

EW-2016-0313
In the Matter of a Working Case to Consider Policies to
Improve Electric Utility Regulation

COMMENTS OF NATURAL RESOURCES DEFENSE COUNCIL
July 8, 2016

Natural Resources Defense Council (NRDC) appreciates the opportunity to present its views on how Missouri could improve the way it regulates investor-owned electric utilities. Given the opportunity to capture significant benefits for the electric system and utility customers from a wide range of future investments - including end-use efficiency, demand response, distributed generation, storage, electric vehicles, and advanced meters – the need to reform the regulatory process in Missouri has never been greater.

In particular, energy efficiency offers Missouri the greatest opportunity to achieve its stated goals of job creation, economic competitiveness, reliability, affordability, and cleaner air. If fully embraced, energy efficiency can help enhance the health and welfare of Missouri citizens and move Missouri's economy forward.

To fully capture the benefits of energy efficiency, NRDC recommends that Missouri build on the excellent start under MEEIA by (1) embracing an energy efficiency portfolio standard of at least 1.5 percent per year; and (2) addressing the throughput disincentive by embracing revenue decoupling - a regulatory approach that allows for regular annual adjustment in rates to address over or under collection of approved revenue requirement.

Energy Efficiency Portfolio Standard

NRDC offers the below modification to MEEIA (393.1075, section 4) with additions underlined and deletions in [brackets].

4. The commission shall [permit] require electric corporations to implement commission-approved demand-side programs proposed pursuant to this section with a [goal] requirement of achieving all cost-effective demand-side savings at or above 1.5% of total electric sales per year. Electric corporations shall retain the burden of proof for achievement of cost-effective demand-side savings lower than 1.5% of total electric sales per year. Recovery for such programs shall not be permitted unless the programs are approved by the commission, result in energy or demand savings and are beneficial to all customers in the customer class in which the programs are proposed [regardless] without consideration of whether the programs are utilized by all customers. The commission shall consider the total resource cost test a preferred cost-effectiveness test. Programs targeted to low-income customers or general education campaigns do not need to meet a cost-effectiveness test, so long as the commission determines that the program or campaign is in the public interest. Nothing herein shall preclude the approval of demand-side programs that do not meet the test if

the costs of the program above the level determined to be cost-effective are funded by the customers participating in the program or through tax or other governmental credits or incentives specifically designed for that purpose.

Revenue Decoupling

As to revenue decoupling, a critically important regulatory change that Missouri should include in its package of electric utility regulatory reforms, NRDC offers here the comments we, with others, filed on October 2, 2015 in AW-2015-0282 [Working Case to Consider Proposals to Create a Revenue Decoupling Mechanism for Utilities].

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), 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 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.

NRDC looks forward to participating in the workshops and the ongoing conversations around these very important topics.

For Additional Information -

NRDC fact sheets on future electricity business model and decoupling:
<https://www.nrdc.org/sites/default/files/electric-utility-business-model-ib.pdf>
<https://www.nrdc.org/sites/default/files/decoupling-utility-energy.pdf>

Papers that Energy Innovation (EI) has assembled on PBR:
<http://energyinnovation.org/resources/our-publications/going-deep-performance-based-regulation/>
<http://americaspowerplan.com/power-transformation-solutions/ratemaking-and-utility-business-models/>

The most recent additions to that library are:

- Aas' and Oboyle's [paper](#) on models to align utility profit with societal values
- EI's [paper](#) on energy efficiency performance metrics options and adjustment mechanisms.
- In EI's library is also LBNL's [paper](#) with Tim Woolf and Mark Lowry from Jan. 2016, covering PBR options in a highly distributed energy and energy efficient future.