission and distribution assets, these costs are
23 not significant enough to warrant a demand ratchet. The OUCC is concerned about

1 the efficacy of CEL&P's proposed demand ratchet for its Primary Power rate class
2 for similar reasons. Finally, CEL&P's COSS does not use a weather normalization
3 analysis, which creates some concern as to the effects of cost distribution. The
4 absence of this analysis increases the level of uncertainty in the cost of service
5 results for a small utility like CEL&P.

6 **Q: What are the OUCC's COSS and rate design recommendations?**

7 A: For the reasons described in my testimony, the OUCC recommends the
8 Commission require CEL&P recover its cost of serving the GP rate class through
9 energy rates and customer charges only, similar to CEL&P's current residential rate
10 class structure, and deny CEL&P's proposal to implement demand charges and
11 demand ratchets for its GP rate class. The OUCC also recommends the Commission
12 deny CEL&P's proposal to impose demand ratchets on the Primary Power rate
13 class.

14 **Q: Does this conclude your testimony?**

15 A: Yes.

APPENDIX A - QUALIFICATIONS OF SERGIO G. HUNT

1 **Q: Please summarize your professional background and experience.**

2 A: I received a Bachelor of Arts in Quantitative Economics and Political Science from
3 IUPUI in 2018. My undergraduate education included introductory training in
4 econometric modeling and analysis, microeconomic theory, macroeconomic
5 theory, and policy analysis. I went directly into the Master of Science in Economics
6 program with a concentration on health at IUPUI where I graduated in 2020. The
7 Master's program included courses on econometric analysis, time series analysis,
8 graduate level microeconomic and macroeconomic theory, and applied economic
9 theory. While finishing my graduate degree, I began working for the Indiana Office
10 of Utility Consumer Counselor as an economist, with the title of Utility Analyst in
11 February 2020.

12 **Q: Please describe your duties and responsibilities at the OUCC.**

13 A: I review petitions submitted to the Commission for their economic justification and
14 perform other duties as assigned by the Agency.

15 **Q: Have you previously testified before the Commission?**

16 A: No.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

/s/ Sergio Hunt

Sergio Hunt

Utility Analyst

Indiana Office of Utility Consumer Counsel

Cause No. 45420

Crawfordsville Electric Light and Power

Date: December 23, 2020

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *Indiana Office of Utility Consumer Counselor Public's Exhibit No. 6_Testimony of OUCC Witness Serio Hunt* has been served upon the following counsel of record in the captioned proceeding by electronic service on December 23, 2020.

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