

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

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

COMMENTS OF LACLEDE GAS COMPANY

COMES NOW Laclede Gas Company (“Laclede” or “Company”) and files these comments in response to the Commission’s July 22 Order and August 5 Notice in the above-referenced case, stating as follows:

1. In the August 5 Notice, the Commission listed four specific subjects, (a) through (d), and invited interested stakeholders to respond to these subjects. The following sets forth Laclede’s comment on each subject.

a. Please comment on the legality of decoupling in Missouri.

Decoupling utility revenues from consumption can come in various forms, the most common of which is known as the straight-fixed variable rate design, or SFV. Under the SFV rate design, the utility collects its distribution revenues entirely through a fixed monthly customer charge, and collects commodity costs through a variable charge. The SFV rate design has been approved in Missouri and was employed by Missouri Gas Energy from 2007 to 2014. After the Commission approved the SFV rate design for MGE in 2007, OPC challenged it as unlawful, but the Court of Appeals found that the SFV rate design was supported by competent and substantial evidence. *State ex rel. Missouri Office of Public Counsel v. Public Serv. Comm’n*, 293 SW3d 63 (Mo. Ct. App. S.D 2009). The SFV rate design represents “pure” decoupling, because there is no variable component in the distribution charge. Other rate designs feature decoupling in various degrees. MGE’s current rate design is largely fixed, but does have a small variable component, so it represents a fairly high degree of decoupling. Likewise, since

2002, Laclede Gas has accomplished partial decoupling through a “Weather Mitigation Rate Design” in which a relatively large portion of its distribution costs are collected in a small first block. Laclede’s rate design has been approved by the Commission in several rate cases, and has not been challenged in court.

In addition to these rate design measures, the Missouri legislature has also authorized the adoption of a customer usage adjustment clause for gas corporations in the state to “reflect the nongas revenue effects of increases or decreases in residential and commercial customer usage due to variations in either weather, conservation, or both.” See Section 386.266.3. RSMo. Because the Commission has chosen to address this issue for gas utilities through the adoption of the rate designs described above, no adjustment clause of the kind authorize by this statutory section has been approved to date.

In summary, when supported by competent and substantial evidence, decoupling rate designs, from partial decoupling to pure SFV, are perfectly lawful in Missouri and there is explicit statutory authority for a customer usage adjustment mechanism that, if properly designed and implemented, would achieve the same kind of result.

- b. Please comment on your interests and preferences for any of the various aspects related to revenue regulation and decoupling contained in “Revenue Regulation and Decoupling: A Guide to Theory and Application, June 2011, The Regulatory Assistance Project”.**

The gas industry is currently utilizing a Purchased Gas Adjustment, which allow the utilities to update their volumetric price charged to customers to reflect the fluctuation of gas costs in the wholesale market. The PGA is a pass through and the utilities do not profit on this portion of the bill. This type of adjustment, or true-up, is currently being utilized and is successful at LG and MGE.

Decoupling will allow gas utilities to further move toward aligning the recovery of their fixed costs with fixed monthly charges. This would result in customers being charged a higher monthly fixed charge which could be an issue for lower use customers, depending on the rate structure. The rates of a neighboring gas utility in Oklahoma are an example of how rates might be structured to accomplish the recovery of fixed costs and take into consideration lower use customers. They have set up A and B rate schedules where rate A is designed for lower use customers. It has a lower monthly fixed charge plus a delivery fee based on usage, so cost recovery is part fixed and part variable. Rate B is a purely decoupled rate with only a monthly fixed charge and no delivery fee. Rates structured under Rate A (low use) have more volume sensitive bills, with continued potential for over/under recovery of distribution costs, much higher volumetric rates and some amount of intra-class subsidization for customers within that low-use rate class.

As the country moves toward more stringent energy efficiency standards and rules for furnaces, appliances, and fixtures, further expansion of decoupling will enable a gas utility's sales revenue/volume to be separate from its fixed cost recovery. Gas utilities will be able to encourage customers to conserve, but at the same time still have an opportunity to achieve their authorized rate of return. Without decoupling, utilities have no motive to encourage conservation as doing so would conflict with their own interests.

Decoupling and weather mitigation rate designs have been utilized successfully by the various gas utilities in Missouri. The rate design approach has resulted in no meaningful negative customer feedback and has allowed the industry to be partners with their customers in the promotion of energy efficiency. Further, as previously noted, these rate designs have made the utilization of weather adjustment clauses (as authorized by the passage of SB 179) largely

unnecessary. The use of forecasted bands of usage with deferral or balancing accounts for usage that falls outside the band would be another way to further mitigate revenue over- or under-recoveries that could better smooth those corrections.

The use of decoupling methods for larger customers is less of an issue since they often have load profiles that are less sensitive to weather variations. There are also other measures, such as contract demand provisions, that can be used when providing service to these customers that will further mitigate the impact of load changes. The kind of rate design adopted for larger customers can also have a positive or negative impact on the utility's ability to attract or retain such customers and the contributions they can make to the utility's fixed costs. As a result, caution should be exercised when determining whether and to what extent decoupled rate structures should be applied to such customers.

Laclede strongly disagrees with the use of an independent 3rd party efficiency provider, as it is important for the utilities to be partners in efficiency efforts. As a regulated provider, there is better oversight and more familiarity between the utility and the Commission of these operations. Additionally, the appropriateness of their cost is subject to review and such activities are part of their cost of service, and the expense is a pass-through.

- c. What is your estimate of the change in residential rates and rate impact resulting from your preferred mechanism? Would you expect those changed rates to be collected through a customer charge or a usage charge?**

The Laclede and MGE rate designs already incorporate these straight fixed-variable concepts with relatively high customer charges and a small but meaningful volumetric component. Customers still achieve meaningful savings for lower usage because the commodity charge tends to be roughly half or more of a customer's annual bill and that savings is fully

passed through to the customer. Some consideration should be given to rate structures for lower use customers, but this may be more appropriate in the PGA, where their high load factor (their average/base usage is much closer to their peak usage) has direct impact on costs (less pipeline capacity is needed for them, than highly temperature sensitive, seasonal customers).

- d. Please provide sources or papers on alternative rate mechanisms, revenue decoupling or similar topics which will further the Commission's knowledge on the subject of the docket.**

Laclede has no documents to provide at this time, but reserves the right to supplement the record with papers or articles for the Commission's consideration at a later date.

WHEREFORE, Laclede respectfully requests that the Commission accept these Comments in response to its July 22 Order and August 5 Notice.

Respectfully Submitted,

LACLEDE GAS COMPANY

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