

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of a Working Case to)
Consider Policies to Improve) **File No. EW-2016-0313**
Electric Utility Regulation)

NOTICE OF POLICY INITIATIVES FOR STAKEHOLDER CONSIDERATION

Issue Date: June 22, 2016

During the recently concluded legislative session, I participated in several policy discussions regarding electric rate case adjustment procedures, grid modernization incentives, low-income utility rates, and rate case expense sharing. Attached to this notice are copies of draft language designed to address these policies. I submit these here for consideration along with other stakeholder suggestions.

Respectfully submitted,

Daniel Y. Hall
Chairman, Missouri Public
Service Commission

Dated at Jefferson City, Missouri
On this 22nd day of June, 2016

Electric Rate Case Adjustment Proceeding

Outline of Proposal

1. Utility files traditional 11-month rate case
 - Utility has the option in that case to seek the annual “Rate Case Adjustment” process (below) for a three year time period, subject to Commission approval
2. Traditional Rate Case every 3 years
 - Class Cost of Service/Rate Design
 - Rate of Return, ROE and Capital Structure
 - Revenue Requirement and Rate Base
3. Annual 7-month "Rate Case Adjustment" case
 - as to Revenue Requirement and average Rate Base
 - includes consumption/expenses
 - does not include Rate of Return, Capital structure and ROE
 - Schedule (to be established by the Commission on a case by case basis but within the 7 month timeframe)
 - 2/1/17 – Utility files costs from prior 12 months, along with supporting documentation and direct testimony
 - 5/1/17 – Staff files Response
 - 6/1/17 – Utility, OPC and intervenors file Responses
 - 7/1/17 – Hearing (limited to one week)
 - 8/15/17 – Decision
 - 9/1/17 – New rates effective
 - Mandatory for three years if utility opts-in
4. Revenue requirement set by costs from prior year
 - only those costs deemed prudent, fair and reasonable, in the public interest and therefor properly recoverable by the Commission
 - Utility carries burden of proof (current law)
 - No reconciliation (guarantee) of revenues received
5. Rate Case Adjustment Caps on annual rate increase
 - 3-5% for each class
6. Performance incentives and disincentives
 - Established by the Commission every 3 years in traditional rate case
 - Customer service, reliability, grid modernization, cyber/physical security, demand-side efficiency, etc.
7. Presentation of capital investment plans
 - For the next year
 - the next 5 years
 - the next 10 years
 - All parties have opportunity to comment; commission expresses its non-binding view of such

Rationale for Proposal:

- This would eliminate the need for an ISRS, not involve single-issue ratemaking, but would greatly reduce regulatory lag.
- Utility would still be motivated to find efficiencies but also to invest in needed infrastructure.
- Utility would enjoy stability and customers would avoid rate shock
- Commission would retain current authority to review costs and determine those appropriate for recovery in rates.
- The performance criteria would be flexible to address company specific issues and evolve as times change.
- The capital review would allow the commission to guide such investments without micromanaging.

DRAFT Language – Electric Rate Case Adjustment Proceeding

"393.150. 1. Whenever there shall be filed with the commission by any gas corporation, electrical corporation, water corporation or sewer corporation any schedule stating a new rate or charge, or any new form of contract or agreement, or any new rule, regulation or practice relating to any rate, charge or service or to any general privilege or facility, the commission shall have, and it is hereby given, authority, either upon complaint or upon its own initiative without complaint, at once, and if it so orders without answer or other formal pleading by the interested gas corporation, electrical corporation, water corporation or sewer corporation, but upon reasonable notice, to enter upon a hearing concerning the propriety of such rate, charge, form of contract or agreement, rule, regulation or practice, and pending such hearing and the decision thereon, the commission upon filing with such schedule, and delivering to the gas corporation, electrical corporation, water corporation or sewer corporation affected thereby, a statement in writing of its reasons for such suspension, may suspend the operation of such schedule and defer the use of such rate, charge, form of contract or agreement, rule, regulation or practice, but not for a longer period than one hundred and twenty days beyond the time when such rate, charge, form of contract or agreement, rule, regulation or practice would otherwise go into effect; and after full hearing, whether completed before or after the rate, charge, form of contract or agreement, rule, regulation or practice goes into effect, the commission may make such order in reference to such rate, charge, form of contract or agreement, rule, regulation or practice as would be proper in a proceeding initiated after the rate, charge, form of contract or agreement, rule, regulation or practice had become effective.

2. If any such hearing cannot be concluded within the period of suspension, as above stated, the commission may, in its discretion, extend the time of suspension for a further period not exceeding six months. At any hearing involving a rate sought to be increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the gas corporation, electrical corporation, water corporation or sewer corporation, and the commission shall give to the hearing and decision of such questions preference over all other questions pending before it and decide the same as speedily as possible.

3. In any general rate proceeding, the commission may establish performance incentives for an electrical corporation. Such performance incentives may be based on various metrics including, but not limited to, customer service, reliability, grid modernization, cybersecurity, physical security, and demand-side efficiency. The commission may increase or decrease the return on equity in the next general rate proceeding based on the electrical corporation's performance on such metrics.

4. (1) Notwithstanding any other provision of law, during a general rate case an electrical corporation may file, and the commission may approve, a request for annual rate case adjustments to its revenue requirement between general rate proceedings, as described under sections 393.1700.

(2) An electrical corporation shall initiate a new general rate proceeding no later than one year after it has received its third annual rate case adjustment under this subsection. The rates established under the third rate case adjustment shall continue until the effective date of new rate schedules established as a result of the new general

rate proceeding."; and

393.1700. 1. The provisions of section 386.020 defining words, phrases, and terms shall apply to and determine the meanings of all such words, phrases, or terms as used in sections 393.1700 to 393.1750.

2. For purposes of sections 393.1700 to 393.1750, the following terms mean:

(1) "Annual rate case adjustment proceeding", a proceeding outside of a general rate proceeding in which an electrical corporation seeks an annual rate case adjustment, as described under subsection 4 of section 393.150;

(2) "Capital structure", an electrical corporation's financing framework;

(3) "Customer class", customers of an electrical corporation that share usage characteristics in common;

(4) "Participating electrical corporation", any electrical corporation that files for an annual rate case adjustment proceeding;

(5) "Rate base", the total investment in net assets, at original cost, by an electrical corporation that are used to provide service to ratepayers;

(6) "Rate design", the amounts recovered from each customer class to meet the revenue requirement;

(7) "Rate of return", the profit, in an amount set by the commission, that an electrical corporation has the opportunity to earn, with no guarantee that the electrical corporation will actually earn such amount;

(8) "Return on equity", the return to shareholders of an electrical corporation for their investment in the electrical corporation;

(9) "Revenue requirement", the difference between the updated measurement of an electrical corporation's cost of providing service to its customers and the cost of service reflected in the electrical corporation's rates.

393.1710. 1. In each annual rate case adjustment proceeding, the commission shall determine the revenue requirement related to consumption, expenses, and average rate base. Rate of return, capital structure, return on equity, and rate design shall not change from the determination in the last general rate proceeding.

2. The commission shall have the authority to conduct a hearing concerning any annual rate case adjustment filing and issue an order within seven months of the filing.

3. The commission shall have the authority to implement procedures for annual rate case adjustment proceedings.

4. In each annual rate case adjustment proceeding, the participating electrical corporation shall file a tariff designed to recover an amount of revenue consistent with the provisions of this section and shall file information and supporting documentation from the prior twelve months related to all components of its revenue requirement. The commission may suspend that tariff for up to seven months to allow for a hearing to consider the propriety of the tariff and all other aspects of the requested annual rate adjustment.

5. In determining the annual adjustment in an annual rate case adjustment proceeding, the commission shall consider only those costs that were reasonable and prudently incurred and that result in just and reasonable rates.

6. The participating electrical corporation has the burden of proof on all issues in an annual rate case adjustment proceeding.

393.1720. If the commission allows a rate adjustment in an annual rate case adjustment proceeding, such annual rate adjustment shall not exceed five percent for any customer class.

393.1730. 1. A participating electrical corporation shall, as part of its annual rate case adjustment filing, submit to the commission a one-year capital investment plan, a five-year capital investment plan, and a ten-year capital investment plan.

2. Capital investment plans submitted under this section shall set forth the general categories of capital expenditures a participating electrical corporation will pursue in order to modernize and secure its infrastructure and, if applicable, achieve the performance metrics described under section

393.150.

3. All parties participating in the rate case adjustment proceeding shall have the opportunity to comment on the participating electrical corporation's capital investment plans submitted to the commission under this section.

4. (1) The capital investment plans submitted under this section shall be made publicly available; except that, portions of such plans that contain confidential or proprietary information may be protected from public disclosure in a manner consistent with the rules or orders of the commission.

(2) Nothing in this section shall require a participating electrical corporation to publicly disclose confidential, proprietary, or financially sensitive information; any market-sensitive information; or any information that would otherwise violate rules promulgated by the Federal Energy Regulatory Commission designed to protect the integrity of wholesale power markets.

393.1750. The commission may promulgate rules to implement the provisions of sections 393.1700 to 393.1750. Any rule or portion of a rule, as that term is defined in section 536.010, that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536 and, if applicable, section 536.028. This section and chapter 536 are nonseverable, and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2016, shall be invalid and void."; and

Grid Modernization Incentive Act

Description of Proposal

- Establishes an effective mechanism to allow timely, efficient, and prudent cost recovery to utilities for making grid modernization improvements that go beyond regular repair activities.
- Establishes a pre-approval process whereby the commission determines whether the proposed projects are eligible and in the public interest before a utility may apply to establish a grid modernization rate mechanism.
- Includes performance metrics and milestones to measure an electric utility's progress toward grid modernization. The utility's progress may be considered in setting ROE in future rates cases and in evaluating future requests for recovery through this mechanism.
- Includes a floor to ensure a minimum level of investment in grid modernization before receiving the benefit of accelerated recovery and a cap to ensure that rate changes are not excessive.
- Requires an electric utility to offer commission-approved demand side programs in order to employ this mechanism.
- Enables the PSC to create guidelines or rules to implement the mechanism.

DRAFT Language – Grid Modernization Incentive Act

393.330. Sections 393.330 to 393.336 shall be known as the “Grid Modernization Incentive Act”.

393.331. As used in sections 393.330 to 393.336, the following terms mean:

(1) "Appropriate pretax revenues", the revenues necessary to produce net operating income including:

(a) The electrical corporation's weighted average cost of capital multiplied by the net original cost of eligible electric utility grid modernization project investments, including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible electric utility grid modernization project investments which are included in a currently effective grid modernization surcharge (GMS);

(b) State, federal, and local income or excise taxes applicable to such income; and

(c) All other GMS costs;

(2) "Commission", the Missouri public service commission;

(3) "Electrical corporation", an entity as defined in subdivision (1) of section 386.020;

(4) "Eligible electric utility grid modernization projects", Missouri jurisdictional, electrical corporation transmission or distribution plant projects that:

(a) Consist of transmission or distribution technologies required for:

- 1. Dynamic optimization of grid operations and resources;**
- 2. Improved system reliability, security or efficiency;**
- 3. Interactive metering, grid communications concerning grid operations and status, and distribution automation;**
- 4. Integration of advanced electricity storage, peak-shaving technologies; renewable energy generation or customer-owned, onsite, non-intermittent generation with capacity in excess of 500kW; or**
- 5. Automated or interactive communication with customer owned equipment or appliances;**

(b) Are in service and used and useful;

(c) Were not included in the electrical corporation's rate base in its most recent general rate case;

(d) Improve system responsiveness, flexibility or functionality in a manner that reduces system costs or the effects of outages; enable the integration of distributed energy resources; or enhance customers' ability to participate in energy efficiency or demand response;

- (e) Reflect investment in system enhancements rather than normal repair of transmission or distribution plant; and,
 - (f) Do not increase revenues by directly connecting the infrastructure to new customers, unless such connections:
 1. are associated with installing advanced metering; or
 2. are for the purpose of connecting to customer-owned, onsite, non-intermittent generation with capacity in excess of 500kW;
- (5) "GMS", grid modernization surcharge;
- (6) "GMS costs", depreciation expense and property taxes that will be due within twelve months of the GMS filing;
- (7) "GMS revenues", revenues produced through the GMS exclusive of revenues from all other rates and charges;
- (8) "Grid modernization plan", a portfolio of projects certified by the commission as eligible electric utility grid modernization projects pursuant to 393.332.

393.332. 1. Beginning August 28, 2016, an electrical corporation providing electric service may file a petition annually seeking to have specific electric utility grid modernization projects certified as "eligible electric utility grid modernization projects" as defined in 393.331(4).

(1) Such filing shall include a list of projects for which certification is requested, supporting documentation for each project, an explanation as to how each project, if completed, would be in the public interest, and a plan for educating consumers about the projects.

(2) Upon the filing of a petition, and supporting documentation, seeking certification of specific grid modernization projects, the commission shall publish notice of the filing.

2.(1) When a petition and supporting documentation are filed pursuant to the provisions of sections 393.332.1 the commission shall conduct an examination of the projects and supporting documentation.

(2) The staff of the commission may examine information of the electrical corporation to confirm each project if completed would be "eligible electric utility grid modernization projects" and may submit a report regarding its examination to the commission in a timeframe set by the commission.

(3) The commission may hold a hearing on the petition for certification.

(4) If the commission finds that the specific electric grid modernization projects are eligible electric utility grid modernization projects under 393.331(4) and are in the public interest, the commission shall enter an order certifying the portfolio of projects as an approved grid modernization plan.

(5) Nothing in this section shall be construed as limiting the authority of the commission to review and consider the prudence of grid modernization investment costs

associated with an approved grid modernization plan along with other costs during any general rate proceeding of any electrical corporation.

393.333. 1. Beginning August 28, 2016, an electrical corporation providing electric service with a grid modernization plan approved pursuant to 393.332 may file a petition and proposed rate schedules with the commission to establish or change GMS rate schedules that will allow for the adjustment of the electrical corporation's rates and charges to provide for the recovery of prudently incurred costs for projects contained in its approved grid modernization plan.

2. The commission may not approve a GMS to the extent it would produce total annualized GMS revenues below one-half of one percent of the electrical corporation's base revenue level approved by the commission in the electrical corporation's most recent general rate proceeding. The commission may not approve a GMS to the extent it would produce total annualized GMS revenues exceeding ten percent or incremental GMS revenues exceeding three and one-third percent in any one year of the electrical corporation's base revenue level approved by the commission in the electrical corporation's most recent general rate proceeding. A GMS and any future changes thereto shall be calculated and implemented in accordance with the provisions of sections 393.330 to 393.336. GMS revenues shall be subject to a refund based upon a finding and order of the commission to the extent provided in subsections 5 and 8 of section 393.336.

3. The commission shall not approve a GMS for any electrical corporation that has not had a general rate proceeding decided or dismissed by issuance of a commission order within the past three years, unless the electrical corporation has filed for or is the subject of a new general rate proceeding.

4. The commission shall not approve a GMS for any electrical corporation that does not offer commission-approved demand-side programs pursuant to section 393.1075.

5. In no event shall an electrical corporation collect a GMS for a period exceeding three years unless the electrical corporation has filed for or is the subject of a new general rate proceeding; provided that the GMS may be collected until the effective date of new rate schedules established as a result of the new general rate proceeding, or until the subject general rate proceeding is otherwise decided or dismissed by issuance of a commission order without new rates being established.

393.336 1. (1) At the time that an electrical corporation files a petition with the commission seeking to establish or change a GMS, it shall submit proposed GMS rate schedules and its supporting documentation regarding the calculation of the proposed GMS with the petition, and shall serve the office of the public counsel with a copy of its petition, its proposed rate schedules, and its supporting documentation.

(2) Upon the filing of a petition, and any associated rate schedules, seeking to establish or change a GMS, the commission shall publish notice of the filing.

2. (1) When a petition, along with any associated proposed rate schedules is filed, pursuant to the provisions of sections 393.330 to 393.336, the commission shall conduct an examination of the proposed GMS.

(2) The staff of the commission may examine information of the electrical corporation to confirm that the underlying costs are in accordance with the provisions of sections 393.330 to 393.336, and to confirm proper calculation of the proposed charge, and may submit a report regarding its examination to the commission not later than forty-five days after the petition is filed. No other revenue requirement or ratemaking issues may be examined in consideration of the petition or associated proposed rate schedules filed pursuant to the provisions of sections 393.330 to 393.336.

(3) The commission may hold a hearing on the petition and any associated rate schedules and shall issue an order to become effective not later than ninety days after the petition is filed.

(4) If the commission finds that a petition complies with the requirements of sections 393.330 to 393.336, the commission shall enter an order authorizing the corporation to impose a GMS that is sufficient to recover appropriate pretax revenues, as determined by the commission pursuant to the provisions of sections 393.330 to 393.336.

3. An electrical corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months.

4. In determining the appropriate pretax revenues, the commission shall consider only the following factors:

(1) The current state, federal, and local income tax or excise rates;

(2) The electrical corporation's actual regulatory capital structure as determined during the most recent general rate proceeding of the electrical corporation;

(3) The actual cost rates for the electrical corporation's debt and preferred stock as determined during the most recent general rate proceeding of the electrical corporation;

(4) The electrical corporation's cost of common equity as determined during the most recent general rate proceeding of the electrical corporation;

(5) The current property tax rate or rates applicable to the eligible electric utility grid modernization projects;

(6) The current depreciation rates applicable to the eligible electric utility grid modernization projects; and

(7) In the event information pursuant to subdivisions (2), (3), and (4) of this subsection is unavailable and the commission is not provided with such information on an agreed-upon basis, the commission shall refer to the testimony submitted during the most recent general rate proceeding of the electrical corporation and use, in lieu of any such unavailable information, the recommended capital structure, recommended cost rates for debt and preferred stock, and recommended cost of common equity that would produce the weighted average cost of capital based upon the various recommendations contained in such testimony.

5. (1) The monthly GMS charge may be calculated based on a reasonable estimate of billing units in the period in which the charge will be in effect, which shall be conclusively established by dividing the appropriate pretax revenues by the customer numbers reported

by the electrical corporation in the annual report it most recently filed with the commission pursuant to subdivision (6) of section 393.140, and then further dividing this quotient by twelve. Provided, however, that the monthly GMS may vary according to customer class and may be calculated based on customer numbers as determined during the most recent general rate proceeding of the electrical corporation so long as the monthly GMS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class.

(2) At the end of each twelve-month calendar period the GMS is in effect, the electrical corporation shall reconcile the differences between the revenues resulting from a GMS and the appropriate pretax revenues as found by the commission for that period and shall submit the reconciliation and a proposed GMS adjustment to the commission for approval to recover or refund the difference, as appropriate, through adjustments of a GMS charge.

6. (1) An electrical corporation that has implemented a GMS pursuant to the provisions of sections 393.330 to 393.336 shall file revised rate schedules to reset the GMS to zero when new base rates and charges become effective for the electrical corporation following a commission order establishing customer rates in a general rate proceeding that incorporates in the utility's base rates subject to subsections 8 and 9 of this section eligible costs previously reflected in a GMS.

(2) Upon the inclusion in an electrical corporation's base rates subject to subsections 8 and 9 of this section of eligible costs previously reflected in a GMS, the electrical corporation shall immediately thereafter reconcile any previously unreconciled GMS revenues as necessary to ensure that revenues resulting from the GMS match as closely as possible the appropriate pretax revenues as found by the commission for that period.

7. An electrical corporation's filing of a petition or change to a GMS pursuant to the provisions of sections 393.330 to 393.336 shall not be considered a request for a general increase in the electrical corporation's base rates and charges.

8. Commission approval of a GMS petition, and any associated rate schedules, to establish or change a GMS pursuant to the provisions of sections 393.330 to 393.336 shall in no way be binding upon the commission in determining the prudence of such costs. In the event the commission disallows, during a subsequent general rate proceeding, recovery of costs associated with eligible electric utility grid modernization project investments previously included in a GMS, the electrical corporation shall offset its GMS in the future as necessary to recognize and account for any such over collections.

9. The commission shall establish performance metrics and milestones to evaluate measurable progress toward grid modernization resulting under this section and shall require each electrical corporation with an approved GMS to file an annual monitoring report on such metrics and milestones in a format and containing information as determined by the commission. Such metrics and milestones may include, but are not limited to (1) reducing the effects of outages; (2) optimizing demand in a manner that reduces system and customer costs; (3) integrating distributed resources; (4) integrating renewable resources; (5) offering geographically diverse programs; and (6) including

projects designed to provide direct benefits from grid modernization to low-income customers.

10. The commission may consider an electrical corporation's progress in achieving performance milestones in evaluating subsequent requests for certification of eligible electric utility grid modernization projects, evaluating subsequent requests to establish or continue a GMS, and in determining the return on equity authorized by the commission in subsequent general rate proceedings.

11. Nothing contained in sections 393.330 to 393.336 shall be construed to impair in any way the authority of the commission to review the reasonableness of the rates or charges of an electrical corporation, including review of the prudence of eligible electric utility grid modernization project costs made by an electrical corporation, pursuant to the provisions of section 386.390.

12. The commission shall have authority to promulgate rules for the implementation of sections 393.330 to 393.336, but only to the extent such rules are consistent with, and do not delay the implementation of, the provisions of sections 393.330 to 393.336. Any rule or portion of a rule, as that term is defined in section 536.010, that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536 and, if applicable, section 536.028. This section and chapter 536 are nonseverable and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2016, shall be invalid and void.

DRAFT Language – Low Income Rate

386.264. 1. In any general rate proceeding for a gas corporation, electrical corporation, water corporation, or sewer corporation, the commission, upon a determination that the public interest would be served, shall have authority to set a separate, lower fixed charge or customer charge for low-income customers of such gas corporation, electrical corporation, water corporation, or sewer corporation.

2. For purposes of this section, "low-income customer" means a residential customer who meets the criteria for assistance for the utilicare program under sections 660.100 to 660.136.

3. The commission may promulgate rules to implement the provisions of this section. Any rule or portion of a rule, as that term is defined in section 536.010, that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536 and, if applicable, section 536.028. This section and chapter 536 are nonseverable, and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2016, shall be invalid and void."; and

DRAFT Language – Expense Sharing

386.265. 1. In a general rate proceeding for a gas corporation, electrical corporation, water corporation, or sewer corporation, the commission shall have authority to require that ratepayers bear fifty percent or more of the costs prudently incurred by the gas corporation, electrical corporation, water corporation, or sewer corporation for such general rate proceeding.

2. In determining the percentage that ratepayers will bear under subsection 1 of this section, the commission may consider, as one factor, whether the public utility voluntarily filed the rate case or was required to do so by order of the commission or statutory mandate.

3. The commission may promulgate rules to implement the provisions of this section. Any rule or portion of a rule, as that term is defined in section 536.010, that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536 and, if applicable, section 536.028. This section and chapter 536 are nonseverable, and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2016, shall be invalid and void."; and