



FILED<sup>4</sup>

SEP 08 2006

September 5, 2006

Missouri Public  
Service Commission

Ms. Colleen M. Dale  
Secretary of the Commission  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102

RE: Proposed Rules Permitting Electric Utilities to Change Rates in Response to  
Changes in Fuel and Purchased Power Costs  
Case No. EX-2006-0472 (SB179)

Dear Ms. Dale:

We understand that the Commission is seeking comment on proposed rules which would permit an electric utility to implement surcharges in response to changes in the utility's fuel and purchased power costs. We have reviewed the April 10, 2006, draft of the proposed rules and offer the following comments:

Ag Processing Inc a cooperative (AGP) owns and operates a soybean processing plant and vegetable oil refinery located in St. Joseph, Missouri. We are farmer owned and considered a large energy user operating 24 hours/day, 7 days/week. In addition, we operate similar plants in Iowa, Minnesota, and Nebraska. Some of the utilities serving these facilities pass on fuel surcharges, while others do not.

While we oppose single issue ratemaking in general, based on our experience as a large customer, we do not categorically oppose such rate adjustments as long as they meet the following criteria:

- Balance the interests of the utility and ratepayers
- Focus narrowly on costs beyond a utility's control
- Maintain the general rate case as the chief ratemaking tool

**Surcharges Must Balance the Interests of the Utility and Ratepayers**

No matter what rate design or rate mechanism is used, in the end, rates must remain just and reasonable. A number of utilities in other jurisdictions use fuel and purchased power surcharges, arguing that such costs are beyond the control of the utility and its management. However, such surcharges reduce the utility's business risk; a reduction that should be reflected in the utility's allowed return on equity.

The proposed rules recognize this relationship, in requiring the utility to provide in (1)(N) and (2)(N) and (3)(D).

“A complete explanation of any change in business risk to the electric utility resulting from implementation of the proposed rate adjustment mechanism in setting the electric utility’s allowed return in any rate proceeding, *in addition to any other changes in business risk experienced by the electric utility.*” (Emphasis added).

We suggest that the proposed language substitute the words “the reduction” for the words “any change” in the first line. The Commission should establish the expectation that interests will be balanced: return on equity will be reduced, and in exchange, utilities will impose surcharges. We are also troubled by the last part of this sentence, which we have italicized above. It seems to invite the utility to introduce factors outside of fuel and purchased power costs. It would be unfortunate that, by allowing other issues to intrude, ratepayers end up paying surcharges and a higher return on equity. We recommend that the words after “proceeding” be deleted.

#### **Surcharges Should Focus Narrowly on Fuel and Purchased Power Costs**

We understand that the Commission has grappled with the problem of single-issue ratemaking for many years. In looking at the increase in only one cost, other counterbalancing changes must be ignored. One way of mitigating the impact of single-issue ratemaking is to confine the scope of such surcharges as narrowly as possible.

Unfortunately, our reading of the proposed rules is that they do not necessarily focus on just fuel and purchased power costs. For example, (1)(H) and (2)(H) require “(a) complete explanation of all costs that shall be considered for recovery...and the specific account used for each cost item on the electric utilities books and records.” We believe that the rule should make clear that only fuel and purchased power costs, and their related accounts, should be eligible for surcharge recovery. We recommend adding the words “fuel and purchased power” before the word “cost” in this sentence.

#### **Maintain the General Rate Case as the Chief Ratemaking Tool**

Finally, we believe that the rules should recognize that fuel surcharges should be only an interim measure, something done between rate cases to maintain a utility’s solvency. The general rate case is the only forum in which all of a utility’s costs and revenues can be examined. We recommend that the rules require a general rate case every three years for utilities adopting the fuel surcharges.

**Our General Concerns Center on Competitiveness and Accountability**

Beyond the specific changes in the proposed rules we discuss above, we have a number of general concerns regarding how these rules will be implemented going forward. Namely, we are concerned that rates in Missouri will remain competitive and that utilities and their managers will be held accountable for their actions.

**Competitiveness**

As a utility has no competition, the Public Service Commission must protect consumers. By its very nature, single-issue ratemaking is anti-consumer. For example, in Iowa, we purchase energy from MidAmerican, which has frozen their electric rates for an 8 to 10 year period at a much lower per kWh charge than Missouri (approximately \$0.034/kWh industrial rate). They are paying similar delivered coal and natural gas prices as Missouri utilities.

**Accountability**

Rate adjustments can degenerate into a means to pass on business mistakes or poor management practices in regards to purchasing fuels. Their use may also result in a utility, investing in unneeded capital, operating unneeded plants and making other poor management decisions. Competitive industries, like AGP, do not have the ability to pass on mistakes and poor business practices to our customers.

Beyond the rules, we have six general questions concerning how the Commission will monitor utilities that use such surcharges:

1. How is the Commission going to verify that electric companies are paying the lowest cost for fuel and purchase the lowest cost electricity?
2. How is the Commission going to verify that electric companies are using the lowest cost generation?
3. How is the Commission going to verify that environmental compliance spending is necessary and the most economical for ratepayers?
4. How is the Commission going to ensure that utilities are not taking advantage of (gaming) the process?
5. SB179 Legislation has reduced utility risk. Will the Commission take that reduction into consideration when allowing a rate of return?
6. Will the Commission require a true-up or require a general rate case to ensure to review all costs? It is likely that some cost reductions have taken place.

Ms. Colleen Dale  
September 5, 2006  
Page Four

AGP and other Missouri industry continue our efforts to compete in the U.S. and world markets. Industry cannot survive without low cost, reliable utility services. Please develop rules that will protect Missouri industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Chesnut". The signature is fluid and cursive, with a long horizontal stroke at the end.

Gary Chesnut  
Director of Purchasing  
Ag Processing Inc a cooperative