

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

In the Matter of the Establishment of a Working)
Case Regarding a Commission Rule Governing Revenue) File No. AW-2021-0070
Stabilization Mechanisms)

SPIRE MISSOURI'S INITIAL COMMENTS
REGARDING A COMMISSION RULE ON REVENUE
STABILIZATION MECHANISMS

COMES NOW Spire Missouri Inc. (“Spire” or “Company”) and submits *Spire Missouri’s Initial Comments Regarding a Commission Rule on Revenue Stabilization Mechanisms* in response to the Missouri Public Service Commission’s (“Commission”) September 23, 2020 *Order Opening a Working Case to Consider a Commission Rule Regarding Revenue Stabilization Mechanisms* (“the Order”). In the Order, the Commission notified stakeholders that any comments regarding Staff’s proposed rule, be submitted no later than October 12, 2020. Spire appreciates Staff’s efforts in establishing this working case to allow for what the Company hopes will be a meaningful discussion of Revenue Stabilization Mechanisms (“RSM”) in Missouri. For its Comments, Spire states as follows:

Subsection 3 of Section 386.266 RSMo provides Missouri gas and electric utilities the opportunity to petition the Commission for approval of rate adjustment mechanisms aimed at addressing the revenue impacts to utilities associated with increases or decreases in Residential and General Service customer usage due to variations in weather, conservation, or both. In addition, Subsection 4 of Section 386.266 provides large Missouri water utilities the ability to petition the Commission for approval of a rate adjustment mechanism to decouple revenues from sales entirely.

It has been well established that the Commission can approve revenue stabilization mechanisms through 386.266 RSMo. Missouri utilities have frequently utilized the ability to establish rate adjustment mechanisms through this statute as demonstrated through the multiple

utility RSM riders currently in effect in Missouri. Over the past several years, multiple Missouri utilities have had some form of this type of mechanism approved. Even now, new requests for mechanisms under these statutory guidelines are pending before the Commission. The ability to implement such mechanisms produces benefits for utilities and their customers and reflects well on Missouri's regulatory environment with external stakeholders.

In its motion, Staff raises the potential benefits of establishing separate and clear filing requirements and other procedural rules regarding RSMs. As mentioned above, multiple utilities have had some form of RSM approved by the Commission. Each utility operates under its own tariff and while the approved RSM's in Missouri are similar, they also have unique features and components among them. The filing timelines and requirements associated with these mechanisms were achieved through individual discussion and proceedings and reflect the differing characteristics of Missouri's utilities. For instance, there is a clear difference between the weather sensitivity of an electric utility and a gas utility. Spire would advocate that flexibility to account for these differences remain available to each utility and to other regulatory stakeholders.

Spire would also urge that consideration be given to ensure the flexibility for Missouri to adapt to expanded forms of revenue stabilization regulatory models. In that spirit the Company believes an expanded discussion of the RSM regulatory constructs currently in use across the United States, along with consideration of the benefits generated by such models, is appropriate for this docket.

Today's utility operating landscape is rapidly evolving. Utilities continue to respond to myriad new environmental, legislative and regulatory developments that can, and do, cause significant revenue variations. Emerging issues including improved appliance and building standards, improved energy efficiency and other technologies, changing customer experience

expectations, along with a variety of other factors, can all produce material impacts to customer usage and detrimentally impact utility cost recovery and future rates. In order to ensure utilities can continue to effectively provide reliable service and meet the needs of customers and shareholders, consideration of alternative regulatory approaches by state officials and regulators is necessary.

Under historic cost of service regulation, utilities are allowed to recover their prudently incurred costs and are provided the opportunity to earn a fair return on assets that are used and useful in the provision of service by initiating a rate case with the state public utility commission. During a rate case, utilities typically provide regulators with a historic snapshot, typically a twelve-month period, of the actual costs incurred to provide service during that period, combined with that year's customer usage levels, to determine whether customers are returning sufficient revenues to adequately cover the utility's cost of service.

The traditional rate case process presents benefits and challenges. While rate cases allow a full review of the utility's books, records, and operations in formal proceedings that provide opportunities for all stakeholders to participate on the record, rate cases are often lengthy, contentious, and expensive. Another significant challenge presented by the traditional rate case is referred to as regulatory lag. The typical Missouri rate case process can take up to 11 months. The use of a historic test year, compounded with the amount of time it takes for new rates to be approved through the rate case process often results in rates being put in place that are not reflective of current costs and other inputs, which then drives the utility back to the state public utility commission for additional rate increases.

A Rate Stabilization ("RS") regulatory model is an alternative to traditional cost of service regulation that has the potential to solve multiple problems. Under an RS regulatory approach, after a full and complete review of a utility's financial schedules and other relevant data by the state

public utility commission and other stakeholders, rates may be adjusted annually, or in some cases more frequently, to account for variations in customer usage/utility revenues and utility investment and expenses. This frequent matching of revenues and expenses produce more stable customer rates. Under the RS approach, a formal proceeding allowing participation from all stakeholders is still initiated to determine the specific information to be reviewed as part of the periodic RS reviews and to address the mechanics of the RS adjustment mechanism. In order to address regulatory lag, an RS approach would ideally use forecasted cost and usage assumptions which would be reconciled in a subsequent annual review with actual results. Using a streamlined review process agreed to by all parties, RS reviews can reduce the contentious nature of regulatory proceedings, maintain Commission and stakeholder oversight of utility rates, and provide customer savings by substantially reducing regulatory expenses.

Rate Stabilization regulatory constructs provide a variety of benefits, including:

- A streamlined, transparent regulatory review process that allows for enhanced and more timely oversight of utility financials by regulators and other stakeholders;
- Less frequent rate case proceedings and reduced regulatory costs;
- Reduced regulatory and administrative lag resulting in stable utility financial performance supporting higher credit ratings and reduced financing costs;
- Reduced use of trackers;
- Rate stability;
- Moderate rate increases; elimination of rate shock;
- A less contentious regulatory process promoting a stable regulatory environment;
- Symmetry; stabilization can result in rate increases or decreases;
- Removal of the utility disincentive to pursue cost-effective investments in energy efficiency and demand response

These types of regulatory constructs are increasingly being implemented across the U.S. Spire has operated under such a construct to great success since the early 1980's with its Alabama utilities. Attached as Schedule 1 is a summary/overview of Spire's Alabama model. Spire's Mississippi utility also operates under an RS construct. Attached as Schedule 2 is the most recent update of a presentation from the American Gas Association with information on these alternative regulatory models that are currently being utilized across the U.S. Finally, attached as Schedule 3 is an April 2020 report from the Regulatory Research Associates, a unit of S&P Market Intelligence, with additional information regarding the types of RS constructs that are currently implemented throughout the U.S.

CONCLUSION

In conclusion, Spire supports Staff's initiative to open a discussion on RSM's in Missouri. While Missouri's utilities can currently petition the Commission for approval of RSM riders, the Company believes that filing requirements should be flexible to account for the different circumstances unique to each utility such as load and impacts of weather patterns. Furthermore, the Company believes that there is the potential in this docket for a robust discussion on the different types of RSM's being implemented nationwide and how these alternative constructs operate. The Company believes that a broad discussion on this subject will benefit Missouri utility customers. Spire looks forward to participating in further events in this case.

Respectfully submitted,

SPIRE MISSOURI INC.

/s/ Goldie T. Bockstruck

Goldie T. Bockstruck MoBar #58759
Director, Associate General Counsel
Spire Missouri Inc.
700 Market Street, 6th Floor

St. Louis, MO 63101
314-342-0533 Office (Bockstruck)
314-421-1979 Fax
Goldie.Bockstruck@spireenergy.com

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing Comments was served on the General Counsel for the Staff of the Missouri Public Service Commission and the Missouri Office of Public Counsel on this 12th day of October 2020 by email.

Goldie T. Bockstruck
Goldie T. Bockstruck