BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of a Working Case to Consider The Establishment of a Rate Stabilization Mechanism to Reduce the Need for Frequent Rate Case Filings.	))))	File No. AW-2013-0110

INITIAL COMMENTS OF AMEREN MISSOURI

Ameren Missouri appreciates the opportunity to provide comments on alternative approaches that could reduce the frequency of rate case filings. Having fewer rate cases would be beneficial to customers because it would stabilize their utility bills and enable them to better budget the cost of utility service. It would also benefit the Commission, utilities and other parties to rate cases who are required to invest time, effort and money in rate case litigation that could be better spent in other pursuits. In short, reducing the frequency of rate cases has the potential to benefit all stakeholders, and it is commendable that the Commission has opened this docket to examine ways that goal might be attained.

The first step in addressing this issue is to understand why Missouri utilities are filing rate cases with such frequency. The process currently used to set rates in Missouri is a backward-looking process. Operations and maintenance (O&M) costs are established based on an historical test year, with certain items updated to reflect known and measurable changes through a true-up cut-off date. Capital investment in plant is only included in rate base after the plant is fully operational and used for service by the same true-up cut-off date—typically at least 5 months prior to the effective date of the new rates and in some cases longer. In an environment where O&M costs are steadily increasing due to inflationary pressure and for other reasons, such as increased O&M needed to operate mandated expenditures (e.g., SO_2 scrubbers), and where investment needs materially exceed the allowance for depreciation of existing plant that is

included in rates (which is the circumstance most utilities face now and for the foreseeable future), the backward-looking process of setting rates results in a significant mismatch between the actual costs that a utility must incur to provide service and the level of costs assumed when rates were last set. This mismatch, which is sometimes referred to as "regulatory lag," often exists at or even before the moment that new rates take effect.

In the past, for the electric utility industry at least, revenues from consistent growth in usage mitigated this mismatch. However, current usage in Ameren Missouri's service territory is flat or even declining, and expected to remain limited in the future. This is because of factors such as customer conservation, customer-owned generation and energy efficiency measures which are likely to continue in the future. This represents a paradigm shift which will result in fewer generation and other revenue-producing facilities being built, and extensive investment to replace aging infrastructure, most of which is not related to new revenue sources. In Ameren Missouri's view, in this environment the key to limiting the frequency of rate case filings is to establish mechanisms which simply allow rates to more accurately reflect the actual cost of providing service during the time the rates are in effect. The following alternatives could move the regulatory process in Missouri closer to matching costs and rates. Some of these measures would require legislation to implement, but others are within the Commission's existing powers.

A. Riders/Trackers

Properly designed riders and trackers allow utilities to eliminate the impact of increases and decreases in individual costs between rate cases, and thus can extend the time between rate cases. Riders (for example, Purchased Gas Adjustments in the gas industry and Fuel Adjustment Clauses in the electric industry) allow the adjustment of rates outside of a rate case to reflect changes in specified costs. They are only permitted if specifically authorized by statute. By

contrast, trackers permit utilities to track changes in enumerated costs on their books using a regulatory asset or liability. In the utility's next general rate proceeding, the utility can then seek to reflect the regulatory asset or liability in its rates.

Trackers and riders are tools that reduce the pressure for utilities to file frequent rate cases because they allow recovery/refund or deferral of at least a limited number of costs between rate cases. In an environment where costs are volatile, or steadily increasing or decreasing, trackers and riders can help improve the match between actual costs and rates over the long run. Although riders require legislation, use of trackers is within the Commission's existing authority.

B. Plant-in-Service Accounting

In Ameren Missouri's pending rate case, it proposed to implement "plant-in-service accounting" in an effort to close the gap in capital cost recovery between the date that plant additions become fully operational and the date they can be reflected in rates. This gap creates a persistent inability for Missouri utilities to recover capital costs, and provides a disincentive for utilities to invest in their systems. Plant-in-service accounting would operate similar to construction accounting, which the Commission has used to address the same issues for large capital projects. For net investment in non-revenue generating plant, the utility would be permitted to defer the return and depreciation that would otherwise be lost during the period beginning when the plant is placed in service and ending the date that the plant is reflected in rates. This would help mitigate the mismatch between actual costs and costs reflected in rates for capital items at least.

C. Electric ISRS

For approximately a decade, the Commission has utilized Infrastructure System

Replacement Surcharges in the gas industry, and to a more limited extent in the water industry, to reflect certain types of capital additions outside of a rate case through a statutorily-authorized rider. There are limitations on the amounts that can be reflected in ISRS filings and a requirement that any utility utilizing an ISRS file rate cases every few years. ISRS filings have worked well to match rates with costs, and have helped utilities using them to file rate cases less frequently. The ISRS concept could be broadened to include electric utilities, and that would help to reduce the frequency of electric rate cases.

D. Financial Incentive to Accept a Rate Case Moratorium

In some settlements of rate cases and other proceedings, utilities have voluntarily agreed to a rate case moratorium in exchange for other benefits of the settlement. Utilities could be given the option of higher rates that are more reflective of costs that they will experience in the future in exchange for agreeing to a rate case moratorium.

E. Forward Test Year

Numerous jurisdictions permit the use of forward (projected) test years in setting rates. *See* the attached Edison Electric Institute white paper: "Forward Test Years for US Electric Utilities." This obviously would better match rates with the costs that will be incurred during the period they are in effect. Although Missouri's anti-CWIP statute prohibits setting electric rates based on projected rate base, there is nothing that would prohibit the Commission from using projected expenses to set rates. Implementation of a forward test year for O&M expenses could be coupled with plant-in-service accounting to provide relief on the capital side.

F. Multi-Year Rate Plans/Formula Rates

Another option would be the use of multi-year rate plans which automatically adjust rates periodically to reflect smaller increases or decreases, without the need to file a rate case. Rates

could be adjusted to reflect an inflation factor each year (or inflation minus an efficiency incentive) or they could be specifically calculated "formula rates" tied to costs reported each year on FERC Form 1 for electric utilities or similar annual reports for other utilities. Illinois and several other states already employ formula-type rates.

G. Performance Based Rates

Rates could also be periodically adjusted based on performance metrics. Ameren Missouri utilized one variety of performance-based rates in the mid-late 1990's when it implemented its Experimental Alternative Regulation Plan (EARP). (*See* Case No. EM-96-149, Stipulation and Agreement filed July 12, 1996, attached hereto). Under that plan, earnings in excess of a specified threshold were shared with customers. Such a plan could be modified to permit surcharges when there are lower earnings as well as refunds when there are higher earnings. Different kinds of performance-based rates influenced by customer service or reliability metrics could also be developed.

H. Per Customer Decoupling

Finally, the impact of declining customer usage could be mitigated by decoupling rates so that most or all of the utility's fixed costs are recovered through fixed customer charges or through other cost recovery mechanisms. This has largely been accomplished for Missouri gas utilities, but not for Missouri electric utilities.

Ameren Missouri appreciates having the opportunity to provide input on this important topic and looks forward to participating in this docket as it progresses.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic transmission to all counsel of record on this 30th day of November, 2012.

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