BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of a Repository File Concerning Staff's Review of the Commission's Fuel Adjustment Clause Rules	**)** **)** **)** **)** **)** **)**	**File No. EW-2011-0139**

Comments of Missouri Industrial Energy Consumers

The Missouri Industrial Energy Consumers ("MIEC")[1] appreciates the opportunity to submit these comments concerning the recently adopted fuel adjustment clause ("FAC") rules and reporting procedures for Missouri electric utilities. These comments are submitted in accordance with the Commission's Order of November 23, 2010 inviting comments on the current FAC rules. MIEC applauds the Commission's decision to establish this file and to entertain the possibility of conducting an additional rulemaking to refine the rules governing FACs.

Incentives and Behavior

There is no question about the fact that the incentives to be efficient and control costs change when cost recovery moves from base rates to an FAC. The incentive to be efficient and control costs is less when a utility is allowed to pass through all, or substantially all, of its incurred cost to customers. When the utility must retain these costs and manage them in base rates, the incentive which the utility has is maximized because any increases or decreases in the level of costs are retained by stockholders and felt in terms of increases or decreases in the level of return on common equity.

[1]Anheuser-Busch, Boeing, BioKyowa, Doe Run, Enbridge, General Motors, GKN Aerospace, Hussmann, MEMC Electronic Materials, Monsanto, Nestlé Purina, Noranda, and St. Gobain

Contrary to the positions taken by some utilities, they do have an ability to influence their level of net fuel costs. There are many factors that influence the level of fuel and purchased power costs. Some of these are: (1) the skill of the utility in negotiating its fuel and purchased power contracts; (2) the skill of the utility in taking advantage of purchases and sales in the economy market; (3) the skill and diligence of a utility in maintaining its generation facilities and in restoring efficient units to service after unexpected outages; (4) the skill of the utility in planning and managing its maintenance outages; (5) the skill and success of the utility in hedging transactions for its fuel supplies; and (6) the management decisions regarding the type, size and timing of facilities added to the utility's generation portfolio. Clearly, there are many factors that influence the ultimate level of fuel costs incurred by a utility. Certainly, there are factors beyond the control of the utility, but there are many factors that the utility can manage. As an example, consider the circumstance where an efficient base load generating unit unexpectedly goes out of service. Assume that the utility can restore the unit to service more quickly if it spends $50,000 on overtime labor, expedited parts delivery, etc. Assume also that by expending these additional funds for maintenance, the utility would reduce fuel cost by $75,000. Clearly, the rational economic decision is to spend the extra dollars for maintenance in order to bring the unit back into service more quickly.

Consider now what happens under two different scenarios. If the utility does not have an FAC, it experiences the full cost of the additional maintenance, but it retains the full benefit of the reduced fuel cost, making it better off as a result of incurring this extra maintenance cost. With an FAC mechanism that allows the utility to pass-through all, or substantially all, of its fuel-related costs, foregoing the extra maintenance would benefit stockholders by $50,000, while the utility would be allowed to collect the additional fuel cost (or substantially all of it) from customers through the FAC. Should the utility choose this route, customers clearly would be worse off than if there had not been an FAC.

Generation Unit Performance Issues

In addition to the occurrence of specific events discussed above is the issue of the overall performance of the generation fleet. Efficient, low-cost generating depends upon a high level of performance from the nuclear and coal-fired generation facilities that are the low-cost producers of electricity. If the overall efficiency (usually measured by heat rate) degrades, the availability of the units decrease, or the forced outage rates increase, then customers will see higher costs than if unit performance were maintained or improved. The change in incentive noted above makes it important for the Commission to monitor key performance levels such as equivalent availability factor and equivalent forced outage rate.

MIEC recommends that the Commission establish a procedure for routinely monitoring the heat rate, the equivalent availability factor and the equivalent forced outage rate of the generating units of the Missouri utilities. In particular, utilities should be required to report these statistics for their units (individually and the fleet average), as well as for peer units, on at least an annual basis. The report should be filed as soon after the conclusion of a calendar year as the necessary data can be processed and provided. The data should be filed with the Commission and made available not only to Commission Staff and the Office of Public Counsel, but also to interested parties who generally participate in utility matters before the PSC. The information should be the subject of a technical conference in conjunction with the first proposed change in the level of the FAC for each utility that occurs after the annual report is received.

Sharing of Fuel Cost Changes

Another area that is ripe for review and rulemaking is the percentage of changes in the level of base fuel costs that is retained by the utilities as compared to the percentage that is passed along in rates to customers. Currently, the Commission has established a 95% customers/5% utilities formulation for the sharing percentage. In terms of the incentive provided to utilities, the 95%/5% formula provides disparate incentives to the utilities because

the impact that retaining 5% of changes to the fuel cost has on earnings is much greater for those utilities that have high fuel costs than for utilities that have lower fuel costs. Because of the importance of these incentives, further analysis and consideration of the sharing percentage is clearly warranted.

Sales to Entities Other than Missouri Retail Customers

Another issue requiring consideration and clarification is the definition of off-system sales that should be subject to an allocation of fixed costs through a jurisdictional allocation in a rate case, as contrasted to sales that should fully flow through to customers as a revenue credit, offsetting fuel costs. This issue is front and center in the pending Ameren Missouri fuel adjustment prudency review, Docket No. EO-2010-0255, and is worthy of further study and consideration on a generic basis in a rulemaking proceeding.

MISSOURI INDUSTRIAL ENERGY CONSUMERS

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