Legality of cost recovery between rate cases

SB 376 section 3 states that the commission shall Provide timely cost recovery for utilities; Ensure that utility financial incentives are aligned with helping customers use energy more efficiently and in a manner that sustains or enhances utility customers' incentives to use energy more efficiently; and Provide timely earnings opportunities associated with cost-effective measurable and verifiable efficiency savings.

The "timely earning opportunities" are tied in with cost-effective measurable and verifiable efficiency savings. That is, the measures must be shown to provide savings before the utility may collect the costs. Allowing a utility the opportunity to collect costs between rate cases would not meet this standard. The utilities are required to file an annual report that (section 12) to the commission that describes the demand-side programs implemented by the utility in the previous year.

The legislation states that energy efficiency measures should be valued equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs. If energy efficiency measures are valued equal to traditional investments then the collection of the costs for energy efficiency measures should be treated the same way, not recovered between rate cases.

Legality of decoupling

Section 5 allows the commission to develop cost recovery mechanism to further encourage investments in demand-side programs, including, in combination and without limitation: capitalization of investments in and expenditures for demand-side programs, rate design modifications, accelerated depreciation on demand-side investments, and allowing the utility to retain a portion of the net benefits of a demand-side program for its shareholders.

The legislation does not mention decoupling. Decoupling, by itself, is not a rate design modification. If decoupling is enacted, then a rate design modification is required if there is a difference in the actual revenues and the "decoupled revenues". Section 5 provides the commission with several methods to incent the utility, including a return on and of demand side programs, accelerated depreciation and allowing the utility to share in the net benefits of a demand side program. Decoupling is not mentioned or is it required to encourage energy efficiency investment by the utilities.

Applicability of section 386.266.8 RSMo

386.266.8: 8. In the event the commission lawfully approves an incentive- or performance-based plan, such plan shall be binding on the commission for the entire term of the plan. This subsection shall not be construed to authorize or prohibit any incentive- or performance-based plan. (Not sure what the staff is asking here – if an incentive plan is enacted, the commission cannot remove it until it is completed? What if the incentive mechanism that is not effective for certain demand side programs? Should that program still be included for the entire term? Thoughts?)

Scope of cost effective demand-side savings

Scope should be set based on the avoided cost or the total resource cost and whether the demand side program provides savings that are cost effective, measurable and verifiable. If a program is less than the avoided cost, but cannot be measured or verified that it is cost effective, it should not be included. (Except for those that are provided to low income and/or paid for by the customer – this means that if a large customer is using demand side program that the utility deems is not cost effective, it can still be included when determining if a customer can opt up under the 2500 kW option). Not sure what else the Staff is referring to about the scope of cost effective demand-side savings, except section 4 says "the commission shall consider the total resource cost test a preferred cost-effectiveness test. I don't think this precludes the avoided cost method.

The Total Resource Cost Test measures the net costs of a demand-side management program as a resource option based on the total costs of the program, including both the participants' and the utility's costs.

Avoided cost is the cost the utility would have incurred had it supplied the power itself or obtained it from another source.