

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

In the Matter of a Proposal to Mitigate)	
Regulatory Lag in Ratemaking)	<u>Case No. AW-2014-</u>
Through Use of Routine Surveillance)	
Protocols)	

STAFF’S MOTION TO OPEN WORKSHOP DOCKET

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and hereby moves the Commission to open a workshop docket concerning a proposal to mitigate regulatory lag in ratemaking through use of routine surveillance protocols. In support of its *Motion*, Staff states:

1. Traditional cost-of-service ratemaking at the Missouri Public Service Commission is an eleven-month long process involving a comprehensive audit of the books and records of the subject utility over the course of four to five months, followed by as many as four weeks of contested case administrative proceedings.

2. Missouri public utilities consistently express concerns that the length of the ratemaking process results in significant regulatory lag that prevents them from earning the rate of return authorized by the Commission. Regulatory lag is the interval that elapses between a change in revenue requirement and its recognition in rates. These concerns continue to be raised despite the Commission’s introduction of such features as the update and true-up, which are designed to ensure that the Commission’s ratemaking decision is based on the most current financial information possible and to ameliorate regulatory lag.

3. In addition to the length of the ratemaking process, the scale of these very complex cases is such that significant rate case expenses are incurred and must be

borne by the ratepayers and the other participant parties, resulting in repeated calls to devise a quicker and less costly way to make rates.

4. The Staff has developed a proposal whereby ongoing surveillance and monitoring data would permit the rate case timeline to be reduced by a number of months.

5. A weakness in the existing process is the fact that the tariffs, accounting schedules and testimony filed by the company to initiate the rate case are effectively superseded by the direct case that Staff files, four or five months later, based on its audit. The remainder of the rate case is based on Staff's filing and not on the company's initial filing. Currently, issue identification does not occur until the week-long technical conference held after Staff's direct filing.

6. Under Staff's proposal, data collected through ongoing surveillance and monitoring would serve as the basis for a rate case in the same way that Staff's direct testimony filing based on an audit does now. The four or five months that now elapse between the company's initial filing and Staff's direct filing would be unnecessary and that time would be saved.

7. This proposal would require a major reorientation of Staff's activities to the collection and analysis of ongoing, monthly surveillance and monitoring data. Staff would use the monitoring data to develop data bases and would acquire appropriate software to analyze the collected information. Anticipated data bases include such rate case components as depreciation, rate design, jurisdictional allocations, and billing determinants. Staff would then produce a monthly monitoring report for each company addressing rate adequacy and cost of service. Staff's report, together with the

company's response, would serve as the basis for a rate case.

8. The availability of information gathered from ongoing monitoring and surveillance would also enhance Staff's ability to enforce statutes and Commission rules and orders and to provide up-to-date, pertinent information to the Commission as needed. Rate cases may become less adversarial.

9. Attached as Attachment A is a document, in question-and-answer form, setting out Staff's rate case modification proposal.

WHEREFORE, Staff prays that the Commission will open a workshop docket and, giving notice to all regulated Missouri utilities and other stakeholders, enter upon proceedings that will permit stakeholders to review, respond to and comment on, and otherwise engage with Staff's rate case modification proposal. Upon the conclusion of the workshop docket, Staff anticipates submitting a report to the Commission with recommendations for further actions appropriate to the circumstances.

Respectfully submitted,

/s/ Kevin A. Thompson

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed with first-class postage, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 20th day of June, 2014.

/s/ Kevin A. Thompson

Question What impacts, if any, could a shift of Staff's workload to surveillance/ monitoring orientation from current case reactive approach have on the rate case timeline?

Answer At least two months could be removed from the current rate case process with an opportunity up to four months or more depending on the design and objectives of the monitoring plan. Staff will be still performing case specific work. However the scope of that work will be reduced by the information preexisting at the time of filing. In addition modification of the minimum filing requirements (MFR) could position the filing to be the cornerstone for processing the case, thus removing the applicant's moving positions and underlying support. Monitoring activities would allow the Agency to have current knowledge regarding the adequacy of the jurisdictional utilities' then effective customer rates.

Question Why does monitoring activities have any impact at all?

Answer A substantial portion of the work performed in a rate case will be replaced by regular Staff activity. Currently, the Agency's knowledge regarding the utilities the Commission regulates peaks at the conclusion of a case and declines until a new case is filed. Monitoring will maintain the Agency knowledge regarding the utility's status as well as identify an estimate of the company's revenue requirement and the underlying factors causing any changes in revenue needs. Current rate case utility filings are processed on a statutory eleven month time period. The fixed time period influences the processing of these filings. Incentives motivate the full use of the statutory time period. The rate case process does not use a majority of the material filed to initiate the rate case. The filed tariffs are not likely to be adopted. There is little incentive for the applicant to file tariffs or a rate increase that will be adopted. The utility's filed case is practically superseded by the Staff's direct filing based on more current information. Staff's filing becomes the basis for processing the remainder of the rate case. The Staff's direct filing causes a lull in the process as the Company reacts to the filing and identifies its issues with the Staff positions. This lull occurs because the parties don't know the case issues and the revenue positions until the company and parties identify their issues with Staff's case. The process of issue identification starts with the applicant's prehearing conferences and resultant rebuttal testimony to the Staff's direct filing.

Staff's monitoring of utility information could serve as the basis for a rate case similar to the current Staff direct filing in a rate case. Staff's monitoring reports can serve as the basis for the applicant's filing. It is anticipated that Staff monitoring reports will reflect Company comments by either modifications reflected to the Report or as an attachment listing the Company's perspective. The current rate case process allows for major modifications to the rate case cost of service through either the update or true up information practice. The update and true up practice receives less examination and analysis of the data then is expected to be performed through the monitoring approach.

Question What major assumptions are contained in this study?

Answer The key assumption to this study is that there is a major orientation change of Staff's work activities to a monitoring function that assists in the case processing as well as facilitates enforcement actions. The monitoring activities are assumed to produce monthly reports concerning

rate adequacy and quality of service. The monitoring activities will reduce the Staff's current case reactive workload. Another key assumption is that Staff's monitoring activities will be supported by establishing data bases needed to process major cases (e.g. rate cases) as well as evaluation computer programs designed to provide a timely and thorough analysis of the jurisdictional utilities' information.

Question How would a rate case be processed differently under a Staff monitoring scenario?

Answer Companies would file noting their differences with the Staff's current evaluation of the companies' situation. Differences would need to be fully supported at filing to facilitate an efficient and effective verification of the basis for the Company's position. The monitoring activity is expected to maintain and update the significant data bases used for such rate case components as depreciation, rate design, jurisdictional allocations, and billing determinants. Staff will not have to rely on data bases that companies don't necessarily maintain in regulatory formats. In addition Staff will be better situated to avoid situations where the data has been lost and is no longer available.

Current rate cases have an eleven month processing period. Little, if any, of the PSC'S regular work assists in the identification of questionable elements contained within the applicant's rate request. Discovery is used to evaluate the Company's request. The monitoring proposal can be designed to produce an alternative scenario in which the PSC's regular work facilitates the processing of rate and other cases. In addition the monitoring activities will facilitate rate increase cases while providing the basis to initiate or support complaint cases when rates are believed to be excessive.

Question How much time is currently devoted to verifying and identifying issues in a rate case?

A rate case can be divided into two phases. The first phase will be referred to as the issue verification stage and the second phase will be referred to as the litigation/decision stage. The first stage starts when the rate case is filed through the filing of reconciliation and statement of positions. The second stage begins with the filing of reconciliation and statement of positions. The first stage takes approximately seven months to process and the second stage takes four months. The work done in the first stage impacts the activities that take place in the second stage.

Question What would be the process for rate cases processed with a mature monitoring proposal?

Answer The 60 day notice will remain and allow Staff to catch up with monitoring reporting if Staff is behind because of other priorities. In a 30 day pre-case meeting, the company will present key elements of the case and factors driving the rate increase. Monitoring information will be either supplemented by new information or used at this time to begin identification of the factors driving the rate increase. On filing day, utility will file information showing its differences, if any, with Staff's monitoring reports. The Company's filing will also provide all support for their adjustments to Staff monitoring data and any proposed rate design changes. The Company's filing will also provide any other supporting documentation related to its request. Answers to Staff and other Parties pre-case data

requests including data requests generated from 30 day pre-case meeting will be supplied at or shortly after the filing. Staff access to the Company's general ledger data should allow identification of transactions impacting the rate increase that are already reflected on the company's books. Staff access to the Company's budget data base should facilitate examination of rate case factors that have not occurred at the time of filing.

Once adequate time has occurred for verification and position development, parties can meet to determine whether the case or specific issues can be settled or require a hearing. Technical conferences can be held to facilitate discussion and exchange of information to reduce time delays caused by normal discovery practices.