Public Service Commission Staff Analysis

Senate Substitute for Senate Bill 564 Perfected as amended

February 20, 2018

The Public Service Commission Staff completed a review of SB 564 as perfected (version 11f) as amended, (SS SB 564), and provides this summary of its analysis, the bill language and Staff recommendations. The Summary is structured to first present a rate impact analysis. Following the rate impact analysis is a section-by-section summary of the bill with Staff comments and recommendations for clarification.

1. **Rate impact analysis**

SS SB 564 includes several provisions that would affect electrical corporation customer rates. The provisions of Section 386.266 allow the electrical corporation to adjust rates in between rate cases through a revenue stabilization mechanism (RSM). The provisions of Section 393.1400 allow plant-in-service accounting (PISA). The electrical corporation may only choose to take advantage of one of these provisions. For purposes of this analysis, it was assumed the electrical corporation elects PISA treatment. When an electrical corporation with more than 200,000 customers elects PISA treatment, it is subject to either a 2.85% or a 3% compounded annual growth rate (CAGR). Rate adjustment mechanisms such as the Fuel Adjustment Charge (FAC) or the Renewable Energy Standard Rate Adjustment Mechanism (RESRAM) are adjusted such that the rate cap is not exceeded. However, it is not clear whether the CAGRs (rate caps) include any increases allocated to other rate classes as a result of the economic development rider discounts in Section 393.1655 or the 2% CAGR (rate cap) for the large power rate classes. It is unclear whether the CAGR (rate caps) include the recovery of costs associated with the small scale or pilot programs allowed under Section 393.1610, the utility-scale solar investment requirements of Section 393.1665, or the solar rebate requirements of Section 393.1670. Appendix A contains a matrix of the various provisions of SS SB 564 and a summary of the rate impacts of those provisions.

Section 393.1655 also includes a performance penalty. Any amounts over the 2.85% or 3% CAGRs (rate caps) are not recoverable in rates.

To provide some perspective of recent rate increases compared to the CAGRs, an analysis of historical Ameren Missouri residential rate case data from 2011 to 2017 results in a CAGR of 3.3%, and the historical data from 2013 to 2017 results in a CAGR of 2.3%. These percentages are based on actual investment levels for the time periods and do not include any periodic, between rate case adjustments to the FAC, the Missouri Energy Efficiency Investment Act (MEEIA) mechanism, the RESRAM, the environmental cost recovery mechanism or any other mechanisms not included in base rates.

Revenue Impact

In a filing in File No. EW-2016-0313, *In the Matter of a Working Case to Consider Policies to Improve Electric Utility Regulation*, Ameren Missouri estimated, with regulatory reform, it would invest an average $200 million for annual incremental plant additions. [[1]](#footnote-1) Staff used this average estimate to represent annual incremental plant additions in modeling of SS SB 564 for the years 2019 through 2028.[[2]](#footnote-2)

1. Scenario A: Modeling represents $200 million incremental plant additions with all other things held constant (i.e., the “**Base Case**”).
   1. Shows an increase in the cost of service for the utility of approximately $211 million at the end of the 10-year period; or,
   2. An increase of 7.28% over current revenues
2. Scenario B: Modeling represents the impact of the plant-in-service accounting (PISA) deferral provisions of SS SB 564, assuming $700 million “status quo” investment plus the $200 million incremental plant additions. This analysis assumes the electrical utility will file a general rate increase every 3 years.[[3]](#footnote-3) Rate increases above the Base Case for the PISA provisions:
   1. Show an increase in cost of service for the utility of $71.5 million after three rate cases; or,
   2. An increase of 2.46% from PISA alone
3. Scenario C: Modeling represents the impact of the PISA provisions of SS SB 564, assuming $700 million “status quo” investment plus the $200 million incremental plant additions. This analysis assumes the electrical utility will file a general rate increase every 4 years. Rate increases above the Base Case for the PISA provisions:
   1. Show an increase in cost of service for the utility of $92.6 million after 2 rate cases; or,
   2. An increase of 3.19% from PISA alone

Under the above scenarios, the total projected rate impact on customers over the ten-year period of 2019-2028 from implementation of PISA would be as follows:

Base Case plus Full PISA, 3-Year Rate Case Interval[[4]](#footnote-4) $282.5 million, 9.74%

Base Case plus Full PISA, 4-Year Rate Case Interval[[5]](#footnote-5) $303.6 million, 10.47%

The above analysis only takes into account the projected rate impact over ten years of the incremental plant additions assumed to be “enabled” by the PISA provisions of SS SB 564, as well as the impact of the PISA deferral provisions in itself. The above analysis does not take into account potential rate impacts of the adjustment mechanism deferrals, potential rate impacts of the economic development rider discounts or potential rate increases in areas of the utilities’ operations not addressed under SS SB 564. In Staff’s view, these impacts would also be expected to be material over the ten-year period, and would be included in considerations related to the rate cap and penalty provisions of SS SB 564.

In order to take advantage of the PISA deferrals, at least 25% of the electrical corporation’s investment shall be for grid modernization projects. However, the PISA deferral applies to the electrical corporation’s qualifying capital investment, not just the grid modernization projects.

The following scenarios assume the PISA deferral is applied only to the grid modernization projects (for instance the $200 million annual plant additions):

Scenario B.1 represents limiting PISA to 100% of the grid modernization projects based on the three-year rate case scenario in Scenario B. Rate increases above the Base Case for the PISA provisions:

* + 1. Show an increase in cost of service for the utility of $35.6 million after

three rate cases; or,

* + 1. An increase of 1.23% from PISA alone.

Scenario C.1 represents limiting PISA to 100% of the grid modernization projects based on the four-year rate case scenario in Scenario C. Rate increases above the Base Case of the PISA provisions:

1. Show an increase in cost of service for the utility of $46.8 million after 2 rate cases; or
2. An increase of 1.61% from PISA alone.

Economic development rider

Section 393.1640 provides for an economic development discount. The economic development rider provides a an average 40 percent discount on all base rate components of the bill for customers that add incremental load with average monthly demand that is reasonably projected to be at least 300kWs with a load factor of at least 55 percent within two years, and receive economic development incentives related to the incremental load. The average annual discount is applied to all base rate components of the bill and is fixed for a period up to five years.

The electrical corporation’s reduced revenues will be allocated to all other customer classes, including the classes with customers that qualify for the discounts, through a uniform percentage adjustment to the revenue requirement applicable to those classes.

For reference, Staff provides the following list of utilities that have economic development riders and the respective discount rates. This information is provided as a summary of the economic development riders. Each utility has separate and distinct qualifying criteria, and some may be altered via contract between the utility and the customer.

**Ameren Missouri – Electric**

* Economic Development and Retention Rider- a maximum of 15 percent discount for five years
* Economic Re-development Rider- 15 percent discount for 60 months

**KCPL & GMO – Electric**

* 30 percent during the first contract year, 25 percent during the second contract year, 20 percent during the third contract year, 15 percent during the fourth contract year and 10 percent during the fifth contract year

**Empire – Electric**

* 30 percent during the first contract year, 25 percent during the second contract year, 20 percent during third contract year, 15 percent during fourth contract year, 10 percent during fifth contract year

**Liberty Utilities - Natural Gas**

* A qualifying customer receives 25 percent discount for four years only on the amount of consumption above their determined base load consumption

**Spire Missouri East (formerly Laclede Gas Company)** – **Natural Gas**

* Currently no EDR, but will have one as an outcome of its current rate case
* Future EDR Rate Discount: average annual amount of 20 percent, provided that such discount shall not exceed 30 percent during any contract year

**Spire Missouri West (formerly Missouri Gas Energy) – Natural Gas**

* Current discount rate is 30 percent during the first contract year, 25 percent during the second contract year, 20 percent during the third contract year, 15 percent during the fourth contract year, and 10 percent during the fifth contract year. After fifth contract year the discount ceases. There will be a new EDR as an outcome of its current rate case.
* Future EDR Rate Discount: average annual amount of 20 percent, provided that such discount shall not exceed 30 percent during any contract year

**Veolia Energy Kansas City – Steam/Heat**

* Rate Discount: 1st Year: 30%, 2nd Year: 25%, 3rd Year: 20%, 4th Year: 15%, 5th Year: 10%

1. **Section-by-section analysis**

**Section 386.266 – Revenue Stabilization Mechanism (RSM)**

**Subsection 3**

* Electrical corporation may request periodic rate adjustments outside a general rate case (Revenue Stabilization Mechanism or RSM)
* Removes “nongas revenue” from current statute
  + Changes it to adjust rates to account for impact of utility revenues
* Electrical corporation cannot request treatment under Section 393.1400 and under Section 386.266
* Defines “eligible customer classes” to which this provision is applicable
  + Electric – residential and classes that are not demand metered
  + Gas – residential and smallest general service class
* Defines “revenues” – revenues recovered through base rates, not recovered through rate adjustment mechanisms

**Subsection 12**

* Removes an outdated reference and adds the word “such”.

**Subsection 14**

* Any electrical corporation that operates with a RSM shall file quarterly surveillance reports, the contents of which are defined. Rate base quantifications shall contain information for the last 12-month period and the last quarter data for total company electric operations and Missouri jurisdictional operations. General categories required:
  + Rate base quantifications report
  + Capitalization quantification report
  + Income statement
  + Jurisdictional allocation report
  + Financial data notes
* Effective for electrical corporations beginning January 1, 2019
* Expires January 1, 2029

**Subsection 12** adds language that implies the Commission has to have rules promulgated before a utility can request any of the rate mechanisms allowed under Section 386.266, but existing **subsection 9** says the utility does not have to wait until the Commission promulgates rules to apply.

**Subsection 14** requires the electrical corporation to file quarterly surveillance reports much in the same way is already required by Commission order or rule. There is also a stray “report” on page 6, line 21.

***Staff comments:*** **Allows electrical corporations to request a revenue stabilization mechanism to reflect increases or decreases in revenues due to variations in weather, conservation or both.**

**Adds a definition of “eligible customer classes” making the RSM applicable to residential customers and the smallest commercial customers. Staff is not aware of a policy rationale for limiting recovery of the RSM to these classes.**

**Staff recommendation: Subsection 14 - Quarterly surveillance reports - For category 3, “income statement quantifications”, Subsection 14 requires the utility to include “operating revenues to include sales to industrial, commercial, and residential customers, sales for resale and other components of operating revenues”. Staff suggests it would be more useful for Missouri ratemaking purposes to require the operating revenues for class or sub-class data (residential, SGS, LGS, Lighting, etc.)**

**Recommend deleting “report.” at page 6, at the end of line 21.**

**Section 386.390 – Commission complaint procedure**

Modifies the complaint-filing process to clarify that complaints can only be filed for violations, or claimed violations, of provisions subject to the commission’s authority, any rule promulgated by the commission or any tariff, order, or decision of the commission.

***Staff comments:***  **This proposed change clarifies ambiguities in current statute.**

**Section 393.137 – Federal 2017 Tax Cut and Jobs Act**

**Subsection 1**

* Applies to electrical corporations that do not have a rate case pending as of February 1, 2018 or the effective date of the legislation, whichever is later.

**Subsection 2** defines terms to be used in the section.

**Subsection 3**

* Provides the Commission one time authority (to exercise within 90 days of effective date of the section) to adjust rates prospectively to reflect, in rates or through deferral, changes in the income tax component of federal tax act without having to consider any other factor as currently required by Section 393.270.
  + The Commission shall require the electrical corporation to defer to a regulatory asset the financial impact of federal tax act from January 1 through effective date of rates under one-time adjustment

**Subsection 4**

* + For good cause shown, the Commission may allow a deferral in whole or in part of financial impacts starting January 1 through effective date of rates in next general rate proceeding

***Staff comments:* Allows the Commission to adjust rates or allow deferrals for Ameren Missouri and The Empire Electric District Company (Empire) related to the income tax component of the federal tax act outside a general rate case.**

**Section 393.170 – 1 MW generation**

* Modifies existing language such that an energy generation unit that has a capacity of 1MW or less may begin construction without first obtaining Commission approval.

**Section 393.1400 – Plant-in-Service Accounting (PISA)**

**Subsection 1** defines the terms to be used in this section.

* Defines “qualifying electric plant” as: All rate base additions except rate base additions for new coal-fired generating units, new nuclear generating units, new natural gas units, or rate base additions that increase revenues through service to new customer premises

**Subsection 2**

* Electrical corporations shall defer 85% of all depreciation expense and return associated with qualifying electric plant associated with the electrical corporations notice that it elects plant-in-service (PISA) accounting
  + Carrying costs will be at the weighted average cost of capital (WACC) plus applicable federal, state and local income or excise taxes
  + Return deferred shall be determined using the WACC applied to the change in plant-related rate base caused by the qualifying plant, plus applicable taxes. In determining the amount deferred, the electrical corporation shall account for changes in accumulated deferred income taxes and changes in depreciation excluding retirements
  + 20 year amortization when included in rate base

**Subsection 3**

* Depreciation expense deferred shall be for all qualifying plant placed in service less retirements of plant replaced by qualifying plant

**Subsection 4**

* Electrical corporations that defer depreciation expense and return shall submit a 5-year capital investment plan setting forth the general categories of capital expenditures. The plan shall include a specific capital investment plan for the first year of the 5-year plan with the specificity used for annual capital budgeting purposes.
  + Updated annually for the next five years, with a report of the first year budget
* For each of first 5 years the electrical corporation is allowed to make deferrals:
  + The purchase and installation of smart meters shall constitute no more than 6% of total capital expenditures in each given year
  + At least 25% of the cost of each year’s capital investment shall be grid modernization projects that include, but are not limited to:
    - Increased use of digital information to improve reliability, security and efficiency of grid;
    - Dynamic operation of grid with full cybersecurity;
    - Deployment and integration of distributed resources and generation, including renewables;
    - Development and incorporation of demand response, demand-side resources and energy efficiency;
    - Deployment of “smart” technologies (real-time, automated, interactive technologies that optimize physical operation of consumer devices;
    - Integration of “smart” appliances and devices;
    - Deployment and integration of advanced storage and peak shaving technologies (EV and thermal storage air conditioning);
    - Timely information and control options to consumers;
    - Communication and interoperability of consumer equipment with grid;
    - Identification and lowering of unreasonable or unnecessary barriers to adoption of smart grid technologies, practices and services.
  + Within 30 days of filing, electrical utility shall host a public stakeholder meeting to answer questions and receive feedback, and file notice of any modifications.
  + Each year the electrical corporation shall also submit a report detailing actual capital investments made the previous year.

**Subsection 5**

* Electrical corporation shall be able to make deferrals until December 31, 2023
  + To continue to take advantage of deferrals from January 1, 2024 through December 31, 2028, the electrical corporation must:
    - Obtain Commission approval.
      * The Commission can approve or reject based on evaluation of costs and benefits of continuation to electrical corporation and consumers.
        + Must develop “an objective analytical framework” to determine continued need.
      * The Commission cannot modify or condition continued deferral approval.
    - Be subject to the compounded annual growth rate (CAGR) rate cap limitations.
    - Obtain Commission approval to continue discounts under 393.1640 approved prior to December 31, 2023.

**Subsection 6**

* + Expires December 31, 2028 except deferrals and amortizations will continue consistent with Commission ratemaking treatment.

***Staff comments:* Subsection 2 states that electrical corporations shall defer to a regulatory asset, 85% of all depreciation expense and return associated with qualifying expense. If the deferral was limited to grid modernization, as opposed to all qualifying expense, it is likely that the 85% limitation could be removed, thus allowing 100% deferral of grid modernization expense while maintaining CAGR rate caps of 2% or less.[[6]](#footnote-6)**

**Subsection 4 states that in order to take advantage of deferrals, the electrical corporation, for each of the first 5-year of its capital investment plan, invest no more than 6% in smart meters, and must invest at least 25% in grid modernization projects, including but not limited to those listed in the subsection. It should be noted, to realize the benefits of some of the grid modernization projects, advanced metering infrastructure (“smart” meters”) will likely be needed and must have full functionality.**

**Staff Recommendation: Limit PISA to grid modernization projects only. Electrical corporations should not earn an additional return on non-grid projects that they would have completed absent legislative changes. If PISA is limited to grid modernization projects, 100% of all depreciation expense and return associated with that grid modernization could be deferred to a regulatory asset.**

**Section 393.1610 – Investment in small scale or pilot projects**

* Commission may approve investment in small scale or pilot innovation technology if designed to advance the electrical corporations operational knowledge about deploying or gaining operational efficiencies that result in customer savings and benefits
  + Renewable
  + Microgrids
  + Energy storage

***Staff comments:*** **This provision clarifies Commission authority.**

**Section 393.1640 – Economic development rider discounts**

**Subsection 1**

* Upon application to the utility prior to public announcement, a new or existing account meeting the following criteria shall be considered qualified for a discount.
  + A customer adds incremental load of 300kw, net of any offsetting load reductions due to termination of accounts of the customer or its affiliates within 12 months prior to commencement of new load, with a load factor of at least 55%;
  + The customer receives local, regional or state economic development incentives in conjunction with the new load; and,
  + The customer meets criteria in the electrical corporation’s EDR tariff.
  + If separately metered, the customer must meet load requirements within 24 months after meter set.
  + If not separately metered, the electrical corporation makes the determination as to whether the customer has met the load requirements.
  + If data shows customer did not meet criteria for any 12-month period, it shall no longer receive discount.
* Average annual discount of 40% for incremental load applied to all rate base components of bill for 5 years.
  + The discount percentage is fixed for each year of service under the discount up to five years.
  + “Cents per kWh” shall be higher than the electrical corporation’s variable cost to serve such accounts in aggregate and shall make a positive contribution to fixed costs associated with such service.
    - If not adequate to cover variable cost and provide positive contribution to fixed cost, the Commission shall increase the “cents per kWh” rate in the electrical corporation’s next general rate case.

**Subsection 2**

* Reduced level of revenues from discounts shall be allocated to all customer classes, including classes with customers that qualify for discount.
  + The allocation to other customers is implemented through a uniform percentage adjustment to the revenue requirement responsibility of each customer class.
* The qualifying customer cannot receive the 40% average annual discount and a discount under an economic development rider tariff.
* The qualifying customer will receive a discount of 10% for year 6 if the customer is taking service from an under-utilized circuit.

**Subsection 3** defines “electrical corporation”.

**Subsection 4**

* Expires on December 31, 2028 – If electrical corporation does not timely receive the 5-year extension of PISA, discounts expire on December 31, 2023.

***Staff comments:*** **The threshold to qualify for a discount is so low, it is anticipated that nearly any new or expanding larger power service customer will qualify. It is likely the electrical corporation will not only have qualifying customers take new or incremental load, but also leave the system (i.e., relocate, close). Assuming the rate after the discount exceeds the incremental cost of energy set in the most recent rate case, the discount on the incremental load is not anticipated to harm other ratepayers, all else equal. However, as qualifying customer are added and leave the system in between rate cases, customers could be harmed even if net load remains consistent.**

**The percentage discount shall be fixed for each year of service under the discount for a period up to five years, but if in a subsequent rate case, the Commission determines the discounted rate is not adequate to cover the electrical corporation’s variable cost to serve such accounts, the Commission shall increase the rate prospectively. These sections are interpreted to mean the underlying tariffed rate may be adjusted in each rate case as necessary to cover the variable cost to serve the accounts, and the 40% average annual discount is applied to the new rate.**

**Staff Recommendation:**

**Possible solutions to address concerns related to load fluctuations associated with economic development discounts: increase the qualifying threshold; hold residential customers harmless from any fluctuations in incremental load subject to the discounts; require the utility to track changes in load and only allow the discount on any incremental load greater than the load established in the most recent rate case.**

**Recommend clarifying that the fixed discounted rate (average 40% discount) is applied to “Cents per kWh” that is higher than the electrical corporation’s variable cost to serve such accounts in aggregate and make a positive contribution to fixed costs associated with such service.**

**Recommend clarifying whether the reduced revenue level from the economic development revenue that is allocated to the other rate classes is subject to the rate cap provisions of Section 393.1400 if the electrical corporation elects PISA treatment under that Section.**

**Section 393.1650 – Contractor qualification process**

**Subsection 1** – defines the terms applicable to the Section. “Electrical corporation” is defined as a corporation with more than one million Missouri retail electric customers in the year in which the section becomes effective.

**Subsection 2**

Requires electrical corporations to develop a qualification process open to all contractors interested in providing construction and construction-related services for projects on the electrical corporation’s distribution system. Contractors that qualify may participate in a competitive bid process.

**Subsection 3**

* Within 30 days of the effective date of the section, the electrical corporation shall file a verified statement with the Commission confirming compliance;
* In any general rate case, the electrical corporation shall submit a verified statement confirming the use the qualification process for no less than 10 percent of the combined external installation expenditures made by the electrical corporation’s operations units in Missouri for construction and construction-related distribution system projects;

**Subsection 4**

* The process does not apply to emergency projects.

**Subsection 5**

* By December 31, 2020 and annually thereafter, the Commission shall submit a report to the General Assembly on the effects of compliance, including potential legislative actions and costs of projects implemented under this requirement.

***Staff comments:*** **The competitive bidding process for contractors applies to Ameren Missouri.**

**Section 393.1655 – Rate caps**

**Subsection 1**

* This section applies to any electrical corporation with more than 200,000 customers that has elected PISA treatment under Section 393.1400.

**Subsection 2**

* Base rates shall be held constant for 3 years from the date of the last rate case prior to electing PISA treatment unless a force majeure event occurs as determined by the Commission.

**Subsection 3**

* For an electrical corporation with a pending rate case
  + If the difference between the electrical corporation’s average overall rate at any time while the section applies and the electrical corporation’s average overall rate as of the date of new base rates prior to notice of PISA treatment under Section 393.1400 reflects a CAGR of more than 3%, the electrical corporation shall not recover any amount in excess of the 3% (rate cap) as a performance penalty.

**Subsection 4**

* For an electrical corporation that does not have a pending rate case
  + If the difference between the electrical corporation’s average overall rate at any time while the section applies and the electrical corporation’s average overall rate as of the date of new base rates prior to notice of PISA treatment under Section 393.1400; and,
  + The average overall rate set under Section 393.137 (federal tax act) reflects a CAGR of more than 2.85%, the electrical corporation shall not recover any amount in excess of the 2.85% (rate cap) as a performance penalty.

**Subsection 5**

* If a change in any rates charged under a rate adjustment mechanism in Section 386.266 (FAC,) or Section 393.1030 (RESRAM) would cause the average overall rate to exceed the CAGRs (rate caps) in subsection 3 or 4, the electrical corporation shall reduce the rate mechanism in an amount sufficient to ensure the CAGRs (rate caps)are not exceeded.
  + Sums not recovered through the rate adjustment mechanism because of the CAGR (rate cap) reduction in the mechanism shall be deferred to and included in the PISA regulatory asset or the PISA ratemaking treatment as authorized by the Commission.

**Subsection 6**

* If the difference between
  + The electrical corporation’s class average overall rate at any point in time while this section applies and
  + The electrical corporation’s class average overall rate as of the date rates are set in the most recent rate case concluded prior to notification of an election under Section 393.1400 (PISA treatment) reflects a CAGR (rate cap) of more than 2% for the large power service rate class, the class average overall rate shall be adjusted so the large power class does not get a rate increase of more than 2%.
    - Reduced revenues from the 2% CAGR (rate cap) adjustment are to be allocated to all other customer classes through a uniform percentage adjustment to the revenue requirement responsibility of the class.

**Subsection 7**

Defines the terms applicable to the Section.

“Force majeure event” is defined as an event or circumstance as a result of a weather event, an act of God, war, terrorism or other event which threatens the financial integrity of the electrical corporation that causes a reduction in revenues, an increase in the cost of providing service or some combination thereof and has a fiscal impact on the electrical corporation’s operations equal to 3% or greater of the total revenue requirement established in the last rate case.

***Staff comments:*** **The rate moratorium applies from the date of the electrical corporation’s most recent rate case prior to electing PISA treatment. For Ameren Missouri, the most rates would be held constant starting April 2017. Assuming**

**SS SB 564 becomes effective August 28, 2017, almost half of the three-year moratorium will have passed prior to implementation of Section 393.1655. KCP&L and GMO currently have rate cases pending before the Commission, so the result of those pending rate cases will not be subject to the CAGR provisions of SS SB 564, and the three-year moratorium will start around January 1, 2019 assuming KCP&L and GMO elect to receive PISA treatment in the future.**

**Holding rates constant may have the unintended consequence of precluding adoption of rate design changes, such as time of use rates, that may be applicable for certain infrastructure investment.**

**The CAGR (rate cap) for Ameren Missouri is 2.85%, and any rate increases over 2.85% shall not be recoverable. For KCP&L and GMO, the CAGR (rate cap) is 3.0%, and any rate increases over 3.0% shall not be recoverable. There is no CAGR (rate cap) or penalty provision for Empire.**

**If a change in the FAC or RESRAM would cause base rates to exceed the applicable CAGR (rate cap), the rate adjustment mechanism is adjusted so as not to exceed the CAGR. Any amounts not recovered from the rate adjustment mechanism due to the CAGR will be deferred and recovered through the appropriate ratemaking treatment.**

**The rate for the Ameren Missouri, KCP&L and GMO large power rate class has a 2% CAGR (rate cap). Any rate increase over the 2% will be allocated to all other rate classes. Staff is not aware of a policy reason to apply an additional rate cap to the large power rate class, thus allocating additional costs to all other rate classes.**

**It is not clear whether the 2.85% and 3% CAGRs (rate caps) include any increases allocated to other rate classes as a result of the EDR discounts in Section 393.1655 or the 2% CAGR (rate cap) for the large power rate classes.**

**It is not clear whether the CAGRs (rate caps) include the recovery of costs associated with the small scale or pilot programs allowed under Section 393.1610, the utility-scale solar investment requirements of Section 393.1665, or the solar rebate requirements of Section 393.1670.**

**Staff Recommendation: Suggest clarifying whether the solar investments and solar rebates a under Sections 393.1610, 393.1665 and 393.1670 are included in the 2.85% and 3.0% CAGR rate caps; whether any amounts not covered under the 2% CAGR rate cap, and allocated to all other rate classes, are subject to the 2.85% and 3.0% CAGR rate caps; and whether the reduced revenues allocated to all other customers as result of the EDR discounts in Section 393.1640 are subject to the 2.85% and 3.0% CAGR rate case and/or the 2% CAGR rate cap applicable to large power customers..**

**Section 393.1665 – Investment in utility-owned solar**

**Subsection 1** defines the terms applicable to the Section.

**Subsection 2**

* Electrical corporations with one million or more customers (Ameren Missouri)
  + Shall invest no less than $14m in utility-owned solar located in Missouri or an adjacent state by December 31, 2023
* Electrical corporations with less than one million customers but more than 200,000 (KCP&L and GMO)
  + Shall invest no less than $4m in utility-owned solar located in Missouri or an adjacent state by December 31, 2023.
* Electrical corporations with less than 200,00 customers (Empire)
  + Shall invest no less than $3.5m in utility-owned solar located in Missouri or an adjacent state by December 31, 2023.
* If the investment causes the utility to exceed the 1% maximum average retail rate increase limitation required by the RES statute,
  + that portion shall be deferred with carrying costs at the WACC
  + recovered through rates or a rate adjustment mechanism

**Subsection 3**

* An electrical corporation’s decision to invest in solar shall be deemed prudent and shall not require Commission approval.
* Costs associated with the investment are subject to Commission review to ensure rates are based only on prudently incurred costs.

**Subsection 4**

* Nothing precludes an electrical corporation from investing in and recovering costs associated with additional solar investment.

**Subsection 5**

* Expires on December 31, 2023
* Electrical corporation recovers any remaining regulatory asset balance associated with the investment.

***Staff comments:*** **Requires the electrical corporations to invest in utility-scale solar, and recover the costs associated with that investment. It is not clear whether the recovery of costs associated with the investment is in addition to the CAGRs of Section 393.1655.**

**Staff Recommendation: Suggest clarifying whether the costs associated with utility-scale solar are included in the CAGRs.**

**Section 393.1670 – Solar rebates**

**Subsection 1**

* Beginning January 1, 2019, electrical corporations shall make solar rebates available as follows:
  + For systems operational from January 1, 2019 through June 30, 2019, the rebate will be $.50 per watt
  + For systems operational from June 30, 2019 through December 31, 2023, the rebate will be $.25 per watt
  + Applies to new or expanded solar systems up to a maximum of 25kWs per system for residential customers and 150kWs per system for nonresidential customers
  + Electrical corporations with:
    - 1 million customers (Ameren Missouri) shall not be obligated to pay more than $5.6m per year or $28m in the aggregate from 2019-2023.
    - Less than 1 million customers, but more than 200,000 customers (KCP&L and GMO), shall not be obligated to pay more than $1.6m per year or $8m in the aggregate from 2019-2023.
    - Less than 200,000 customers (Empire), $400,000 per year or $7m aggregate from 2019-2023.

Page 34, line 10 states solar rebates shall be offered “commending” January 1, 2019.

**Subsection 2**

* At the electrical corporation’s election, it shall be permitted to recover the costs of rebates as follows:
  + Through rate base
  + Through a RESRAM
  + Defer and amortize costs, including interest at short-term debt, through base rates or a surcharge over a period not to exceed 5 years
  + If recovery results in rates exceeding the 1% maximum average retail rate limitation of the RES statute, the additional amount shall be deferred with carrying costs at the WACC and recovered through rates or a rate adjustment mechanism.

**Subsection 3**

* Rebates become available January 1, 2019
* Any current rebates are not affected by the new rebate requirements.

**Subsection 4**

* Reductions in load as a result of the installation of solar systems not owned by the electrical corporation count as conservation (applicable to recovery through the RSM).

**Subsection 5**

The Commission has the authority to promulgate rules consistent with this Section.

**Subsection 6** – defines the terms applicable to this Section.

**Section 7**

* Expires December 31, 2023, but the electrical corporation shall be entitled to recover any remaining regulatory asset balance associated with the Section.

***Staff comments:*** **Requires the electrical corporations to offer solar rebates and recover the costs associated with those rebates. For Ameren Missouri, KCP&L and GMO, it is not clear whether the recovery of costs associated with the solar rebates is in addition to the CAGRs of Section 393.1655.**

**Staff Recommendation: Suggest clarifying whether the solar rebates are included in the CAGRs.**

**Recommend targeting solar rebates to areas with low-income communities, areas with multi-family dwellings, areas with over-utilized circuits, areas with high congestion, or areas where additional distributed generation would benefit the system.**

**Page 34, line 10 states solar rebates shall be offered “commending” January 1, 2019. “Commending” should be “commencing”.**

1. Section 393.1400 provides limitations on investment related to smart meters and grid modernization. These limitations may modify Ameren Missouri’s proposed investment plan. [↑](#footnote-ref-1)
2. Additional assumptions included: Provisions of SS SB 564 become effective January 2019; the utility applies for, and the Commission approves, continuation of the SS SB 564 provisions for the full10 years; 3.0% annual depreciation rate; 25.45% effective tax rate; ADIT – 6% of investment annually; 9.3% pre-tax rate of return; $2.9 million of base revenues prior to PISA authority. Please note that the income tax assumptions based upon the newly enacted Tax Cuts and Jobs Act (TCJA) are preliminary in nature, and subject to change as Staff’s analysis of TCJA rate impacts continues. [↑](#footnote-ref-2)
3. Currently the electrical corporations are averaging a general rate case every 18 months to 2 years. With the protections to reduce regulatory lag afforded by SS SB 564, it is assumed rate cases will only be needed every 3 or 4 years as required to continue the Fuel Adjustment Charge (FAC). [↑](#footnote-ref-3)
4. Resulting in three rate cases over the 10-year period. [↑](#footnote-ref-4)
5. Resulting in two rate cases over the 10-year period. [↑](#footnote-ref-5)
6. Using the assumptions from Section I of this report, under Section 393.1400 of SS SB 564, the 85% deferral would be applied to $900m ($700m status quo plus $200 million incremental “grid modernization” investment). Instead, 100% of the deferral would be applied to the $200m incremental “grid modernization” investment. [↑](#footnote-ref-6)