EX-2008-0105
Environmental Cost Recovery Mechanism Rules

Additional Staff Comments

January 17, 2008

Staff withdraws its proposed change to 4 CSR 240-20.091(5).

ECRM rates are to set to collect revenues to cover the environmental costs incurred since the prior general rate proceeding. The true-up process only looks at whether the rates over- or under-collected the intended revenues. Environmental costs are not considered in the true up. The rule already restricts the periodic adjustments to be based on environmental costs (4 CSR 240-20.091(4)(A)) and the Commission determines which cost components are included in the ECRM (4 CSR 240-20.091(2)(C)). Inserting environmental costs in this section may create confusion. Therefore Staff withdraws its proposed language.

Clarification of 4 CSR 240-20.091(5)(B)

The purpose of 4 CSR 240-20.091(5)(B) is to describe how the true-up adjustment is calculated. However, in its current form it is confusing. Therefore, Staff proposes the following change:

> (B) The true-up adjustment shall be the difference between the ~~revenue collected and~~ the revenue authorized for collection during the true-up period and billed revenues associated with the ECRM during the true-up period.

Staff response to selected MEDA comments:

MEDA proposes removing the monthly submission requirement in 4 CSR 240-3.162(5)(C) based on its belief that it is duplicative with subsection (5)(E). Staff does not agree that this is duplicative. Subsection (5) (C) requires the electric utility to provide:

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> The electric utility's actual environmental compliance costs and revenues allocated by rate class and voltage level, as applicable, consistent with the most recent commission approved allocation methods and rate design;

Subsection (5)(E) requires the utility to provide:

> The difference by rate class and voltage level, as applicable, between the total environmental revenues collected through base rates and the ECRM and the environmental compliance revenues received and costs incurred;

The two subsections are not duplicative. Subsection (5)(C) requests information on environmental compliance costs and environmental cost revenues and how those costs are allocated to the rate classes for that month. Section (5)(E) requests information on the difference between the revenues billed and the revenue projected for each month. Changing (5)(E) may reduce the confusion. Staff suggests the following changes to Subsection (5)(E) for clarification:

> The difference by rate class and voltage level, as applicable, between the total ~~environmental~~ **billed ECRM** revenues ~~collected through base rates and the ECRM~~ and **the projected ECRM revenues**~~the periodic adjustment environmental compliance revenues received and costs incurred~~;

As a part of its proposed changes, MEDA included language that would set the return applied to capital environmental costs. Staff recommends adding this language to the proposed 4 CSR 240-20.091(4)(B). The subsection would read:

> (B) The periodic adjustment shall consist of a comprehensive measurement of both increases and decreases to the environmental revenue requirement established in the prior general rate proceeding plus the additional environmental costs. **The return applied to all capital environmental costs shall be the weighted cost of capital including the return on common equity, established in the electric utility's general rate proceeding in which the ECRM mechanism was established.**
>
> (added language in bold)

Staff agrees with MEDA's suggestion to change the date of the rule review date in 4 CSR 240-20.091(12) from June 30, 2011 to December 31, 2011 to be consistent with 4 CSR 240-3.162(17).

MEDA and several of the investor owned utilities argue that the investment currently associated with environmental compliance should be treated identically to the procedures outlined in the current ISRS rules. The Staff does not agree with this argument. SB 179 in Section 386.266.2 clearly authorizes "periodic rate adjustments outside of general rate proceedings to reflect **increases and decreases** in its prudently incurred costs, whether capital or expense, to comply with any federal, state, or local environmental law, regulation, or rule." Whereas section 393.1012.1, which establishes the ISRS, makes no mention of increases or decreases in expense. In fact, the language in that section states "a gas corporation providing gas service may file a petition and proposed rate schedules with the commission to establish or change ISRS rate schedules that will allow for the adjustment of the gas corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements." There is no provision in the ISRS law to net increases or decreases in the expenditures as is found in SB 179. Furthermore, there is no language in SB 179 that establishes that the capital expenditures for compliance should only be recognized during a future event when another asset is constructed as is done in the ISRS. For these reasons, the Staff believes that an environmental rate base must be established in the general rate proceeding.

The Staff would also disagree with the comments of MEDA and AmerenUE, regarding the burdensomeness of identifying the environmental rate base. It is not the intention of the Staff to require a utility to identify "a pump or a fan" as a compliance investment. The Staff would suggest that some materiality limit in dollars or specific investments types could be included in the rate base. However, the Staff would argue that whatever agreed to conditions are imposed on the environmental rate base would also apply to the utility when it seeks an ECRM periodic adjustment.

Greg Meyer from the Staff is here today to answer any questions you might have with respect to the Staff's remarks regarding the difference between ISRS and the ECRM, as well as any other ratemaking questions you might have.