

**BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION**

**INDIANA MICHIGAN
POWER COMPANY**

)
) **CAUSE NO. 44075**

**TESTIMONY
OF
ERIC M. HAND – PUBLIC’S EXHIBIT EMH
ON BEHALF OF THE
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

APRIL 27, 2012

**TESTIMONY OF ERIC M. HAND
CAUSE NO. 44075
INDIANA MICHIGAN POWER COMPANY**

I. INTRODUCTION

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

2 A: My name is Eric Mark Hand, and my business address is 115 W. Washington Street,
3 Suite 1500 South, Indianapolis, IN, 46204.

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

5 A: I am employed as a Utility Analyst in the Electric Division of the Office of Utility
6 Consumer Counselor ("the OUCC").

7 **Q: Would you summarize your educational background?**

8 A: I graduated from Rose-Hulman Institute of Technology with a Bachelor of Science
9 degree in Mathematical Economics. I received a Masters in Business Administration
10 from Indiana University with majors in Management, Marketing, and International
11 Business.

12 **Q: Please describe your professional experience.**

13 A: I was a Manufacturing Engineer for 5 years with a steel components company
14 followed by a 30-year automotive industry career with Allison Transmission Division
15 of General Motors Corporation in administrative positions in Manufacturing,
16 Engineering, and Contracts, culminating in management positions in Finance,
17 Contracts and Information Technology.

18

1 **Q: Please describe the review and analysis you conducted in order to prepare your**
2 **testimony.**

3 A: I reviewed I&M's direct testimony and attended portions of the Evidentiary Hearing
4 on I&M's Case-in-Chief. I also prepared data requests and reviewed information and
5 materials I&M produced in responses to discovery issued by the OUCC and other
6 parties. I researched the issues addressed in this testimony, including whether any of
7 Indiana's other large electric utilities still provide employee discounts on electricity
8 purchases and how they are funded. I reviewed sections of the Indiana Code and the
9 Indiana Administrative Code. I reviewed pertinent portions of the Michigan Public
10 Service Commission's recent I&M rate order and also discussed a number of
11 technical and regulatory questions with OUCC co-workers assigned to this case.

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

13 A: I will discuss my concerns and recommendations regarding the following issues:

- 14 1) The potential financial risk to senior citizens if the Commission
15 approves I&M's proposed Optional Residential Senior Citizen Rate
16 (I&M Tariff RS-SC);
- 17 2) I&M's practice of requiring ratepayers to fund special electric utility
18 service discounts for I&M employees;
- 19 3) Tariff provisions that create an inadequate and flawed process for
20 obtaining Commission approval of Special Contracts;
- 21 4) Tariff provisions that inappropriately shift responsibility to captive
22 ratepayers for damages caused by I&M service deficiencies (T&C 11
23 & 12);
- 24 5) Proposed tariff changes that would inappropriately erode a
25 customer/landowner's right to participate in decisions concerning the
26 placement of utility equipment or facilities on customer-owned
27 property; and
- 28 6) Tariff provisions that would unnecessarily expand I&M's ability to
29 disconnect service without prior customer notice.

1 **II. OPTIONAL RESIDENTIAL SENIOR CITIZEN RATE PRESENTS**
2 **FINANCIAL RISK TO PARTICIPATING SENIORS**

3 **Q: What are the main differences between I&M's proposed Optional Residential**
4 **Senior Citizen Rate ("Senior Citizen Rate") and the standard residential electric**
5 **service?**

6 **A:** Attachment EMH-1 compares elements of the Senior Citizen Rate with I&M's
7 standard residential rate. I&M's proposed Senior Citizen Rate is inverted, meaning
8 the per kWh Energy Charge increases with the volume of electricity used during a
9 given billing period. Inverted rates are intended to encourage conservation efforts by
10 affected consumers.

11 The proposed energy charge for the first 500 kWh each month are priced about
12 two cents below the standard residential rate, while all kWh above 500 are priced two
13 cents above that rate so that for 1000 kWh, the bills would be identical. The Senior
14 Citizen Rate would therefore provide a variable financial reward for customers who
15 are able to keep energy usage below 1,000 kWh per month. To achieve maximum
16 benefit (\$10.16 / month), customers must use exactly 500 kWh per month. Using less
17 than 500 kWh reduces the customer's overall monthly bill, but also reduces Energy
18 Charge savings. Conversely, as usage levels increase above 500 kWh, potential
19 savings would still be realized, but would continue to decrease until usage reached
20 1,000 kWh per month. Customers using more than 1,000 kWh per month would
21 incur a "penalty," because total charges under the Senior Citizen Rate would exceed
22 total charges under the standard Residential Service Rate.

23

1 **Q: What risks will senior citizens encounter if they decide to switch to the Senior**
2 **Citizen Rate?**

3 A: I am concerned seniors will not understand that the discount comes with conditions.
4 It is imperative potential subscribers understand the discount can disappear
5 completely and, for every month they exceed 1000 kWh, their total bill will exceed
6 the amount they would have paid under the standard residential tariff. There is no cap
7 on the number of kWh charged at the higher rate. Customers participating in the
8 Senior Citizen Rate are locked in for a full year. Unless customers have reasonable
9 access to real-time information about their electric usage, they cannot know if they
10 need to modify their consumption behavior to comport with the tariff's conditions.

11 **Q: Do you have any other operational concerns regarding I&M's proposed Senior**
12 **Citizen Rate?**

13 A: Despite I&M's claims of revenue neutrality, because there is no cap on the number of
14 monthly kWh billed at the highest rate, this tariff could ultimately provide a net
15 financial gain for I&M, paid for by "I&M's most vulnerable customers...its fixed
16 income senior citizens." Hix Direct at 6:23 – 7:1.

17 I&M claims its proposed Senior Citizen Rate is designed to be revenue neutral
18 (Roush Direct at 14:6-7), but its response to OUCC's discovery request demonstrates
19 a lack of supporting evidence:

20 OUCC Data Request Question 21-2(h):

21 Please state the number of current customers that are eligible for the
22 proposed senior rate. Of those that are eligible for this rate, please state
23 how many currently use more than 1,000 kWh in a month.

24 I&M's Reply:

25 I&M's current customer account records are not sufficient to determine
26 the current number of customers that would be eligible for service under
27 the proposed tariff. I&M's records currently indicate 16,072 residential

1 accounts with a Senior Citizen code. We do not have data to tell us how
2 many customers within the Senior coded accounts have usage above 1,000
3 kWh/month.

4 I&M's admission that they do not know either 1) how many customers would
5 be eligible or 2) senior citizen average consumption data makes me skeptical about
6 the amount of research I&M performed regarding revenue neutrality.

7 **Q: Would piloting this program remove your concerns?**

8 A: No, because elderly consumers would still be put at risk.

9 **Q: What is your recommendation regarding the Senior Citizen Rate?**

10 A: The OUCC is not opposed to offering seniors (or any other customers) an opportunity
11 to proactively and responsibly reduce their electric bills, but I&M's proposed
12 Optional Senior Citizen Rate is problematic as structured and could confuse its
13 targeted customer base. I recommend the Commission reject I&M's request.

14 If the IURC decides to approve this rate, I recommend the Commission
15 require I&M to work with OUCC to develop mutually acceptable

16 1) informational / promotional materials that include a full
17 disclosure of the potential benefits and risks,

18 2) Safeguards that permit, under some circumstances, the ability
19 to leave the program after less than one year, while balancing
20 I&M's need to prevent gaming the system.

21 3) An annual report detailing customer participation,
22 complaints, sales volumes and other important data.

**III. RATEPAYERS SHOULD NOT BE REQUIRED TO FUND SPECIAL
DISCOUNTS FOR UTILITY EMPLOYEES**

1 **Q: Do you have concerns regarding I&M continuing the ratepayer-funded discount**
2 **for its employees?**

3 A: Yes. Even though I&M proposed reducing the employee discount on the Residential
4 Service Energy Charge from 15% to 11%, I do not support an approach that requires
5 other residential customers to fund discounts for utility employees. I&M's case-in-
6 chief includes testimony about the comprehensive corporate belt-tightening used to
7 help postpone the need for filing the current rate case. I would point to ratepayer-
8 funded employee discounts as another opportunity to help reduce the magnitude of
9 I&M's proposed rate increase. Attachment EMH-1 mentioned above also contains
10 rate information and comparisons with I&M's standard residential rate and proposed
11 Senior Citizen Rate.

12 **Q: Are you recommending that the Commission prohibit the use of employee**
13 **discounts in the future?**

14 A: No. If utility management decides to include utility service discounts in its employee
15 benefit packages, it should be free to do so. However, funding for such discounts
16 should come from shareholders, not from other customers. Managers of monopoly
17 utilities should not be permitted to use captive ratepayer dollars to fund their own
18 service discounts and those provided to utility employees. The expectation that utility
19 managers and employees will have to pay the same utility rates their customers pay
20 provides some additional incentive to management to keep rate increases as low as
21 reasonably possible.

22

1 **IV. FLAWED PROCESS FOR REVIEWING SPECIAL**
2 **CONTRACT PROPOSALS IN 30-DAY FILINGS**

3 **Q: What concerns does the OUCG have regarding Tariff C.S.-IRP (Contract**
4 **Service Interruptible Power)?**

5 **A:** Original Sheet No. 17 of I&M Tariff C.S.-IRP allows the Company to file special
6 contracts it has negotiated with customers under the Commission's 30-day filing
7 procedures. This portion of the tariff is not in the public interest and should be
8 removed.

9 Indiana Administrative Code 170 IAC 1-6 sets forth the rules governing 30-
10 day filings with the IURC. 170 IAC 1-6-4 lists prohibited filings. Subsection (8)
11 prohibits "any filing for which the utility wants confidential treatment for all or part
12 of the filing." Because virtually all special contracts provide the utility customer with
13 a discounted rate, utilities routinely request this information, along with other terms
14 and conditions of the contract, be treated confidentially.

15 Title 170 IAC 1-6-3 lists allowable 30-day filings, and its subsection (6)
16 provides a potential loophole for I&M to avoid the prohibition against filing
17 confidential information, "A filing for which the commission has already approved or
18 accepted the procedure for the change." Allowing Tariff C.S.-IRP to include
19 language designed to circumvent the unambiguous prohibited filings language of 170
20 IAC 1-6-4(8) is not in the public interest.

21 Furthermore, 30-day filings are intended for "noncontroversial" submissions
22 (170 IAC 1-6-1(b)). Controversy in potential interclass rate subsidies, the amount of
23 the discount, the terms and conditions of the contract (interruptible credits, for

1 example) can easily become controversial. Finally, the ability to object to 30-day
2 filings is extremely limited.

3 For all of these reasons, I recommend the Commission remove the phrase
4 “under the 30-day filing procedures” from Tariff C.S.-IRP (Pet. Ex. WWH-2, Page 40
5 of 138, Original Sheet No. 17) in the second unnumbered paragraph under the
6 heading “Conditions of Service.” This same language should also be removed from
7 Tariff C.S.-IRP2 (Pet. Ex. WWH-2, Page 42 of 138, Original Sheet No. 18). It is
8 located in the 3rd paragraph under the “Conditions Of Service” section. If this
9 language appears in other sections of these or other I&M tariffs or Terms and
10 Conditions, it should be removed from them as well.

11 **V. I&M SHOULD NOT BE PERMITTED TO SHIFT LIABILITY**
12 **FOR SERVICE DEFICIENCIES ONTO ITS RATEPAYERS**

13 **Q: What concerns do you have regarding Tariff T&C Nos. 11 and 12?**

14 **A:** The following language is already included in T&C 11 “Company’s Liability”:

15 The customer shall provide and maintain suitable protective
16 devices on customer-owned equipment to prevent any loss, injury,
17 or damage that might result from single-phasing conditions or any
18 other fluctuation or irregularity in the supply of energy. The
19 Company shall not be liable for any loss, injury, or damage
20 resulting from a single-phasing condition or any other fluctuation
21 or irregularity in the supply of energy which could have been
22 prevented by the use of such protective devices.

23 The identical language is now proposed for T&C 12 “Customer’s Liability.” With
24 this overreaching language, I&M wants to shift additional risks and responsibilities
25 onto its customers. The language provides no meaningful guidance to consumers,
26 who generally do not claim to be experts in electric safety, and therefore reasonably

1 expect I&M to fulfill its assigned duty to provide safe and reliable electric utility
2 service as a regulated public utility.

3 I&M's attempts to escape liability in this manner is inconsistent with testimony
4 included in I&M's Case-in-Chief, praising its own safety record. Mr. Chodak's 38-
5 page pre-filed direct testimony mentions I&M's "safe and reliable" service at least 10
6 times (on pages 1, 5, 11, 14, 19, 19, 32, 36, 37, 38) and repeated those claims a
7 number of times during cross examination. Given I&M's utility duties and expertise,
8 its customers should not be asked to shoulder responsibility for protecting themselves,
9 their families and their homes from damage, injury or loss if the utility fails to meet
10 its duty to provide safe and reliable electric utility service to the public.

11 For the reasons discussed above, the OUCC requests the proposed addition to T&C
12 12 be denied and that the same provision be removed from T&C 11 as well.

13 **VI. EROSION OF CUSTOMER/LANDOWNER RIGHTS TO PARTICIPATE IN**
14 **DECISIONS REGARDING THE PLACEMENT OF UTILITY EQUIPMENT OR**
15 **FACILITIES ON PRIVATE PROPERTY**

16 **Q: What are your concerns regarding property owners' rights when I&M locates**
17 **utility facilities and equipment on private property?**

18 **A:** I&M's proposed T&C 16 language "[as] specified by the Company" will give
19 unilateral control to I&M regarding where its facilities and equipment will be placed
20 on private property. This provision is anti-consumer and should be rejected outright.

21

1 **VII. INCREASED UTILITY DISCRETION TO DISCONNECT SERVICE**
2 **WITHOUT PROVIDING PRIOR CUSTOMER NOTICE**

3 **Q: What are your concerns regarding service disconnections without prior notice?**

4 A: T&C 5 (Denial or Discontinuance of Service) contains two pages of specific
5 requirements for service termination, including disconnection without prior notice.

6 I&M proposes to effectively eliminate any limitation by adding additional language
7 to T&C's 12 and 17:

8 The Company may disconnect service without request by the customer
9 and without prior notice if in the Company's sole judgment the
10 customer's continued service will be detrimental to the Company's
11 general service.

12 This language is anti-consumer and I&M presents no evidence supporting the need
13 for this overreaching ability to disconnect customers without notice. The OUCC
14 recommends the Commission deny this proposal.

15 **VIII. SUMMARY OF RECOMMENDATIONS**

16 **Q: Please summarize your recommendations.**

17 A: I recommend and request the Commission take the following actions to protect the
18 interests of I&M's Indiana customers:

19 1) Deny I&M's request for approval of its proposed Optional Residential Senior
20 Citizen Rate. If the Commission approves the rate, the Commission should
21 impose additional conditions to protect the interests of participating senior
22 customers.

23 2) Deny recovery from ratepayers of I&M employee discounts on electric utility
24 service.

25 3) Require I&M to remove the language regarding the 30-day filing process for
26 special contracts from Tariff C.S.-IRP, C.S.-IRP-2 and any other tariffs, terms
27 or conditions.

1 4) Reject proposed tariff language assigning liability for service deficiencies to
2 I&M's captive utility customers.

3 5) Reject I&M's attempt to erode customer/landowners' rights to participate in
4 decisions regarding the placement of utility facilities or equipment on private
5 property.

6 6) Deny I&M's request for additional discretion to disconnect electric utility
7 service without providing advance notice to customers.

8 **Q: Does this conclude your direct testimony?**

9 **A: Yes.**

RESIDENTIAL TARIFF RATE COMPARISON

	RS Standard ¹			/	RS-SC Senior Citizen ²			/	RS-E Employee Discount ³		
	Current	Proposed	% Increase		Current	Proposed	% Increase		Current	Proposed	% Increase
Service Charge/mo.	\$ 6.80	\$ 7.80	15%		\$ 6.80	\$ 7.80	15%		\$ 6.80	\$ 7.80	15%
Energy Charge/kWh											
1-500 kWh	\$.0675	\$.09449	40%		\$.0675	\$.07417	10%		\$.05746	\$.08440	47%
501-1000 kWh	.0675	.09449	40%		.0675	.11481	70%		.05746	.08440	47%
Over 1000 kWh	.0675	.09449	40%		.0675	.11481	70%		.05746	.08440	47%
Composite: Combined Service + Energy Charges											
\$com@500 kWh	\$ 40.55	\$ 55.05	36%		\$40.55	\$44.89	11%		\$35.53	\$50.00	41%
\$com@1000 kWh	74.30	102.29	38%		74.30	102.29	38%		64.26	92.20	43%
\$com@1500 kWh	108.05	149.54	38%		108.05	159.70	48%		92.99	134.40	45%

Proposed Energy Rate Ratios @ 1000 kWh/Month

SC/RS	.11481/.09449 = 1.215	Senior Citizen Rate is 21% higher than Residential Standard Rate.
E/RS	.08440/.09449 = .893	Employee Discount Rate is 10.7% less than Residential Standard Rate.
SC/E	.11481/.08440 = 1.360	Senior Rate is 36% higher than Employee Discount rate.

¹ Exhibit E WWH-2, page 1 of 138

² Exhibit WWH-2, page 4 of 138

³ Exhibit WWH-1, page 29 of 30, Terms & Conditions #22 Employee Discount

AFFIRMATION

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



By: Eric M. Hand
Indiana Office of
Utility Consumer Counselor

April 27, 2012

Date

Cause No. 44075