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MISSOURI  
PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

Missouri Public Service Commission

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October 15, 1997

#149

✓ Mark  
✓ J. Shaw  
✓ S. Rackers  
✓ Jan  
✓ B. Meyer  
✓ D. Winter

CECIL I. WRIGHT  
Executive Secretary

SAM GOLDAMMER  
Director, Utility Operations

GORDON L. PERSINGER  
Director, Advisory & Public Affairs

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Director, Utility Services

DONNA M. KOLJIS  
Director, Administration

DALE HARDY ROBERTS  
Chief Administrative Law Judge

DANA K. JOYCE  
General Counsel

Mr. Cecil I. Wright  
Executive Secretary  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102

RE: Case No. EW-97-245 - Retail Electric Competition Task Force

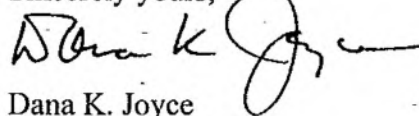
Dear Mr. Wright:

Enclosed for filing in the above-captioned case is an original and fourteen (14) conformed copies of the materials presented at the full Task Force Meeting on October 14, 1997, in Jefferson City, Missouri. These materials include an Agenda; Market Power/Market Structure Work Group presentation by Richard Malon, Chair; Stranded Cost Work Group presentation by Maurice Brubaker, Chair; Public Interest Protection Work Group presentation by Jerry Harris, Chair; and Reliability Work Group presentation by James Watkins, Staff Vice-Chair.

This filing was hand-delivered to all Task Force Members present at the meeting, and mailed this date to all members not in attendance.

Thank you for your attention to this matter.

Sincerely yours,



Dana K. Joyce  
General Counsel  
(573) 751-8705  
(573) 751-9285 (Fax)

DKJ:tmw  
Enclosures  
cc: Task Force Members

# AGENDA

Missouri Public Service Commission  
Retail Electric Competition Task Force  
Tuesday, October 14, 1997

FILED

OCT 15 1997

MISSOURI  
PUBLIC SERVICE COMMISSION

- |                    |  |
|--------------------|--|
| <b>1:00 - 1:15</b> | <b>Welcome and Meeting Overview</b>                                    |
| <b>1:15 - 2:45</b> | <b>Working Groups' Presentations<br/>Updates and Questions/Answers</b> |
| <b>2:45 - 3:00</b> | <b>Break</b>   |
| <b>3:00 - 3:30</b> | <b>Process Review for Market Structure Report</b>                      |
| <b>3:30 - 4:00</b> | <b>Additional Discussion (as needed)</b>                               |
| <b>4:00</b>        | <b>Meeting Wrap-up and Close</b>                                       |

**WORKING GROUPS FOR  
RETAIL ELECTRIC COMPETITION TASK FORCE  
CASE NO. EW-97-245  
OCTOBER 7, 1997**

NAME/WORKING GROUP	COMPANY/ADDRESS	TELEPHONE/FAX/ E-MAIL #
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NAME/WORKING GROUP	COMPANY/ADDRESS	TELEPHONE/FAX/ E-MAIL #
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# **Market Structure/Market Power Working Group**

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**Richard Malon, Chair**

**October 14 report to PSC Retail  
Competition Task Force**





# **Five basic business units under discussion**

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- **Generation**
- **Transmission**
- **Distribution**
- **Retail Electric Provider**
- **Customer Information Services**



# **Definition of the five business units**

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- **Generation- includes generation, purchases, marketing and brokering**
- **Transmission-includes all the high voltage bulk power lines-usually owned by a utility**



# Definition of the five business units

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- **Distribution-the substations, distribution power lines, transformers and customer service drops**
- **Retail Electric Provider-the entity selling electric energy**



# **Definition of the five business units**

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## **⊙ Customer Information Services**

- **Metering**
- **Meter reading**
- **Billing**
- **Other Customer service**



# **Discussion on structure includes:**

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- **Which business units are competitive or regulated**
- **How the business units are organized relative to each other**
- **Working Group has several structures under discussion**





# **Some concepts the working group agrees upon**

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- **Generation business unit**
- **Transmission business unit**
- **Distribution business unit**



# Generation Business Unit

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- **Competitive**
- **Market based**
- **Not regulated**



# **Transmission Business Unit**

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- **Open access**
- **Non discriminatory**
- **Independent System Operator**
- **Probably bigger than just Missouri**
- **Regulated by FERC**
- **Must be in place before retail choice can be implemented**



# **Distribution Business Unit**

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- **Open access**
- **Non discriminatory**
- **Regulated by the appropriate authority**



# **The structures the Working Group is discussing**

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- **A Poolco Model**
- **Open bi-lateral contracts**
- **Bi-lateral contracts with Power Exchange**





## • **Poolco Model**

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- **Presented by Union Electric**
- **All generation competitive**
- **Poolco provides all energy for all systems**
- **All other business units remain as is and regulated by the appropriate authority**



# • **Open bi-lateral contracts**

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- **Presented by Enron**
- **All elements of generation, retail electric provider and customer information service business units are open to competition and unregulated**
- **No central power exchange**



# • **Bi-lateral contracts with Power Exchange**

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- **Presented by KCPL**
- **All elements of generation, retail electric provider and customer information service are open to competition and unregulated**
- **Central power exchange for balancing, regulating, and those who wish to use it.**



# **Current activities of the Working Group**

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- ❁ **Receiving final comments on proposed structures**
- ❁ **Beginning evaluation of the structures**
- ❁ **Hope to reach consensus on one structure; at most two**



# **Future activities of the Working Group**

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- **Plan to have a report on Structure to the Task Force in November**
- **Will then begin discussions on Market Power**
- **Will have final report coordinated with other Working Groups**



**MISSOURI PUBLIC SERVICE COMMISSION**  
**Retail Electric Competition Task Force**  
**Case No. EW-97-245**

**Report of the Stranded Cost Working Group:**  
**Activities and Issues**

**Activities to Date**

The Stranded Cost Working Group held its first meeting on August 22, 1997. Based on discussion at this meeting, as well as Working Group member responses to a survey, it was decided that some basic discussion on ratemaking procedures and education on stranded cost issues would be appropriate before tackling the key issues. Members were provided with a copy of an Oak Ridge National Laboratory publication by Lester Baxter, Eric Hirst and Stan Hadley, entitled "Transition-Cost Issues for a Restructuring U.S. Electricity Industry." An index of reference material and other information also was distributed.

The second meeting was held on September 9, 1997. At this meeting Mark Oligschlaeger of the MPSC Staff made a presentation on basic ratemaking and regulatory principles under today's statutory/regulatory environment. Additional bibliographies were distributed and the Group extensively discussed the "key issues" involved in the stranded cost question.

The third meeting was held on September 30, 1997. The key feature of this meeting was a presentation of the pros and cons of "stranded cost" recovery. A spirited exchange of views ensued.

### **Future Meetings**

Meeting are currently scheduled for October 23, 1997 and November 6, 1997. At the October 23rd meeting Eric Hirst will make a presentation on methods for calculating stranded costs and methods for collecting stranded costs.

### **Attendance by Non-Members**

The Working Group welcomes the attendance and participation of interested parties. It is not necessary to be a member of the Task Force. In addition, anyone wishing to make a presentation to the working group should contact the chairman or vice-chairman and advise as to the nature and length of the desired presentation.

### **Key Issues**

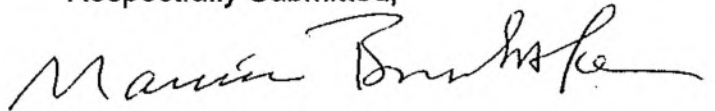
Stranded costs (sometimes referred to as transition costs, excess of costs over market value or uneconomic costs) may generally be thought of as the difference between the costs as they are reflected in regulated rates and the level of cost recovery that would occur in a competitive generation market. Stranded costs may be associated with, for example, generating plants, purchased power contracts, and certain regulatory assets.

In addition to the broad policy question of whether some level of stranded cost recovery from customers is appropriate if the electricity markets are opened to competition at the retail level, there are a number of other issues that the Working Group will be studying and outlining. These key issues include: Measures to mitigate identified stranded costs, the offset of stranded costs with stranded benefits, the identification and measurement of stranded costs, whether to use administrative measures or market-based

measures to determine stranded costs, the duration of recovery, and various methods for collecting the allowable share of stranded costs from customers. Also to be considered are the potential use of securitization, the implications of various accounting standards, the financial consequences to the electric utilities with above-market assets, and the impact of the treatment of stranded costs on the development of a competitive market.

Over the next several months the working group intends to study each of these issues and identify where consensus exists and where it does not. Where consensus does not exist, the Working Group will outline the various policy options and their likely impacts.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Maurice Brubaker".

Maurice Brubaker, Chairman  
Stranded Cost Working Group

# MISSOURI PSC STRANDED COST WORKING GROUP

## Meeting Schedule

August 22, 1997	Kickoff Meeting
September 9, 1997	Educational Session
September 30, 1997	Pros and Cons of Stranded Cost Recovery

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October 23, 1997	Presentation by Eric Hirst on Calculation and Collection Methods
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November 6, 1997	Additional Issues
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# MISSOURI PSC STRANDED COST WORKING GROUP

## Definition of Stranded Costs

Stranded cost is a measure of the difference between costs included in regulated rates and costs that could be recovered in a competitive generation market.

Possible examples of stranded costs relate to generating units, purchased power contracts, and regulatory assets.

The flip side of stranded cost recovery is consumer savings. The higher the recovery of stranded costs, the lower the savings to consumers.

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# MISSOURI PSC STRANDED COST WORKING GROUP

## Key Issues Involved in Stranded Costs

- Whether, and if so to what extent, stranded cost recovery is appropriate
  - Ways to mitigate the level of stranded costs
  - Identification of stranded costs
  - Measurement of stranded costs
    - Administrative methods
    - Market methods
    - Investor expectations
    - True-ups
  - When does recovery of stranded cost begin
    - Prior to competition
    - Concurrent with competition
    - After competition begins
  - Offset of stranded costs with stranded benefits
  - Methods of collecting stranded costs from customers
  - Use of securitization
  - Effect of accounting standards
  - Impact of stranded cost recovery policy on investors
  - Impact of stranded cost recovery policy on the development of a competitive market
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## **General Principle**

Consumers should have access to adequate, safe, reliable and efficient energy services at just and reasonable prices. Industry restructuring should be developed in public processes with participation open to all. All stakeholders should receive fair consideration in public processes.

## **Specific Principles**

1. Network Integrity - The safety (of the public and employees), reliability, quality and sustainability of electric service should be maintained or improved in a restructured electric industry.
  - Workers/employees of entities under MoPSC jurisdiction
  - Workers/employees of entities non under MoPSC jurisdiction
  - Public: effect on customers of entities under MoPSC jurisdiction and on non-customers/bystanders
  - Call centers
  - Quality of service standard (maintenance of certain levels of service/standard for restoration of service)
  - Provider of last resort
  - Obligation to serve/relevance of service territories
  - Licensing/certification of alternative providers of service/establishment of codes of conduct, standards, etc. for the provision of service
  - Meaningful sanctions and penalties for violators (ability to impose penalties)
  - Loss of jobs at electrical corporation/entities regulated by MoPSC due to competition from alternate providers or otherwise related to competition
  - Future of electric resources planning rules: 4 CSR 240-Chapter 20
  - Use of renewable fuels
  - Nuclear plant decommissioning
  - New plant siting and construction
  - Energy efficiency, DSM programs

2. Universal Service - All customers, including low-income customers, should have access to a basic level of affordable and reliable electric service at just and reasonable rates.
  - Wire charges
  - Service benefits charges
  - Quality of service standard (maintenance of certain levels of service/standard for restoration of service)
  - Universal service standard
    - follow telco model for assuring minimum level of customer service
    - low income customers
    - high cost areas
  - Provider of last resort
  - Obligation to serve/relevance of service territories
  - Equal, non-discriminatory access to and for all customers, regardless of class or other means of differentiation
  - Low income, fixed income, medical emergencies, social programs (e.g. continuation or establishment of “cold weather rule” and other protections)
  - Deposit billing: standard rules, disconnect rules
3. Customer Choice - Customers should have the opportunity in a competitive market to make informed choices among a broad range of electricity providers, products, and services.
  - Flash-cut vs. phase-in
  - Competition to affect all customers vs. some groups of customers
  - Which group of customers will be the first to experience competition
  - Explanation of rate/billing/service options
  - Customer education
  - Large enough range of supplier choices for all customers
  - Meter testing/reading, billing, credit and collection policies/practices
  - More choices, lower rates:
    - mandatory rate reduction

- rate stability planning
  - Level and nature of emissions/pollutants (disclosure of generation sources)
4. Consumer Protection - All consumers should be protected from anti-competitive behavior, fraudulent and deceptive marketing practices, undue discrimination, poor service, unfair billing practices, and disconnection without due process.
- Explanation of rate/billing/service options
  - Complaint/dispute resolution procedures
  - Customer education
  - Full disclosure
  - Call centers
  - Standardized billing
  - Provider of last resort
  - Obligation to serve/relevance of service territories
  - Equal, non-discriminatory access to and for all customers, regardless of class or other means of differentiation
  - Licensing/certification of alternative providers of service/establishment of codes of conduct, standards, etc. for the provision of service
  - Regulation of marketing practices of providers of service (e.g. slamming/deceptive practices)
  - Low income, fixed income, medical emergencies, social programs (e.g. continuation or establishment of "cold weather rule" and other protections)
  - Meter testing/reading, billing, credit and collection policies/practices
  - Confidentiality/security of customer information
  - Meaningful sanctions and penalties for violators (ability to impose penalties)
  - Credit and deposit rules
  - Deposit billing: standard rules, disconnect rules
  - Procedures for resolving problems
5. Shared Benefits - All classes of customers should benefit from structural changes in the industry.

- Competition to affect all customers vs. some groups of customers
  - More choices, lower rates:
    - mandatory rate reduction
    - rate stability planning
6. Public Benefits - The public benefits of energy efficiency, renewable resources technologies, research and development, and adequate protections for low income customers should be maintained through existing or new mechanisms.
- Wire charges
  - Service benefits charges
  - Low income, fixed income, medical emergencies, social programs (e.g. continuation or establishment of “cold weather rule” and other protections)
  - Taxes: impact on amount of dollars collected by state and local governments
  - Economic development
  - Use of renewable fuels
  - Energy efficiency, DSM programs
7. Environment - Structural changes to the electric industry should maintain or improve the quality of the environment.
- Future of electric resource planning rules: 4 CSR 240-Chapter 20
  - Level and nature of emissions/pollutants (disclosure of generation sources)
  - Use of renewable fuels
  - Nuclear plant decommissioning
  - New plant siting and construction
  - Energy efficiency, DSM programs
  - Environmental impact of restructuring
8. Right to Privacy - Consumers should be able to control release and use of sensitive personal information and records. Customer information should be treated the same way, regardless of the type of provider. Marketing should not be unduly intrusive.
- Confidentiality/security of customer information

## **Reliability Working Group Update for Task Force**

The Reliability Working Group has used the first few meetings to learn more about maintaining system reliability in utility operations, power pools and independent system operators (ISO).

Presentations were made to the group by:

- Union Electric - investor owned utility
  - Midwest ISO
- AEC - G & T cooperative
- Independence Power & Light - municipal utility
- NERC - via video tape
- Southwest Power Pool - pool operation and ISO formation
- IBEW - current reliability

Although they have different ownership, financial and governing structures, the three utility types were almost identical in how they operate the electrical systems to insure reliability.

The group will begin discussing reliability concerns for a POOLCO model and a full bilateral model at the next meeting.