

## **Missouri Renewable Energy Standard Discussion Items from July 29, 2009 Working Session**

- A. Methodology to deal with renewables that existed prior to RES (November 4, 2008) and renewables that will be added in accordance with RES after November 4, 2008 (this item is relative to 393.1030.2 (1) which states in part, “the cost of continuing to generate or purchase electricity from entirely nonrenewable sources”).

*Staff comments: 393.1030.2(1) specifically states “entirely nonrenewable sources”. This is in the context of determining the one percent maximum average retail rate increase. For estimation and comparison purposes, the statutory language does not provide flexibility regarding the inclusion of existing renewable resources or renewable resources added for RES compliance purposes. The determination of the one percent maximum average retail rate increase would be determined by electric utility resource planning modeling (see Discussion Item B). This modeling would develop at least two scenarios for comparison purposes. The first scenario would be: (1) a “least-cost renewable generation” portfolio that would be RES compliant. The second scenario would be: (2) a portfolio comprised of “entirely nonrenewable sources”. This scenario would remove any existing (as of November 4, 2008) renewable resources utilized by the utility as well as any renewable resources that have been added as a result of RES compliance. The removal of these renewable resources may necessitate modeling replacement by conventional, least-cost nonrenewable resources. Additionally, any costs or benefits attributed to the replacement of the renewable resources would have to be accounted for in the modeling.*

- B. How to develop two (or more) plans consistent with the Electric Resource Planning process that allow determination of the one percent retail rate increase in 393.1030.2 (1).

*Staff comments: During the Electric Utility Resource Planning (4 CSR 240-22) process, electric utilities would develop at least two scenarios to support RES analysis (see Discussion Item A). The first scenario would be: (1) a “least-cost renewable generation” portfolio that would be RES compliant. The second scenario would be: (2) a portfolio comprised of “entirely nonrenewable sources”. While the second scenario does not contain a generation portfolio that could be considered as a viable plan under 4 CSR 240-22 (noncompliant with the RES), it is needed for RES analysis purposes. If during the course of the RES analysis, the electric utility determines that the one percent maximum average retail rate increase is exceeded, alternative scenarios may be necessary to determine the level of RES compliance that is achievable within the retail rate increase constraint of one percent.*

- C. Methodology for determining compliance with the RES:

- (1) Is compliance based on a retrospective comparison of actual retail sales in the compliance year versus renewable energy delivered/RECs retired in the compliance year?

- (2) Is compliance based on evaluation of performance for the compliance year relative to the compliance plan filed and updated by the utility for the compliance year?
- (3) Is compliance based on evaluation of normalized data for retail sales in the compliance year and normalized renewable energy delivered/RECs retired in the compliance year?
- (4) Is there a difference between missing renewable energy requirement for a compliance year vs. missing load projection requirement for a compliance year?

*Staff comments: RES compliance would be measured by retrospective comparison of actual retail sales in the compliance year and RECs retired in the compliance year. RECs retired could be attributed to actual energy delivered to Missouri utility retail customers or RECs purchased for the sole purpose of retirement for compliance purposes. While this retrospective comparison may require electric utilities to “over comply” to ensure sufficient RECs are retired in a compliance year, considering potential variations in retail sales or renewable generation, the ability to utilize RECs for a period of three (3) years offsets much of the financial risk associated with “over compliance”.*

- D. Is an interval of years required for determination of an average increase comprising the 1% rate impact limit? Does this item involve consideration of a methodology to address “lumpiness” of adding new generating facilities and whether the averaging interval should be prospective, retrospective, or a combination?

*Staff comments: Staff is evaluating various options to present to the Commission.*

- E. Differences and applicability of 393.1030 and 393.1045.

*Staff comments: Both sections allow recovery of costs of RES compliance. Section 393.1030 includes pass-through of benefits and specifically allows recovery outside the context of a regular rate case. Both sections allow recovery of costs associated with solar rebates. 393.1030 includes “maximum average retail rate increase of one percent”, while 393.1045 includes “shall not raise the retail rates charged to the customers of electric retail suppliers by an average of more than one percent in any year”. Both sections use the word average and set the limit at one percent. The average aspect is addressed in Discussion Item D. The one percent limit is addressed in Discussions Items A, B, and H.*

- F. Methodologies for determination of the appropriate value to be used for the “cost of capital” for determination of the rate impact and cost recovery.

*Staff comments: During the development of the electric utility resource planning modeling (Discussion Items A & B), a cost of capital is utilized. This cost of capital could be used for all purposes, unless an alternative cost of capital is established in a rate proceeding. This cost of capital can be reviewed and validated through the compliance plan filing by the electric utility. With the combination (Discussion Item G)*

*of proposed 4 CSR 240-20 (Chapter 20) RES rule sections 7 (Annual Compliance Report) and 10 (RES Compliance Plan), the RES compliance plan would be subject to review by entities that have been granted intervention.*

- G. Combination of proposed 4 CSR 240-20 (Chapter 20) RES rule sections 7 (Annual Compliance Report) and 10 (RES Compliance Plan) to incorporate aspects of both sections into one combined section with a common filing date.

*Staff comments: Sections 7 and 10 of the proposed rule will be combined as much as practical.*

- H. Is the 1% rate cap a compounding limit or a fixed overall limit for the duration of the RES?

*Staff comments: The official ballot title for Proposition C contained the wording: “restricting to no more than 1% any rate increase to consumers for this renewable energy”. The Fair Ballot Language for Proposition C contained the wording: “Also, any rate increase to consumers resulting from this measure must be no more than 1%.” 393.1030 contains the wording: “maximum average retail rate increase of one percent”. Utilizing the information in Discussion Items A and B, the one percent limit would not be a compounding limit; rather it would be an overriding limit on a going-forward basis. At any point in the future, retail rates would not be more than one percent higher than the electric utility resource planning modeled rates would have been utilizing the portfolio comprised of “entirely nonrenewable sources” in Discussion Item B. The attached chart illustrates the differences in the methodologies. Line X is the increase in rates attributed to factors other than RES utilizing the portfolio comprised of “entirely nonrenewable sources”. Line Y visualizes a fixed overall limit of 1%. Line Z visualizes a compounding limit of 1% each year.*

- I. Determination of variables used in analysis, e.g., appropriate value for carbon tax, mercury emissions, etc. Should the value be predetermined, consistent for all utilities, use current electric utility resource planning assumptions, etc.?

*Staff comments: The development of electric utility resource planning models to support analysis (Discussion Items A & B), will include assumptions and assignment of various values. These values may not be consistent among the utilities for a variety of reasons. As mentioned in Discussion Item F, these assumptions and value assignments can be reviewed and validated through the compliance plan filing by the electric utility. The RES compliance plan would be subject to review by entities that have been granted intervention.*

- J. Administrative cost considerations and limits

*Staff comments: Administrative costs can be reviewed at various times, including RES compliance plan filings, RES compliance report filings, RESRAM associated filings, and*

*general rate proceedings. The administrative costs would be subject to review by entities that have been granted intervention.*

K. Potential impact on Missouri RES implementation of a federal RPS.

*Staff comments: Utilities must comply with applicable federal and state laws regarding renewable energy standards or portfolio requirements. Costs/benefits associated with actions to achieve compliance with a federal RPS less than or equal to Missouri RES requirements would be included in any consideration of costs/benefits associated with actions to achieve compliance with the Missouri RES. If there are additional requirements due to Missouri RES, then any costs or benefits associated with those specific requirements would be considered as costs/benefits for determination of any rate impacts or other effects.*

L. Should RESRAM initiation be within or outside a general rate case?

- (1) If a RESRAM is initiated outside of a general rate case, how is a "baseline" for RES costs already reflected in the utility's rates determined? Do you go back to the utility's last general rate case to determine the baseline?
- (2) If a RESRAM is initiated outside of a general rate case, does the currently indicated 60-day deadline for parties to respond to the utility's request sufficient, in light of the need to determine an RES cost baseline, among other possible issues?

*Staff comments: RESRAM may be initiated within or outside of a general rate case. Comparing the enabling statutes for RES and ECRM, Section 386.266(4), RSMo ( FAC or ECRM) provides specific language regarding the initiation of an FAC or ECRM—“after providing the opportunity for a full hearing in a general rate proceeding, including a general rate proceeding initiated by complaint”. Section 393.1030, RSMo (RES) provides no such language regarding a RESRAM. Lacking the detailed statutory language provided for the FAC or ECRM, it would appear the RESRAM would not be limited to initiation within a general rate case also given the language in Section 393.1030.2(4).*

- (1) A “baseline” would be established utilizing information from the utility’s last general rate case with a limited true-up of RES-related costs/benefits.
- (2) The 60-day requirement included in the current draft will be extended for those situations where the RESRAM is initiated outside of a general rate case. Staff is considering the number of additional days that would be appropriate.