

 February 27, 2015

Re: Missouri Energy Development Association (MEDA) Comments—Missouri Comprehensive Statewide Energy Plan Policy Brief

On behalf of MEDA and its members, I would like to once again express our appreciation to the Missouri Division of Energy for allowing us to take part in the Comprehensive Statewide Energy Plan process. As a key part of this process and for the purposes of this document, MEDA would like to provide the following overview and comments on various provisions of the Policy Brief.

**Our Members, Our Focus**

Organized in 2003, MEDA is the association of Missouri’s Investor-Owned Utilities and their strategic partners. Our members serve nearly 4 million customers, invest over $1 billion in-state annually, and employ over 11,500 Missourians while providing the electric, natural gas, and water services integral to the safety and prosperity of all Missourians.

Our mission is to work closely with Missouri Investor-Owned Utilities and their strategic partners, representing their interests and advocating balanced policies in legislative and regulatory arenas. MEDA provides credible public policy leadership, pivotal industry awareness and education, and strategic business intelligence.

MEDA is made up of the following primary Investor-Owned member businesses: Ameren Missouri, The Empire District Electric Company, KCP&L, The Laclede Group, Liberty Utilities, Missouri American Water, and Summit Natural Gas. MEDA also represents the following associate members: Missouri Public Utility Alliance and Southern Star Central Gas Pipeline.

**Policy Brief Comments**

**1. Interconnection Rule Changes**

It is a fundamental rule of utility regulation that customers should pay for the costs of the services they receive from a utility and not pay for the costs of services provided to other customers. Proper cost allocation is essential to fair ratemaking and the avoidance of hidden cross-subsidies. Deviations from this policy lead to distorted incentives and diseconomies that are not sustainable over time, as demonstrated by recent experiences in Europe. MEDA would consider supporting changes to the rule if the issue of fixed cost subsidies is properly addressed. Interconnection rules should establish a fixed charge to support infrastructure and assure a fair compensation to the other ratepayers that pay for the infrastructure.

**2. Net Metering Rule Changes**

Any adjustments to Missouri’s net metering provisions must include revisions to the rate structure to ensure that the majority of an electric utility’s customers are not subsidizing a select few customer-generators. In addition, due to reliability and safety requirements, a utility needs the ability to fully recover the costs associated with the required grid infrastructure while making sure that customer-generators receive financial credit at a rate that accurately reflects the value to the utility associated with the energy they are selling back to the utility provider, as well as any value associated with demand reduction as measured on a basis consistent with other demand reduction alternatives.

In net metering, any excess at the end of the month is paid at the wholesale rate. As things are presently structured, there is no charge for the power that has been effectively stored free of charge by the utility. Certain aspects of the proposed policy changes could be considered but only after a special demand charge is allowed to be placed on those customers who install their own generation and stay connected to the distribution grid. Conceptually, hourly netting, not monthly or annual, should also be considered. With the proper metering and billing infrastructure, hourly netting could allow for better price signals reflecting costs of generation at the appropriate times of the day and year. A kWh is not the same in the peak of the summer as it is at midnight in the spring. As with all potential technology investments, a proper cost/benefit analysis would need to be conducted by each utility provider to determine the impact on customers. MEDA does not support net metering rule changes unless the issues of fixed cost subsidies and cost shifting are properly addressed.

**3. Renewable Energy Sales Tax Exemption**

With the current existence of numerous state and federal rebate programs and tax credits for renewable technologies like solar and wind, MEDA does not see the need to establish another subsidy program to benefit a small few that will be paid for by Missouri taxpayers.

**5. SREC Market Establishment**

MEDA believes the establishment of a solar renewable energy credit market is not necessary. For example, Ameren Missouri, through either the standard offer contract or due to changes in the Missouri Renewable Energy Standard that were in connection with the passage of HB 142, has or will receive most of the SRECs generated by customer installed solar systems on its grid for the next ten years. A national market already exists and customers can sell available SRECs to aggregators or brokers. As Missouri allows the utilities that must comply with the Renewable Energy Standard to acquire RECs and SRECs from anywhere in the continental U.S., a separate market serves no useful purpose.

**6. Strengthened Renewable Portfolio Standard**

MEDA members have been working diligently since 2008 to put into action the original renewable energy mandate, Proposition C, so that investment is promoted and consumers are protected. While continuing to advocate for legal and legislative remedies to fully implement Missouri’s current standard, MEDA’s members have remained committed to developing renewable energy resources. Collectively, MEDA members invest millions of dollars of incentives to encourage small scale customer owned solar energy systems, deliver now, and in the future, beneficial wind energy to customers, continue to deliver clean hydroelectric generation, and invest in valuable new landfill and bioenergy gas to energy projects across Missouri. The 1% rate cap, an original part of the ballot initiative, should not be eliminated without a detailed discussion with the legislature on the impact that change would have on customer rates. MEDA supports renewable energy, but cannot support any additional costly mandates, on top of an existing mandate, that would increase the financial burden for families and small businesses to further benefit an industry that is already heavily subsidized.

**7. Accelerated Infrastructure Cost Recovery Working Group**

Taking so long to reflect cost changes in rates is neither good for the regulated utilities nor the customers they serve. When costs are escalating, the delay simply decreases cash flows, increases financing costs, erodes earnings on investments that are necessary to provide utility service, and diminishes the level of resources available to provide safe and reliable utility service. When costs are declining, the delay can likewise potentially deprive customers of the opportunity to benefit from those reductions in a timely manner. Moreover, there is no reason for such delays given the advances that have occurred over the past three decades or more in the ability to gather, manage, disseminate and analyze the kind of information that is necessary to set rates. In short, we live in a world today where proactive regulatory adjustment mechanisms should be considered and can be successfully employed to address the negative impacts of severe regulatory lag on utilities and customers alike. MEDA would support a working group to review accelerated infrastructure cost recovery.

**8. Construction Accounting**

As MEDA has previously stated, the adoption of “construction accounting” for all capital investment between rate cases should be considered, or at least the portion of capital investment that exceeds the utility’s depreciation expense. Construction accounting has been used for major capital assets for many years in Missouri. Construction accounting permits the utility to continue accruing “AFUDC-like” on its investment until the time when the investment is reflected in rate base. In addition, it permits the utility to defer depreciation on the asset until the depreciation expense can be reflected in rates. In short, it eliminates the time period when the utility is completely unable to recover a return on or a return of its investment and it eliminates the disincentive to investment that currently exists due to the severe regulatory lag discussed earlier.

**10. Electricity Infrastructure Improvements**

MEDA would support efforts that would address the critical need for infrastructure investment in Missouri. That being said, clarification is needed for the intended definition of water use. Does this apply to water withdrawal (once-through cooling systems) in addition to minimizing water consumption? Does this also apply to use for hydropower? Could this cover steam power generation? Conceptually, hourly netting, not monthly or annual, should also be considered. With the proper metering and billing infrastructure, hourly netting could allow for better price signals reflecting costs of generation at the appropriate times of the day and year. A kWh is not the same in the peak of the summer as it is at midnight in the spring. As with all potential technology investments, a proper cost/benefit analysis would need to be conducted by each utility provider to determine the impact on customers.

**11. Formalize the Definition and Legal Rights of Micro-Grids**

MEDA opposes formalizing the definition of a micro-grid. Doing so overrides the certified service territories granted to Missouri’s regulated investor-owned utilities and goes down the path of deregulation.

**12. Formalization of Micro-grid Owner Responsibilities**

MEDA opposes the formalization of micro-grid owner responsibilities. Doing so overrides the certified service territories granted to Missouri’s regulated investor-owned utilities and goes down the path of deregulation.

**13. Forward Test Years**

Fifteen states allow the use of a Future Test Year for electric and gas companies and seventeen states allow the use of a Hybrid or Transitional Future Test Year for electric and gas companies. While Missouri unfortunately does not allow the use of a Future Test Year for water companies, nineteen other states, including neighbors like Illinois, Arkansas, Kansas, and Nebraska, allow the use of this valuable mechanism. (The Brattle Group and NAWC, 2013)To encourage necessary infrastructure investment and to address the timeliness of cost recovery which is then reinvested into the system, MEDA supports the availability of a Future Test Year mechanism to Missouri’s regulated utilities.

**14. Infrastructure System Replacement Surcharge (ISRS)**

On balance, it takes a full 11 months to process a litigated rate case in Missouri, compared to seven of Missouri’s surrounding states who enjoy a more streamlined process that ranges from 10 months to 180 days. In particular, the time lag between when investments in capital assets must be made and when they can be reflected in rates is extremely lengthy (absent mechanisms like the Infrastructure System Replacement Surcharge (“ISRS”) that permits natural gas and water utilities to recover certain capital expenditures on a more contemporaneous basis. ISRS has been an effective mechanism to address needed investment in infrastructure, while providing customers with some level of protection from costly, frequent rate cases and rate increases. MEDA supports reviewing the utilization of ISRS for all utilities.

**15. Interim Rates Subject to Refund**

To address the pernicious impact of severe regulatory lag, MEDA supports utilities being permitted to implement interim rates to reflect some or all of the increases in costs during the pendency of the rate case. These interim rates would be subject to full or partial refund based on (a) prudence disallowances, or (b) a total rate increase that did not exceed the interim rate increase. However, the use of interim rates would permit the inclusion of generally uncontested plant additions in rates at an earlier point in time.

**16. Integrated Resource Plan Timeline Changes**

MEDA does not see a need, nor have our members been made aware of a need, to modify the extensive integrated resource plan process that is currently in place.

**17. Power Generation Facility Water Usage Reporting**

MEDA does not see a need, nor have our members been made aware of a need, to establish a requirement for annual reporting with regard to freshwater withdrawals. The definition for the terms withdrawal and consumption is not clear, as well as, the scope of impacted sources.

**18. Power Generation Facility Planning for Water Supply and Demand**

MEDA does not see a need, nor have our members been made aware of a need, to move forward with this policy idea. Clarification would be needed with regards to the type of facilities/units this would impact.

**20. Smart Grid Deployment**

MEDA supports discussion around the consideration of statewide deployment of smart grid technologies. Conceptually, hourly netting, not monthly or annual, should also be considered. With the proper metering and billing infrastructure, hourly netting could allow for better price signals reflecting costs of generation at the appropriate times of the day and year. A kWh is not the same in the peak of the summer as it is at midnight in the spring. As with all potential technology investments, a proper cost/benefit analysis would need to be conducted by each utility provider to determine the impact on customers.

**21. Standardized Micro-grid Interconnection Standards**

MEDA would support a discussion on the issue, but would not support new standards that would create a subsidy that non-using customers would have to financially support. In addition, MEDA does not support a definition or establishment of rights for micro-grids that would override certified service territories.

**22. Appliance and Equipment Standards**

MEDA does not see the need for Missouri-specific standards at this time, especially if there are added costs that are not justified by the benefits.

**24. Commercial Customer Real-Time Utility Data**

If utilities would be required to provide such information to customers, MEDA would advocate that there must be a mechanism in place for the utilities to collect charges for the metering costs. Conceptually, hourly netting, not monthly or annual, should also be considered. With the proper metering and billing infrastructure, hourly netting could allow for better price signals reflecting costs of generation at the appropriate times of the day and year. A kWh is not the same in the peak of the summer as it is at midnight in the spring. As with all potential technology investments, a proper cost/benefit analysis would need to be conducted by each utility provider to determine the impact on customers.

**25. Conservation Adjustment Policies**

To further encourage the promotion and investment in water and energy efficiency and conservation, MEDA supports the availability of revenue stabilization mechanisms to Missouri regulated utilities to remove any disincentive for investment and to allow for the appropriate level of cost recovery necessary to implement efficiency measures. Current statutory provisions that authorize the PSC to adopt rules for gas utilities under which they may implement a customer usage adjustment mechanism could serve as a template for the water and electric utilities.

**26. Utility Deregulation**

Missouri’s investor-owned utilities continually strive to provide safe, reliable, and affordable energy options for their customers. Deregulation for the most part has been utilized to try and address costs in states with traditionally high utility rates. Missouri’s current rates are very competitive and bring a high value for their customers. Judging by the financial impact of deregulation in the states where it is currently in place, deregulation will most likely bring increased utility costs to consumers and little added benefit while potentially impacting reliability.

**29. Missouri Energy Efficiency Investment Act Modifications**

MEEIA has been a very successful program and is delivering top-tier, cost-effective energy efficiencies to customers. Mandates as described in the policy brief are costing customers in other states hundreds of millions of dollars with very uncertain cost/benefit ratios. Two percent annual load reductions on a sustainable basis are unachievable. A statistically valid study has been conducted by a MEDA member confirming this position. For example, using Massachusetts as a barometer, a state that purports to achieve 2% annual electric load reductions; the 3 year budget to even attempt to achieve a Missouri statewide sustainable load reduction target of 2% through customer energy efficiency initiatives would be approximately $2 billion. MEDA does not support mandated or standardized changes to MEEIA.

**30. Non-Energy Benefits in Cost-Effectiveness Tests**

MEDA does not support the inclusion of non-energy benefits in the tests that are used to determine the cost-effectiveness of energy efficiency programs.

**34. Rebalance Grid Infrastructure with Changes in Energy Demand**

MEDA would support fair and equitable charges for access to the grid that eliminates subsidization and accurately reflects the true cost of service.

**35. Rate Rider and Adjustment Mechanism Working Group**

MEDA does not support the description as written in the policy brief. What MEDA would support is the establishment of a working group to review new and innovative rate rider and adjustment mechanisms that could be of benefit to all customers, including those that can more accurately match costs with rates, promote infrastructure investment and expansion, and provide incentives for sensible growth and superior performance. Such a review should not be just focus on those that are utilizing energy efficiency or distributed generation programs.

**36. Statewide Advisory Group**

Currently, stakeholders have extensive opportunities and avenues to engage in the regulation of utilities. MEDA would question why there is a need to create a duplicative process.

**39. Water-Energy Infrastructure Improvements**

MEDA would support discussion on this issue but clarification is needed to determine what type of existing power systems this policy would apply to, whether or not the system can be public or private, and the impact to electric and water customer costs.

**40. Authorize Missouri’s Utilicare Program on an Annual Basis**

Missouri’s Utilicare program for eligible low-income, disabled, or elderly citizens should be adequately appropriated, and ultimately authorized by the Administration on an annual basis to provide financial support to the applicable community action agencies for those who need assistance with their utility bills. MEDA’s members support this policy and will continue to work with Missouri’s community action agencies to ensure that utility customers are receiving the necessary support during challenging times.

**42. Integrated Resource Planning Process Changes**

MEDA does not see a need, nor have our members been made aware of a need, to modify the extensive integrated resource plan process that is currently in place.

**45. Fixed Variable Rate Designs**

In addition to the adjustment mechanisms described above, rates can also be designed in a way that reduces the impact of usage variations on the revenues received by the utility from the outset. For example, under the fixed variable rate design, rates are set to recover all or a large proportion of the utility’s fixed costs, as established in its last general rate case, through fixed customer charges and/or volumetric rate blocks that recover such costs even at relatively low levels of usage. Straight variable rates generally include most or all fixed costs in the customer charge or through a first block rate that is designed to recover such costs once a relatively limited amount of customer usage occurs. The volumetric charges then recover any variable costs, (such as gas costs).” (The Brattle Group and NAWC, 2013) Like the usage adjustment/decoupling mechanism, the fixed variable rate design works both ways, limiting how much customers pay when weather increases revenues above targeted levels and ensuring that the utilities recover, but do not over-recover their fixed costs when revenues fall below targeted levels. MEDA supports the consideration of such structures.

**47. Public-Private Investments in Resources and Technology**

MEDA does not support the need for such a policy as written, as the current Public Service Commission, Integrated Resource Plan, and Energy Efficiency stakeholder processes all provide the necessary sharing of data.

**General Comments**

The policy brief does not address overall emergency preparedness and response. With regards to response to natural disasters and other potential threats, planning, training, and collaboration should all be considered. Supply assurance should be addressed for all forms of energy, as well as, transportation requirements and concerns for each commodity. Finally, physical security of Missouri’s energy facilities and the crucial issue of cybersecurity should be included in any Missouri plan focused on our energy future.

**Conclusion**

On behalf of MEDA I would like to thank you again for the opportunity to provide comments and please don’t hesitate to contact me if you have any questions or need further information.

Sincerely,

Trey Davis

President

# Works Cited

The Brattle Group and NAWC. (2014, December 12). *Alternative Regulation and Ratemaking Approaches for Water Companies.* Retrieved from www.basecamp.com: https://basecamp.com/2762315/projects/7475791/attachments

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