BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

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

RENEW MISSOURI:
RESPONSE TO COMMENTS

Renew Missouri is grateful to the Commission and Staff for exploring revenue decoupling, also referred to as a Rate Stabilization Mechanism (RSM), in Missouri. The initial comment process and the subsequent workshop were useful steps in the process.

Our position in the legality of the Commission allowing RSMs for Missouri utilities remains consistent with our filing on September 1st, 2015. It is our opinion that the Missouri Energy Efficiency Investment Act specifically allows for any mechanism that would remove the throughput disincentive, which would include an RSM.

Regarding Risk and ROE

Several parties provided comments and spoke at length in the workshop regarding the issue of an RSM shifting risk away from utilities and onto their customers. Renew Missouri is focused on ways to use an RSM to remove the throughput disincentive which discourages utility investment in the cheapest available resource – energy efficiency. While we are not consumer advocates and aren't necessarily interested in the argument pertaining to the shifting of risk away from utilities and towards customers, we do believe that any conversation about RSMs should include discussions regarding the lowering of a utility's return on equity (ROE). Unless an RSM is coupled with a means of lowering a utility's ROE comparable to the reduced investment risk that an RSM creates, electric utilities will still prefer large-scale investments in infrastructure as opposed to energy efficiency.

Among other sources, an article posted by the Office of Public Counsel, "When Revenue Decoupling Will Work…And When it Won't" written by Steve Khim and published by the Energy Center of Wisconsin,[1] the logic behind reducing the ROE for utilities who have RSMs in order to ensure that they remain indifferent toward lowered sales that result from investment in energy efficiency. With regards to using RSMs to encourage energy efficiency, the Khim states:

> If a regulator sets rates of return in excess of a utility's cost of capital, increasing investment scale will be the primary driver of the utility's stock price. In that case its investors will prefer an expanding rate base to a more-stable one, even if the utility earns the same rate of return on both. **Decoupled or not, a utility operating under this condition will prefer to promote sales because so doing will increase its investment scale more rapidly over time.** (Bold added)

If MEEIA's language, which states that the purpose of alternative rate design is to "develop cost recovery mechanisms to further encourage investments in demand-side programs" (§ 393.1075.5), then the principles of utility finance dictate that an RSM must include provisions which does one of two things:

- Lowers the utility's ROE to allow a utility to recover *only* their cost of equity, making the company indifferent to investments in energy efficiency, or
- Include specific performance metrics related to energy efficiency.

The argument that some have made that an RSM does *not* lower the risk of an investor owned utility and thus should have no effect on their ROE is factually inerrant. The name alone, revenue *stabilization* mechanism, implies that risk is minimized for investors. Further, an RSM transitions the business model of an investor owned utility away from being a unit-sales based business to being a service business, tasked with providing a safe, affordable, and reliable grid. This being the case, the idea that ROE should not be up for discussion does not stand to reason.

Especially if an RSM is to be voluntary, Renew Missouri would consider the merits of any utility RSM proposal based on the performance metrics within the proposal, especially those

[1] Khim, Steve. "When Revenue Decoupling Will Work…And When it Won't". October, 2009. Energy Center of Wisconsin. http://www.ecw.org/sites/default/files/kihmdecouplingarticle2009.pdf

designed to encourage the utility to actively pursue energy conservation and efficiency. Rate designs which encourage energy conservation like inclining block rates (IBR), which Ameren analyzed in their latest IRP to save up to 2% on energy sales annually, efforts to investment in demand side response programs, or other proposals which would tether a utility's ROE considerations to their good-faith efforts to reduce energy consumption would be encouraging to see in an RSM proposal.

Rate Class Considerations

Due to complications with cross-subsidization issues, existing agreements between the utility and their customers, and different billing mechanisms for different rate classes, Renew Missouri is not necessarily opposed to RSMs that exempt particular rate classes. Currently, MEEIA allows cost recovery exemptions for individual customers who have shown that they are making private investments in energy efficiency on the same level as the utility. So long as the institution of an RSM on certain rate classes and not on others does not have an adverse effect on Missouri's overall reduction in energy consumption, Renew Missouri would likely be in support.

Conclusion

An RSM has the potential to increase the growth of energy efficiency, but it does not guarantee that outcome. As energy efficiency is the impetus for engaging in this conversation, especially as it relates to substituting the current energy efficiency recovery mechanisms with an RSM, the above comments should be carefully considered to ensure that an RSM does not actually result in dwindling investments in energy efficiency. Without structural guarantees that energy efficiency will be of primary concern in the institution of an RSM, Renew Missouri would not be in support of an attempt for a utility to decouple their unit sales from their revenue.

Respectfully Submitted by,

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