

Exhibit No.:
Issue(s): *Decoupling Rate
Mechanism*
Witness: *Michael J. Abbott*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2025-0107*
Date Testimony Prepared: *May 7, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

WATER, SEWER, GAS, AND STEAM DEPARTMENT

DIRECT TESTIMONY

OF

MICHAEL J. ABBOTT

**SPIRE MISSOURI INC.,
d/b/a Spire**

CASE NO. GR-2025-0107

*Jefferson City, Missouri
May 2025*

DIRECT TESTIMONY

OF

MICHAEL J. ABBOTT

**SPIRE MISSOURI INC.,
d/b/a Spire**

CASE NO. GR-2025-0107

Q. Please state your name and business address.

A. My name is Michael J. Abbott. My business address is 200 Madison Street, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am employed with the Missouri Public Service Commission (“Commission”) as a Senior Project Manager with the Water, Sewer, Gas, and Steam Department, Industry Analysis Division.

Q. Are you the same Michael J. Abbott who provided Cost of Service direct testimony for this case?

A. Yes.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to provide Staff’s position on decoupling mechanisms, which would have a negative impact on customers.

Q. What is decoupling?

A. Decoupling was originally conceived as a way to allow utilities to be indifferent to annual sales volumes to address the net revenue losses associated with energy efficiency programs. More recently decoupling has been considered as one of the rate adjustment

1 mechanisms to mitigate revenue shortfalls.¹ Basically stated, decoupling allows utilities to
2 recover net lost revenues due to reduced sales. Additionally, decoupling is a generic term for
3 a rate adjustment that separates (*i.e.*, decouples) a utility's fixed cost recovery from the amount
4 of gas (for this rate case) the utility sells.² Utility companies have recently proposed names for
5 decoupling such as 'revenue stabilization mechanism' and 'distribution service adjustment'.

6 Q. How does decoupling allow a utility to be indifferent with regards to
7 annual sales?

8 A. Decoupling, in its simplest form, allows a utility to collect a guaranteed revenue
9 regardless if the actual annual revenue is above or below the set revenue. This then allows a
10 utility to be indifferent regarding sales as the utility is guaranteed a specific revenue. If actual
11 revenues are below the guaranteed revenue, then the utility's tariff would also cover how the
12 utility would surcharge customers to mitigate the deficit. If actual revenues are above the
13 guaranteed revenue, then the utility's tariff would provide specific conditions on how the
14 resulting credit would be distributed to customers.

15 Q. Utilities regulated by the Commission have normalized revenues set by the
16 Commission. Why would a Commission approved revenue requirement be referred to as
17 guaranteed revenue?

18 A. It would work as follows. If the Commission approved revenue requirement is
19 not achieved, the utility would implement surcharges to customers during the reconciliation
20 period. If the revenue requirement is exceeded, the utility would implement credits to
21 customers during the reconciliation period. Therefore, regardless if the actual revenue is above

¹ Migden-Ostrander, J., and Sedano, R. (2016). *Decoupling Design: Customizing Revenue Regulation to Your State's Priorities*. Montpelier, VT: Regulatory Assistance Project.

² NARUC (2007). *Decoupling for Electric & Gas Utilities: Frequently Asked Questions (FAQ)*. Grants & Research Department

1 or below the revenue requirement approved by the Commission, the utility is guaranteed to
2 receive the revenue requirement.

3 Q. Are current Commission approved revenue requirements considered
4 guaranteed revenue?

5 A. No. Currently when the Commission approves a revenue requirement as part of
6 a rate case, the revenue requirement is equivalent to the utility's cost of providing service. Rates
7 are then developed based on the revenue requirement that will allow the utility to charge its
8 customers in order to collect revenue.

9 However, in reality, customer usage can be greater than or less than the level used in
10 the rate case to develop rates; cost will be lower or higher than normalized cost used to develop
11 the revenue requirement; or any combination of these as well as other factors will occur, causing
12 revenues or cost to be higher or lower. Meaning that, currently, a Commission approved
13 revenue requirement does not guarantee to a utility that the actual revenue will achieve or
14 exceed the revenue requirement.

15 Q. Is decoupling authorized for any utilities in Missouri?

16 A. No, there are no current decoupling mechanisms authorized by the Commission
17 for any utility.

18 Q. What is a reconciliation period with regards to decoupling?

19 A. A reconciliation period is simply a recovery period for the utility. It is the period
20 of time that a utility: (1) determines an over-recovered or under-recovered balance cost, and (2)
21 implements either a credit (for over-recovered) or surcharge (for under-recovered) on
22 customers' monthly bills.

1 Q. Are all customers of a utility subject to a decoupling and the
2 reconciliation period?

3 A. No, decoupling would only impact residential and small general service
4 customers. Section 386.266.3, RSMo, establishes that the impact on utility revenues of
5 increases or decreases in residential and commercial usage due to variations in either weather,
6 conservation, or both are specific to eligible customers only, and that eligible customers for gas
7 utilities are the residential class and the smallest general service class.

8 Q. Are there benefits to decoupling?

9 A. There are beneficial outcomes from decoupling for the utility; however, it is
10 difficult to see beneficial outcomes for customers subjected to a decoupling mechanism.
11 Essentially, decoupling reduces risk for a utility by shifting that revenue risk to the utility's
12 eligible customers.

13 The ability for a utility to earn a profit is dependent on two (2) basic factors, dollars in
14 and dollars out. All utilities face risk that revenue will not match the authorized level that was
15 approved by the Commission, and thus investors require risk reward for that uncertainty.
16 If revenues are all but guaranteed, uncertainty fades and risk is reduced; however, risk does not
17 disappear. Rather when the risk is reduced for the utility, and risk is transferred to the impacted
18 customers. This transfer of risk is realized when, through no fault of the impacted customers,
19 the revenue requirement is not achieved. When the revenue requirement is not achieved,
20 impacted customers are then required to pay higher monthly bills so that the utility can achieve
21 its revenue requirement. Thus, there is a significant higher probability that eligible customers
22 will not benefit from decoupling.

1 Q. Based on your description, it sounds as though decoupling would eliminate a
2 customer's ability to control their utility bill. Is that accurate?

3 A. Correct. Customers currently understand if they use more, they pay more;
4 likewise, if they use less, they pay less. However, if the utility does not achieve the required
5 revenue, customers that took actions to reduce their monthly bill will end up paying more due
6 to surcharges during the reconciliation period.

7 Q. Does this conclude your direct testimony?

8 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Spire Missouri Inc. d/b/a Spire's)
Request for Authority to Implement a General)
Rate Increase for Natural Gas Service Provided)
in the Company's Missouri Service Areas)

Case No. GR-2025-0107

AFFIDAVIT OF MICHAEL J. ABBOTT

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW MICHAEL J. ABBOTT and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony of Michael J. Abbott*; and that the same is true and correct according to his best knowledge and belief.

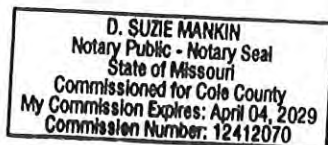
Further the Affiant sayeth not.



MICHAEL J. ABBOTT

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 2nd day of May 2025.





Notary Public