

Meaning of Statutory Language:

1. What is meant by “rate design modification”?

Rate design modification refers to changes in the rate design by modifying the specific structure of the charges for a customer rate. Structure changes can mean changing the proportion of the various rate components, modifying the rate blocks, creating new billing elements, etc. For customers who may qualify for alternative rates, a rate design modification may cause customers to re-evaluate the rate they have chosen. In all instances, however, the charges within a specific rate classification are established such that the application of these individual charges to the total annual customer class customer counts, usage/demand units, kVAR units, etc. will result in the collection of the targeted annual revenue requirement of the Company’s rate classes.

Previous Commission discussion on what is rate design:

Rate design, in contrast, is the method used to implement any revenue shifts required by the class cost of service study, as well as allocation shifts between utility operations. For example, within a given class there may be separate tariffs for customer charges, commodity charges, time or season of use charges, or for customers with differing characteristics within the class. The rate design will determine which specific rates will be affected by any required revenue increase or decrease, and in what proportions. Report and Order, Case No. EO-93-351, May 5, 1995, p. 2.

Another State’s definition:

Rate design refers to the determination of the appropriate charges for different classes of customers and services that will generate the required revenue level. New England

Telephone & Telegraph Co. v. Public Utilities Commission, 448 A.2d 272, 313 (Supreme Judicial Court of Maine, 1981).

MPSC Staff defined Rate Design in their testimony in Case No. ER-2011-0028 as:

- (1) A process used to determine the rates for an electric utility once cost-of-service and CCOS is known;
- (2) Characteristics such as rate structure, rate values, and availability that define a rate schedule and provide the instructions necessary to calculate a customer's electric bill.

[T]he process of establishing the specific charges (e.g. monthly customer charges, dollars per kilowatt of demand and/or cents per kilowatt-hour energy charges) for each customer class, as well as to the actual structure of an individual class rate. Definition in Wil Cooper's direct testimony in Case No. ER-2011-0028.

2. What is decoupling?

A separation of revenues and profits from the volume of energy sold. *Aligning Utility Incentives with Investment in Energy Efficiency*, November 2007, p. 5-1.

A form of regulated ratemaking that separates cost recovery from changes in the volume of sales. *Impact of Decoupling on the Cost of Capital*, The Brattle Group, Joseph Warton, Michael Vilbert, Richard Goldberg and Toby Brown, March 2011, p. 1.

3. Is decoupling a rate design modification?

It depends. For example, if a utility were to convert from a "traditional" rate design for the residential class of a relatively low monthly customer charge and corresponding energy charges that collected the bulk of the class revenue requirement to a straight fixed variable rate structure consisting of a high monthly customer charge and low "variable cost" only energy charge, then one may argue that this conversion represents a rate design modification. On the other hand, if this conversion took place over several years

(i.e., gradualism), then one may argue that it does not represent a rate design modification.

4. Is decoupling lawful in Missouri?

Yes. MEEIA specifically allows for rate design modifications and in fact required a docket to study - indicating decoupling is allowed under MEEIA. No law exists which precludes decoupling for electric utilities.

5. What is meant by "cost recovery"?

The utility's ability to timely recover (collect) the direct and indirect program costs along with lost fixed costs resulting from energy efficiency programs. Cost recovery results in no financial detriment to the utility implementing the energy efficiency programs.

6. What is meant by "study the effects"? What are we to study the effects on? Rates, utility earnings, customer savings etc.?

There is no need to set minimum requirements of what constitutes "studying the effects". Study the effects can mean simply to "understand" the impact on the customer and company. As long as there is adequate evidence in the record for a Commission decision then the issue can be considered "studied". It is also possible that a pilot could be used to assess the impacts of a rate design proposal as long as there is a specific deliverable that the pilot culminates with a study of the pilot and its effects.

7. Other issues related to statutory language

How to Fulfill Legislative Directive:

8. What is the relationship of a rate design modification to the MEEIA rules?

This could be as simple as adding a definition of rate design modification and some language allowing utilities to propose rate design modifications in their DSIM filings in the existing rules.

9. How does this process start: Does the statutory language mean that we first need a specific proposal to study?

No. The statutory language does not mean that a study is required before a MEEIA filing can be made.

There are several options which can be considered:

- A. No change to the current rule. If rate design modifications are proposed in a MEEIA filing by the utility, a study of the rate design modification would need to be included with the filing. If rate design modifications are proposed by other parties, the party would need to include supporting study for the modifications.
- B. Add some language to existing rules that allow utilities to propose rate design modifications in their DSIM filings. The modification would be studied at that time. This would allow more specific studies and more creativity in DSIM filings.

10. Other issues related to how to fulfill legislative directive

Next Steps

11. What should come out of this workshop? Report to Commission, assigned work groups(s), plan to draft rules, etc.?

Suggest to the Commission that no new rule or rule modifications are needed. Report that utilities should be able to file a MEEIA application and that if rate design modifications are recommended by the utility or other parties, that supporting studies must be included.

12. Any preference regarding timeline and/or frequency of future workshops?

Recommend that the next workshop be held later in the year to discuss rate design modifications. Suggest that the workshop include presentations by parties on rate design modifications being implemented throughout the country.

13. Other issues related to next steps.