

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

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

Comments of
Natural Resources Defense Council
Ameren Missouri
Kansas City Power & Light
Missouri American Water
National Housing Trust and
Blue Hills Community Services¹
October 2, 2015

The following comments and principles for implementation are offered in support of a revenue decoupling mechanism for Missouri. The stakeholders listed above concur in these principles, which were originally filed in substantially the same form on September 1 by NRDC, NHT and Blue Hills Community Services.

1. Revenue decoupling is a ratemaking approach for electric, natural gas, and water utilities that disconnects fixed cost recovery from changes in the utility’s sales volume.

2. With a Revenue Decoupling Mechanism (RDM), the throughput disincentive will be mitigated for utilities so that they will be more inclined to pursue all cost-effective demand-side resources and to make the transition from being a commodity business to being a service provider. Combined with a robust efficiency program, revenue decoupling will help lower consumer bills. Special attention must be paid to make sure that efficiency programs reach low-income households.

3. A RDM can address critical issues now facing the utility industry, its customers, and the need to scale up end-use efficiency to avoid water shortages. In the electric sector, a RDM and its facilitation of end-use efficiency can be used as part of a least-cost strategy to achieve compliance with the Clean Power Plan and take full advantage of the new Clean

¹ Blue Hills Community Services (BHCS), a not-for-profit community development corporation, is a catalyst for neighborhood development, educational programs and community services. Founded in 1974, BHCS set out to battle social and economic challenges faced by residents of the Blue Hills neighborhood in Kansas City, Missouri. Using a block by block strategy to focus neighborhood revitalization, BHCS ensures neighborhood development is comprehensive and sustainable in creating healthy urban communities.

Energy Incentive Program for low-income communities to help achieve important public health and environmental goals. What is more, the end-use efficiency facilitated by a RDM drives lower energy consumption by water and wastewater utilities. This enables the water sector to make a contribution to compliance with the Clean Power Plan.

4. A RDM is a very important step, but additional changes in regulatory policies and practices need to be considered - such as performance-based rate plans and broader use of rate adjustment mechanisms for cost of service elements largely beyond the utilities' control - to maintain reliability and affordability and to facilitate transformation from the current utility business model to address the evolving environment in which utilities and their customers operate and allow for infrastructure modernization, emerging technologies, clean distributed generation, and renewables.
5. The main feature of a RDM would be to allow utilities to adjust for the variance between historical test year billing units and actual sales after new rates take effect. The adjustment could be up or down depending on actual sales and utilities would collect no more or less than the authorized revenue requirement determined in a general rate case.
6. A decoupling of utility revenues from sales still preserves a strong incentive for the utility to minimize cost in the short and long term.
7. The results of an empirical analysis done by the Brattle Group do not support the contention that utilities with a RDM have a lower cost of capital.
8. To preserve customer growth opportunities, average usage "per customer" by class may be an appropriate design basis for a RDM. Adjustment for new end uses such as electric vehicles may also be appropriate.
9. Depending on the ultimate design, a RDM would also have the added benefit of helping those residential customers who use less energy or water than the average (often those households on low or fixed incomes) because the authorized revenue requirement would be recovered through existing rates and rate structures thereby diminishing the pressure for utilities to seek a higher fixed customer charge – easing the path for the use of volumetric rates to create a further incentive for consumers to conserve and lower their bills.