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
National Housing Trust and
Blue Hills Community Services[1]
September 1, 2015

The following comments and principles for implementation are offered in support of a revenue decoupling mechanism for Missouri.

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), utilities will be more motivated 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 during a drought and, in the electric sector, as a least-cost strategy to achieve compliance with the Clean Power Plan and take full advantage of the new Clean Energy Incentive Program for low-income communities to help achieve important public health and environmental goals.

[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.

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, in a timely manner, have a reasonable opportunity to 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, a "per customer" may be an appropriate design 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 most of the authorized revenue requirement would continue to be recovered through volumetric rates rather than through a higher fixed customer charge - creating a further incentive for consumers to conserve and lower their bills.