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

RENEW MISSOURI:
RESPONSES TO QUESTIONS ON DECOUPLING

Renew Missouri is grateful for this opportunity to comment on the effects decoupling would have on Missouri's regulated utilities. For the purposes of this comment, we will be focusing on Missouri's electric utilities, though decoupling has the potential to have positive impacts on all utilities if properly applied.

Renew Missouri is strongly in support of a Revenue Decoupling Mechanism (RDM) in Missouri's regulated electric utilities as a means of mitigating the throughput issues that are associated with implementing energy efficiency. Insofar as energy efficiency is the end-goal of revenue decoupling, there is clearly a hierarchy of RDMs, with Straight-Fixed Variable (SFV) mechanisms at the bottom and Revenue-Per-Customer (RPC) at the top.

Should Missouri institute an RDM, Renew Missouri believes there are several issues that should be contemplated and addressed beforehand, especially the following:

- Managing the balance of risk between utilities and their customers, and
- Instituting performance metrics by which utilities' RDM applications shall be approved and evaluated.

Below, Renew Missouri offers its comments on revenue decoupling according to the questions that Staff requested stakeholders respond to in its July 30, 2015 Motion.

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

Renew Missouri believes decoupling is authorized by the Missouri Energy Efficiency Investment Act ("MEEIA") (§393.1075, RSMo.) For more information on Renew Missouri's legal position, please refer to the document "Legality of Decoupling for Electric Utilities," a legal memo filed on September 1, 2015 in this case on behalf of Renew Missouri, Natural Resources Defense Counsel, Sierra Club, Earthjustice, and Great Rivers Environmental Law Center.

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.

Renew Missouri supports RAP's "full decoupling" definition and believes the Revenue-per-Customer (RPC) method to be an amenable version of full decoupling. An RPC model of decoupling is arguably the most simple and understandable mechanism to employ in ratemaking. By employing the RPC, utilities can maintain their safety and reliability standards that all parties agree are of highest import while removing the disincentive to invest in energy efficiency measures. This opens the door for utilities to send clear signals to their consumers through other rate design mechanisms, such as inverted block rates, that encourage customers to install demand-side measures and utilize more energy conservation techniques.

It is worth also noting that the simplicity of the RPC mechanism also lends itself well to distinguishing between different rate classes, such as large industrial customers, which the RAP document notes is not without precedent. The report states that, "Because the rates for these customers are often determined by contractual requirements and specified payments designed to cover utility non-production costs, there may be little or no utility throughput incentive opportunity relating to these customers anyway" (pg. 19). As Renew Missouri understands the

significant investments that our state's largest industrial customers make to minimize their overhead energy costs, this is not an approach to decoupling we would be opposed to.

Many Missouri stakeholders hold the position that revenue decoupling unjustifiably moves risk from the utility to the customer, as the mechanism guarantees the utility a certain level of revenue regardless of their performance. While there is much room to debate this point, it is nonetheless true that an RDM changes a utility from a company which generates profit mainly through increasing volumetric sales to a service-based company. This being the case, Renew Missouri believes that discussing performance metrics to evaluate a utility which has employed decoupling is a first step to balancing the risk between utilities and their customers.

While there are a few obvious performance metrics that should be monitored (e.g. safety and overall grid reliability), Renew Missouri believes that demand-side energy efficiency should be another metric by which a utility is measured. If an RDM is employed mainly to remove any throughput disincentive and make utilities agnostic to one of Missouri's fastest growing markets – energy efficiency – then a clear next step is to evaluating their performance based upon how well they send signals to the market to encourage customers to save energy.

The Missouri Energy Efficiency Investment Act (MEEIA) is an excellent vehicle with pre-established goals that can be quickly and easily employed to begin such an evaluation. MEEIA sets forward annual and cumulative energy and demand savings goals, as well as procedures and standards by which electric utilities may pursue demand-side management programs. Energy efficiency programs approved under MEEIA have already created millions in benefits for Missouri ratepayers, and have saved participating customers many millions over just three years.

c) For responding utility stakeholders, assuming that your preferred revenue regulation decoupling mechanism described in your response to b) will result in a

change in the rates of certain, if not all, customer rate classes, 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?

Though there is not currently a mechanism to be evaluated, Renew Missouri would be opposed to any mechanism that increases fixed charges, residential or otherwise. As a rate design, high fixed charges and low variable charges send the signal that the amount of energy being used is not important, when in reality it is of paramount importance. As discussed above, we believe such a rate design to be in conflict with the intent of any RDM prima facie.

On page 27 of *Revenue Regulation and Decoupling: A Guide to Theory and Application* outlines an alternative to fixed rate cost recovery which Renew Missouri supports: Zero, Minimal, or "Disappearing" Customer Charges. The document describes this mechanism as follows: "Customers with zero consumption pay a minimum amount, but once usage passes 100 kWh or so (and 99% of consumption is by customers exceeding this minimum), they pay only for the energy used." This simple rate design, along with several others that could easily be employed simultaneously such as inverted block rates, sends the clear signal that energy efficiency is important and customers should work to lower their demand. By doing so, customer bills go down overall.

d) Please provide sources or papers on alternative rate mechanisms, revenue decoupling, or similar topics that will further the Commission's knowledge on the subject of this case.

Please refer to the following attached documents:

1) Jim Lazar, Regulatory Assistance Project – "The Basics of Decoupling: A Superior Solution to the Throughput Disincentive." PowerPoint Presentation, June 19, 2015.

2) The Brattle Group (Vilbert, Wharton, Gibbons, Yang) – "The Impact of Revenue Decoupling on the Cost of Capital for Electric Utilities: An Empirical Investigation." Prepared for The Energy Foundation, March 20, 2014.