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November 19, 1997

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P. O. Box 360
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MISSOURI
PUBLIC SERVICE COMMISSION

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

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case is an original and fourteen (14) conformed copies of a written statement on electric utility restructuring as submitted by David Shorr, Director of the Department of Natural Resources.

This filing was mailed or hand-delivered this date to all Task Force Members.

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

STATE OF MISSOURI
DEPARTMENT OF NATURAL RESOURCES

Mel Carnahan, Governor • David A. Shorr, Director

OFFICE OF THE DIRECTOR

P.O. Box 176 Jefferson City, MO 65102-0176

September 29, 1997

Mr. Dan Joyce
Public Service Commission
Department of Economic Development
Truman State Office Building, Room 530
Jefferson City, Missouri 65101

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MISSOURI
PUBLIC SERVICE COMMISSION

Dear Mr. Joyce:


Please find attached my written statement on electric utility restructuring for inclusion in the Public Service Commission Inquiry into Retail Electric Competition (Case No. EW-97-245). Please distribute to members of the Task Force as they continue to address this important public policy issue.

This statement has been provided to Senator Goode and Representative Mays as co-chairs of the Joint Interim Committee on Telecommunications and Energy.

If you have questions or would like additional information on the enclosed, please contact me at 751-4732. The Department of Natural Resources appreciates the opportunity to participate in the Commission's inquiry.

Very truly yours,

DEPARTMENT OF NATURAL RESOURCES


David A. Shorr
Director

Enclosure

c: Steve Mahfood, Director, Environmental Improvement and Energy Resources
Authority
Cher Stuewe-Portnoff, Director, Division of Energy

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COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION

In the Matter of a Commission Inquiry into)
Retail Electric Competition)
)

Case No. EQ-97-245

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**MISSOURI
PUBLIC SERVICE COMMISSION**

WRITTEN STATEMENT OF DAVID A. SHORR

DIRECTOR

DEPARTMENT OF NATURAL RESOURCES

BEFORE THE

MISSOURI PUBLIC SERVICE COMMISSION

SEPTEMBER 1997

I am David Shorr, Director of the Missouri Department of Natural Resources, and I am pleased to have the opportunity to share with the committee, the department's views regarding the restructuring of Missouri's electric utility industry. The department feels strongly that environmental and public interest issues be addressed in the transition to a less regulated power industry in Missouri.

The electricity industry is a major contributor to some of the most significant environmental problems we face today such as air toxics, global warming, acid rain, ground-level ozone, land use and water impacts. According to the U.S. EPA "in terms of the volume and variety of pollutants emitted into our nation's air, no other single category of stationary sources comes close to matching the contribution of electricity generation" (1995).

Although it is difficult to predict the outcome of the industry restructuring process, it is likely that the environmental impacts of electricity generation will increase as we move closer to competitive markets – unless regulators adopt measures that maintain environmental quality (Tellus Institute Report to NARUC, Dec. 1995).

Some of the environmental impacts likely to occur include:

- Increased competition may open up new markets and create greater incentives to run older more polluting coal plants more often and longer than they would have under a regulated structure because the market is likely to value existing plants at lower costs than new generation. Existing plants have already obtained sites, permits and had transmission facilities constructed. This same theory would apply to existing hydropower facilities currently not operating at capacity due to downstream environmental degradation.
- Generation from retiring nuclear facilities would most likely be replaced with generation from existing fossil-fired plants, resulting in increased air emissions. Any increases in air emissions should consider cumulative and residual impacts.
- As the industry prepares for competition, the pressure to reduce costs is greater. Discretionary costs associated with environmental protection are likely to be eliminated unless indirect environmental costs are included in the new restructured system. Energy efficiency, renewable resource technologies and research and development can provide significant long-term economic and environmental benefits for Missouri. No waste reduction strategy translates more clearly to reducing costs and preventing pollution than does energy efficiency. Renewable generation technologies benefit the state from improved air quality, fuel diversity, local employment and balance of trade.

- In addition to cost reduction, utilities will focus more on short-term costs. Investments in less-polluting resources, such as demand-side management and renewable resources will not be as attractive because they typically have higher up-front costs than traditional fuel sources even though the long-term costs of renewable resources are lower.
- Lower electricity prices, if this is the outcome, may cause increased electricity use and load that could spur more generation and related environmental impacts. Owners of existing old plants will price their power as low as possible to keep out new market competitors for as long as possible. Newer cleaner facilities are more costly because they will be subject to greater future risks of environmental compliance. Increased competition may also encourage sellers of electricity to promote sales to increase market share and profits that would result in increased generation.
- The need for additional generation and transmission facilities from load growth would increase environmental impacts associated with these facilities.

Electricity restructuring provides an opportunity to rethink and redesign Missouri's environmental policies. Environmental policy options should be integrated in the areas of industry structure, new market mechanisms and regulations.

The single most important environmental criterion is that the environmental impacts resulting from a restructured electric industry should be no greater than the environmental impacts that would be expected under a vertically integrated, regulated industry that successfully applied sound integrated resource planning principles and practices.

Beyond maintaining current environmental quality standards, additional environmental, resource and efficiency standards and regulations, market incentives, structures or regulatory requirements could be established to address the environmental threats of electricity industry restructuring. To the extent that compliance with additional environmental controls increases the power industry's strandable assets, Missouri may wish to consider allowing recovery of a portion of environmental compliance costs.

Competition is also changing nonregulatory energy-related public benefit programs. Federal and state funding is declining although Congress has reauthorized the state's federally-funded programs through federal FY 2002. Restructuring of the energy industry provides us with the opportunity to evaluate existing energy programs, assess future public needs and determine how those needs should be addressed in Missouri.

The consumer component of public benefits is also a concern of the department. Consumer issues of universal service and equity should be maintained as public benefits in a restructured power industry. All customer classes – including public institutions, small commercial businesses and industry and residential consumers – should benefit equally due to structural changes in the industry. No consumer class should be unduly disadvantaged. Universal service with adequate protection for low-income consumers with access to reasonably-priced power should be in place, as well as accurate, consistent and relevant information through standard disclosure requirements.

I appreciate the opportunity to offer the department's views on electric utility restructuring. We look forward to working with Members of the Committee and with the Public Service Commission's Task Force to address these and other issues as the process develops.

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