

HCS HB 398 -- INFRASTRUCTURE REPLACEMENT COSTS RATEMAKING FOR
PUBLIC UTILITIES

SPONSOR: Riddle

COMMITTEE ACTION: Voted "Do Pass" by the Committee on Utilities by
a vote of 18 to 6.

Currently, gas corporations may file petitions to recover specified infrastructure replacement costs with the Missouri Public Service Commission. This substitute allows an electrical corporation to recover these costs in a similar manner. In its main provisions, the substitute:

(1) Allows an electrical corporation to file a petition and proposed rate schedules with the Missouri Public Service Commission to establish or change infrastructure system replace surcharge (ISRS) rate schedule schedules that allow for the adjustment of its rates and charges to provide for the recovery of costs or eligible infrastructure system replacements and additions. The commission cannot approve an ISRS request to the extent that it would produce total annualized ISRS revenues below the lesser of \$1 million or .5% of the electrical corporation's base revenue level approved by the commission in its most recent general rate proceeding or to the extent that it would produce total annualized ISRS revenues exceeding 8% of the corporation's base revenue level approved by the commission in its most recent general rate proceeding. The commission must not approve an ISRS for any corporation that has not had a general rate proceeding decided or dismissed by the issuance of a commission order within the past three years unless the corporation has filed for or is the subject of a new general rate proceeding. In no event can a corporation collect an ISRS for a period exceeding three years unless the corporation has filed for or is the subject of a new general rate proceeding. The commission may grant or modify ISRS requests during a general rate proceeding so long as all rate schedule changes are accounted for in the general rate proceeding (Section 393.1205, RSMo);

(2) Requires an electrical corporation to submit a preliminary list of any projects costing in excess of \$5 million that are to be included in the ISRS filing no later than 45 days prior to filing a petition with the commission to establish or change an ISRS. The bill specifies the information that must be included on the list. The corporation must submit a copy of its petition, proposed rate schedules, and supporting documentation to the Office of Public Counsel within the commission. Upon the filing of a petition and any associated rate schedules, seeking to establish or change an ISRS, the commission must publish notice of the filing. The commission must conduct an examination of the proposed ISRS. The

staff of the commission may examine the ISRS request to confirm that the underlying costs are in compliance with these provisions, confirm the proper calculation of the proposed charge, and submit a report regarding its examination to the commission no later than 90 days after the filing of the petition. No other revenue requirement or ratemaking issues may be examined in consideration of the petition or associated proposed rate schedules filed under these provisions. The commission may hold a hearing on the petition and any associated rate schedules and must issue an order no later than 150 days after the petition is filed. If the commission finds that a petition complies with these requirements, the commission must enter an order authorizing the corporation to impose an ISRS that is sufficient to recover appropriate pretax revenue as determined by the commission under these provisions. A corporation may effectuate a change in its rate under these provision no more than two times every 12 months. The substitute includes provisions for the rebate or adjustment of recovered costs on a yearly basis based on a comparison of ISRS revenues with actual pretax revenues. ISRS charges will be based on a formula according to customer class with a separate formula for customers with a demand level of more than 400 megawatts. The commission may consider the impact of ISRS surcharges during general rate proceedings and order refunds to customers if necessary. The formula for the refunds is specified in the substitute. A corporation's filing of a petition or change to an ISRS under these provision cannot be considered a request for a general increase in its base rates and charges. These provisions cannot be construed as limiting the authority of the commission to review and consider infrastructure system replacement and additional costs along with other costs during a general rate proceeding of any electrical corporation or to impair in any way the authority of the commission to review the reasonableness of the rates or charges of a corporation (Section 393.1210); and

(3) Requires an electrical corporation that has had a general rate proceeding decided or dismissed by a commission order within the past three years must implement a mechanism to track the differences between specified costs not currently considered in general rate proceedings such as labor, training, benefits, and specified tax expenses. A formula for amortizing the costs is specified in the substitute. The amortized costs may be recovered during a general rate proceeding except that annual cap on the recovery will be 2% of the electrical corporation's base revenue level as determined by the commission in its prior general rate proceeding. Certain costs such as other tracked costs, labor costs for the corporation's parent company, incentive compensation, and specified administrative and general costs are excluded from inclusion in the tracking mechanism and cannot be recovered by the corporation. The provisions of the substitute regarding the

tracking mechanism will terminate on August 27, 2025, unless reenacted by the General Assembly (Section 393.1215).

PROPONENTS: Supporters say that the bill copies the mechanisms in place in many other states and allows regulated electric utilities to replace physical infrastructure and improve customer service and reduces the "regulatory lag" problem which leads to higher financing costs for electrical utilities because they cannot currently recover expenditures except in general rate proceedings. Bond rating agencies disapprove of this recovery system and give lower ratings to Missouri utilities resulting in higher interest rates for borrowing-using bonds. The bill will help Missouri address the huge growth in demand for electricity by building new generation and improving the safety and reliability of existing generation. It will also generate considerable job growth in Missouri by employing thousands of workers to undertake infrastructure repair and replacement. Rate cases are extremely expensive and the use of ISRS administrative review and surcharges will save money in transaction costs for the commission and electric utilities.

Testifying for the bill were Representative Riddle; AmerenUE; Kansas City Power and Light; Empire District Electric Company; Warner Baxter, Missouri Electrical Alliance; Missouri Energy Development Association; Missouri AFL-CIO; Missourians for a Balanced Energy Future; Joe Hunt, Ironworkers Union; Tom Kindrich, Westinghouse Electrical Company; Michael Brown, Pangea Group; David W. Mason; and Dale Smith.

OPPONENTS: Those who oppose the bill say that it will result in a net loss of jobs to Missouri because of increased electricity costs. Empirical studies commissioned by Analysis Group show that even a modest 10% increase in electricity costs can result in a loss of 60,000 or more jobs in a state like Missouri. In total, the ISRS procedure could allow electrical utilities to increase costs by almost \$3 billion between rate cases. Customer costs will also rise and generate considerable opposition to the ISRS practice. It is extremely difficult to account for rate increases after the fact in a general rate proceeding so the bill will result in higher electricity prices for both customers and industries. The ISRS mechanism is not well suited to electrical utilities and their long-term projects are better accounted for in a general rate proceeding which considers all factors giving these monopoly utilities an overall fair rate of return on investment.

Testifying against the bill were Missouri Industrial Energy Consumers; Missouri Retailers Association; Lewis Mills, Public Counsel, Consumer Council of Missouri; AARP Missouri; David Woodsmall, Missouri Energy Consumers Group; Ajay Jyoti, Analysis

Group and Brubacker and Associates; Ed Smith, Missouri Coalition for the Environment; Missouri Association for Social Welfare; Kemp Smith, Noranda; and Henry Fayne.