BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of a Working Case to Consider	)	
Proposals to Create a Revenue Decoupling	)	File No. AW-2015-0282
Mechanism for Utilities.	)	

AMEREN MISSOURI'S COMMENTS

Ameren Missouri appreciates the opportunity to provide its initial comments on revenue decoupling mechanisms for utilities. We believe that properly implemented, revenue decoupling mechanisms have the potential to provide several benefits to electric utilities and their customers. In the context of electric utilities, revenue decoupling mechanisms could, among other things:

- Reduce or eliminate the controversy over the "throughput disincentive" applicable to energy efficiency programs;
- Remove the financial disincentive for electric utilities to support conservation measures or distributed generation;
- Provide customers with more stable bills;
- Eliminate the "weather lottery," whereby utilities can earn significantly more or less than their authorized returns on equity based on the deviation of weather from normal levels determined during the rate case process;
- Facilitate the long-term transition of electric utilities from the role of electricity providers to the providers of a grid that facilitates distributed generation, renewables and energy efficiency, as well as the delivery of electricity to customers; and
- Create opportunities to facilitate the badly needed replacement of aging infrastructure that does not produce incremental sales of electricity, natural gas or water.

Of course, the devil is in the details. To be successful, revenue decoupling has to be implemented in a manner that (a) is lawful, (b) benefits, or at least does not hurt, customers as a whole, and (c) benefits, or at least does not hurt, utilities. Each of these topics is addressed briefly below.

Legal Issues

The Commission clearly has the authority to approve a utility-proposed decoupling mechanism implemented through the use of a revenue tracker or through straight-fixed-variable rate design. Ameren Missouri has concerns about the Commission's ability to implement some other forms of decoupling absent legislative authority. These possible authority issues should be thoroughly addressed in the context of a specific decoupling proposal.

Customer Impacts

As was previously mentioned, revenue decoupling has the obvious potential to provide benefits to several specific groups of customers. In the context of electric utilities, customers who desire to pursue energy efficiency or distributed generation are two sub-groups of customers who could benefit due to the aforementioned removal of the financial disincentive for electric utilities to support these activities. Moreover, customers who participate in energy efficiency or install distributed generation are likely to create benefits that accrue to all customers, in the form of avoided energy, capacity and environmental costs. A properly designed revenue decoupling mechanism would remove barriers to the utility pursuing innovations that facilitate the development of these resources on its system, for the benefit of all customers.

In addition, decoupling has the potential to improve price signals to customers and reduce or eliminate cost subsidies between and among customers. This will improve the overall operational efficiency of the electric grid.

Finally, connecting the design of a decoupling mechanism with the broader development of a more constructive regulatory framework in Missouri has the potential to provide very significant benefits to all stakeholders.

Utility Impacts

It is equally important to consider the impact of revenue decoupling on utilities. In Ameren Missouri's view, utilities should, at a minimum, be no worse off if they implement revenue decoupling. To ensure this, the Commission should follow three general principles in implementing decoupling:

1. **Rate decoupling should have no impact whatsoever on the utility's return on equity (ROE).**

Some have argued that any revenue decoupling creates a reduction in risk that should result in a lower return on equity for utilities. Ameren Missouri strongly disagrees with this position. Revenue decoupling equally reduces both the earnings upside and downside for utilities. In other words, in theory, utilities that implement decoupling give up every bit as much opportunity to increase earnings as they get protection from decreased earnings. Imposing an ROE penalty is therefore inappropriate, and would provide a strong disincentive for utilities to implement revenue decoupling.

As the Commission may already be aware, The Brattle Group, a well-respected consulting group focused on utility issues, recently completed an empirical investigation of the impact of revenue decoupling on the cost of capital for electric utilities. The investigation stated that statistical tests did not support the claim that a utility's cost of capital is reduced by decoupling. Moreover, it concluded that reducing an electric utility's ROE as a result of decoupling would effectively impose a financial disincentive for the utility to pursue energy efficiency. A copy of the Brattle study is attached hereto.

In addition not reducing ROEs, the Commission should be careful not to provide any other disincentives for utilities that implement decoupling. In order to be successful, revenue decoupling must be attractive to both utilities and their customers.

2. Utilities that decouple should have some opportunity for revenue growth.

In Ameren Missouri's view, utilities that implement revenue decoupling should still have opportunities to benefit from customer growth. This favors the "revenue-per-customer" form of decoupling, which, according to "*Revenue Regulation and Decoupling: A Guide to Theory and Application,*" published in June, 2011 by the Regulatory Assistance Project (RAP) is the most common form of decoupling. Revenue-per-customer decoupling allows the utility to mitigate costs and/or profit from sales associated with new customers and be adversely affected by customers leaving the system—the same as utilities that do not have revenue decoupling. Absent revenue-per-customer decoupling utilities would not be able to equitably mitigate the incremental fixed costs associated with extending service to new premises/customers with revenues from those customers.

On the other hand, revenue-per-customer decoupling does not in any fashion mitigate the loss of fixed cost-related revenue where a utility experiences customers who were included during the most recent ratemaking process leaving the system without immediate successors. In this situation the utility's fixed costs associated with said customers have not changed. However, the revenue-per-customer method would not allow such fixed costs to be collected from other customers. This situation illustrates that while any equitable form of revenue decoupling may be an important step in addressing recovery of a utility's fixed costs, additional changes are necessary to move Missouri forward to a more modern, constructive regulatory framework.

3. Decoupling should be voluntary.

Ameren Missouri believes that if decoupling mechanisms are properly designed in a way that aligns the interests of utilities and their customers, utilities will enthusiastically embrace the option of implementing decoupling. But utilities should not be forced to accept decoupling mechanisms that they believe are not in the best interests of their customers and shareholders.

Aspects of Revenue Decoupling Addressed by RAP

The RAP document cited above addresses numerous details of decoupling on which Ameren Missouri is not yet prepared to comment. However, Ameren Missouri agrees that an important issue that must be addressed is whether revenue decoupling, if adopted, should apply to all customer classes. When applied to larger use non-residential customer classes, revenue decoupling has the potential to result in the unintended consequence of load loss. This issue must be carefully considered if/when revenue decoupling is adopted.

Revenue decoupling also offers the opportunity to recognize and potentially address the relationship between managing revenue changes and addressing infrastructure needs. With revenue decoupling, electric utilities can transition from the role of an electricity provider, whose financial interests are promoted by selling more electricity, to a grid provider, whose interests should be in providing a reliable grid for the benefit of customers. In implementing this change it is important to ensure that electric utilities have the financial incentive to replace aging infrastructure and maintain a reliable grid even where there are no incremental electric sales involved. This is an important issue that should be considered in the context of revenue decoupling.

Rate Impacts

In its pleading filed in this case, the Commission Staff asked stakeholders to estimate the rate impact of revenue decoupling. In Ameren Missouri's view, if revenue decoupling was implemented through a rider, as we believe it should be, there would be no immediate impact on rates. The rider would be adjusted to reflect increases or decreases in non-fuel related revenues (i.e., on per customer basis by class) from its most recently adjudicated rate case with prospective adjustments, where required, on a per-kWh basis.

Ameren Missouri looks forward to working with other stakeholders in this proceeding to address other issues related to revenue decoupling.

Respectfully submitted,

UNION ELECTRIC COMPANY,
d/b/a Ameren Missouri

/s/ Matthew R. Tomc
Wendy K. Tatro, # 60261
Director & Assistant General Counsel
Matthew R. Tomc, #66571
Corporate Counsel
Ameren Services Company
P.O. Box 66149, MC 1310
St. Louis, MO 63166-6149
(314) 554-3484 (phone)
(314) 554-4673
(314) 554-4014 (fax)
AmerenMOService@ameren.com

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic transmission, facsimile or email to counsel for parties in this case on this 1st day of September, 2015.

/s/ *Matthew R. Tomc*