

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

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

**OFFICE OF THE PUBLIC COUNSEL’S RESPONSE TO COMMENTS**

COMES NOW the Office of the Public Counsel (Public Counsel) and for its Response to Comments states as follows:

1. As the certain comments filed in this case show, decoupling is illegal in Missouri.
2. In response to comments submitted concerning decoupling as a policy choice, Public Counsel has attached a Memorandum drafted by Dr. Geoff Marke (See Attachment A).
3. Public Counsel looks forward to participating in the workshop scheduled for September 17, 2015.

**WHEREFORE**, Public Counsel submits its Response.

Respectfully submitted,

THE OFFICE OF THE PUBLIC COUNSEL

/s/ **Christina L. Baker**

By: \_\_\_\_\_

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to the parties of record this 11<sup>th</sup> day of September, 2015.

**Missouri Public Service Commission**

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**/s/ Christina L. Baker**

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## MEMORANDUM

TO: Missouri Public Service Commission Official Case File,  
Case No. AW-2015-0282

FROM: Geoff Marke, Economist - The Missouri Office of the Public Counsel

SUBJECT: OPC Response to Comments

DATE: September, 11, 2015

### **INTRODUCTION**

Many comments were filed in this docket, with most of the comments falling into the following broad categories: (1) legal arguments pertaining to decoupling; and (2) proposed literature for consideration by the Commission. Public Counsel commented previously on why decoupling is legally prohibited in Missouri and now offers the following responses in preparation for the workshop to be held on September 17, 2015.

### **RESPONSE TO THE SUBMITTED LITERATURE FOR CONSIDERATION**

Three documents were referenced and/or submitted by multiple stakeholders in response to the Commission's questions. Public Counsel would like to make the following comments regarding those specific documents:

Vilbert, M. J. et al, (2014) The Impact of Revenue Decoupling on the cost of capital for electric utilities: An Empirical Investigation. *The Brattle Group*.  
[http://www.brattle.com/system/publications/pdfs/000/004/995/original/Effect\\_of\\_Electric\\_Decoupling\\_on\\_the\\_Cost\\_of\\_Capital.pdf?1395776507](http://www.brattle.com/system/publications/pdfs/000/004/995/original/Effect_of_Electric_Decoupling_on_the_Cost_of_Capital.pdf?1395776507)

The "peer review group" for this white paper as listed below indicates individuals that are almost entirely made up of senior members of the National Resource Defense Council, a group that has been actively promoting decoupling and raises the question of bias in the model's outcome. Moreover, the limitations of the study need to be fully considered before making any conclusions on the relationship between ROE and decoupling, as the authors readily admit that the model did not consider the following variables:

- The companion revenue adjustment
- Coverage and independence of rate classes
- Inclusiveness of causes of demand fluctuations
- Adjustment over time using revenue target adjustment mechanism

The study also notes its model may not have captured all of the risk associated with unregulated assets, “Unlike our previous study of gas LDCs, the 14 company electric sample is not nearly as close to a “pure-play” sample. That is, the electric utility holding companies are larger and more diverse than the gas LDC sample. There may be changes in the risk of unregulated assets that we are not fully capturing.” Despite these concerns, it should be noted that the study shows decoupling mechanisms are not prevalent in states with traditional rate making and/or combined with vertically integrated utilities.

Morgan, P. (2013) A Decade of Decoupling for US Energy Utilities. Rate Impacts, Designs, and Observations. *Graceful Systems*  
<http://switchboard.nrdc.org/blogs/rcavanagh/decouplingreportMorganfinal.pdf>

Morgan’s analysis examines the number and respective percentage adjustments made from gas and electric utility decoupling “true-ups” over a ten-year period. She also acknowledges the many methodological limitations inherent in examining a complex issue which requires extensive data cleansing of numerous, opaque “moving targets” within the analysis, including:

- The mixing of utility specific retail prices and statewide EIA data.
- Recognition that the percentages of impacts shown are not necessarily what customers experienced.

Experienced rate changes would vary depending on whether the prior decoupling adjustment was more or less than the adjustment being put into place. For example, if the prior adjustment was a refund of 0.02 cents per kWh and the new adjustment is a refund of 0.01 cents per kWh, customers will experience a rate increase, even though the adjustment is negative because the prior adjustment terminates.

- And that rate change analysis did not factor in changes made from additional adjustments (e.g., FAC, infrastructure, renewable, etc...) or “blackbox” settlements.

Despite these limitations, it is important to note that on a whole, her analysis concludes that there have been significantly more surcharges (increases) than refunds (decreases) when a decoupling mechanism has been utilized. Absent from the study is whether or not the decoupling mechanism and the resulting risk shift to consumers is positively correlated to a reduction in future supply-side investment. Furthermore, the conclusion of the study does not support a finding that decoupling is a necessary mechanism for utility stability:

Without looking at substantial amounts of empirical data, it is difficult to conclude that the risk of under-collecting fixed-cost revenue is greater than the lost opportunity of over-collecting fixed costs, assessed in consideration of changes between authorized and actual prudent fixed costs.

Wharton, J. B. Villadsen, H. Bishop (2013) Alternative Regulation and Ratemaking Approaches for Water Companies. *The Brattle Group*. [http://www.nawc.org/uploads/documents-and-publications/documents/NAWC\\_Brattle\\_AltReg\\_Ratemaking\\_Approaches\\_102013.pdf](http://www.nawc.org/uploads/documents-and-publications/documents/NAWC_Brattle_AltReg_Ratemaking_Approaches_102013.pdf)

The second Brattle Group whitepaper submitted by stakeholders suffers from similar peer review/sponsorship bias, as the study's funding and the data provided was supplied by the National Association of Water Companies (NAWC). NAWC represents the companies in the private side of the water industry, who are both owners and operators of water and waste-water utilities as well as members of a variety of public-private partnerships with public water companies, and thus have a vested interest in the outcome of the paper.

The paper is essentially a cursory literature review of ratemaking treatment and alternative regulation across electric, gas and water utilities in the United States. The study includes various U.S. maps in which state commissions have at some point approved a departure for a utility from a traditional cost of service regulation framework. It also shows that water regulation has not deviated at the same rate across the U.S. from traditional cost-of-service regulation compared to gas and electric. In total, the paper identifies five states with conservation or revenue stabilization/decoupling mechanisms (Arizona, California, New York, Nevada, and Connecticut), all of which were legislatively driven and tied with legislatively enacted water loss conservation policies. Unlike the previous two submissions, the issue of adjustments to ROE was not addressed at length. There was no discussion of Commission-approved decoupling mechanisms tied to reductions in ROE, such as the 50 basis point reduction California American Water received for their shift in risk in receiving a decoupling mechanism in 2007.

## **ADDITIONAL LITERATURE FOR CONSIDERATION & DISCUSSION**

Public Counsel recommends the following documents for consideration for the Commission and the stakeholders in the discussion on the use of decoupling for Missouri's regulated utilities:

Kihm, S. (2009) When revenue decoupling will work ...and when it won't. The Electricity Journal 22, 19-28. <http://www.ecw.org/sites/default/files/kihmdecouplingarticle2009.pdf>

Florida Public Service Commission (2008) Report to the Legislature on Utility Revenue Decoupling  
[http://www.psc.state.fl.us/publications/pdf/electricgas/DecouplingReport\\_To\\_Legislature.pdf](http://www.psc.state.fl.us/publications/pdf/electricgas/DecouplingReport_To_Legislature.pdf)

Pennsylvania Public Utility Commission (2011) American Recovery and Reinvestment Act Investigation Working Group Final Report I-2009-2099881  
[https://www.puc.state.pa.us/general/RegulatoryInfo/pdf/ARRA\\_WG-Final\\_Report.pdf](https://www.puc.state.pa.us/general/RegulatoryInfo/pdf/ARRA_WG-Final_Report.pdf)

Hoffman, et al. (2015) The total cost of saving electricity through utility customer-funded energy efficiency programs: Estimates at the national, state, sector and program level. Lawrence Berkeley National Laboratory. <http://emp.lbl.gov/sites/all/files/total-cost-of-saved-energy.pdf>

Arimura, T. et al. (2011) Cost-effectiveness of electricity energy efficiency programs. National Bureau of Economic Research Working Paper 17556.  
<http://www.nber.org/papers/w17556.pdf>

Sedano, R. (2011) Who should deliver ratepayer-funded energy efficiency? A 2011 update. The Regulatory Assistance Project.  
[https://www4.eere.energy.gov/seeaction/system/files/documents/rap\\_sedano\\_whoshoulddeliverratepayerfundedee\\_2011\\_11\\_15.pdf](https://www4.eere.energy.gov/seeaction/system/files/documents/rap_sedano_whoshoulddeliverratepayerfundedee_2011_11_15.pdf)

Hansen, D.G. & Michael T. O'Sheasy (2012) Residential Rate Study for the Kansas Corporation Commission Final Report. Christensen Associates Energy Consulting.  
[http://www.kcc.state.ks.us/electric/residential\\_rate\\_study\\_final\\_20120411.pdf/AcroJS\\_DesignerJS.pdf](http://www.kcc.state.ks.us/electric/residential_rate_study_final_20120411.pdf/AcroJS_DesignerJS.pdf)