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JOINT COMMITTEE ON GOVERNMENTAL ACCOUNTABILITY

ED EMERY
31ST DISTRICT

July 8, 2016

Commissioner Daniel Hall, Chairman
Missouri Public Service Commission
200 Madison Street, P.O. Box 360
Jefferson City, MO 65102-0360

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

Dear Chairman Hall:

I was pleased to see you open a working docket to consider policies to improve electric utility regulation. The purpose and timing of your docket very nearly parallels that of the Senate Interim Committee established a few weeks ago. As the chair of the House Utilities Committee when I was a State Representative and in my current role as a Senator serving on the corresponding Senate committee I have been actively engaged in utility policymaking for several years now. I have learned the hard way that utility issues are extraordinarily complicated and involve a wide range of stakeholders with strongly held beliefs on all sides. Nothing in this area is simple or easy. One thing is however certain: every Missourian cares about receiving safe, reliable and affordable water, sewer, natural gas and electrical service.

The focus of your working docket is on electric utilities and I consider this utility sector the one where the existing regulations are most in need of reform. Several factors cause me to feel this way:

- Missourians, along with the rest of country, are ever more dependent on a safe, reliable, efficient and affordable electric grid as we continue to see the rate of technology development accelerate. This level of dependence on a modern grid is only going to further increase over time.
- Like Missouri's highways and bridges, we have an aging electric grid. The American Society of Civil Engineers issues a report card on infrastructure in each state and Missouri does not receive a favorable grade. As an engineer I see the aging electric infrastructure across our state as a significant problem. Modernization of this infrastructure will take years and hundreds of millions of dollars to accomplish.

- The current regulatory process is providing for a significant level of funding to address aging infrastructure. Nevertheless, the scope of the problem demands that we find ways to accelerate investments in grid modernization if we hope to avoid degradation in system reliability. You probably agree that currently the system is aging faster than it is being replaced.
- Other states have taken action with a number of different approaches to accelerate investments to modernize their grids, meet customers' expectations for reliable service, and facilitate economic development. Missouri has been standing still in this area and is losing ground to other states.

These bullet points address the negative consequences for not taking action, but what's more important are the potential benefits to the state from implementing balanced yet meaningful regulatory reform. These benefits include improved reliability now and in the future, new services for customers, more comprehensive energy efficiency and demand-side management programs, advanced manufacturing, economic development and jobs.


I believe that regulatory reform must be beneficial to all stakeholders including customers and energy providers. Any path we choose must achieve the objectives of accelerating modernization of our grid, holding utilities accountable, and benefiting the customers they serve.

We have an opportunity to move Missouri forward and I look forward to working with the Missouri Commission to ensure that the path we choose is fair and balanced. The status quo is not serving Missouri well and we have an unprecedented opportunity to make a difference for current and future generations of Missourians.

As an example of how regulatory reform can impact a state I requested that Erin O'Connell Diaz, a former Commissioner in Illinois, send me the attached letter describing how regulatory modernization has impacted Illinois residents and businesses. As you read this letter her enthusiasm for what changes in that state have meant for residential and business customers comes through loud and clear. I'm hopeful we can generate that kind of enthusiasm around Missouri's energy future.

Please do not hesitate to e-mail me at Ed.Emery@senate.mo.gov or call me at (573) 751-2108 at any time as we continue this effort together.

Sincerely,



Senator Ed Emery

Cc: Commissioner Stephen Stoll
Commissioner Bill Kenney
Commissioner Scott Rupp
Commissioner Maida Coleman

FutureFWD, Inc.

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July 7, 2016

The Honorable Ed Emery
Senator – Missouri State Senate
201 West Capitol Avenue, Room 426
Jefferson City, MO 65101

Dear Senator Emery:

It was a pleasure to testify before your committee this past spring regarding modernization of Missouri's electric grid and the changes to its regulatory framework to enable this transformation. As you consider this important issue, it may be helpful to keep in mind the circumstances that Illinois was experiencing before we adopted the performance based ratemaking regulations contained in our historic Energy Infrastructure Modernization Act ("EIMA") reforms in 2011. In a short period of time, this legislation is delivering real and quantifiable benefits to our citizens. At the same time our rates have remained low and stable, electric reliability is award winning and we are building a secure energy future for our state. Several factors motivated the changes that occurred in Illinois and I would suggest Missouri is encountering those same obstacles that will impede its path to the future, without balanced regulatory reform.

In Illinois we recognized that traditional ratemaking was not doing a good job of promoting the utility service attributes that customers and state policy-makers care most about, such as rate stability, reliability, customer service, energy efficiency, enabling renewable and distributed generation development, and economic development, as well as productivity improvements. Clearly, the 120-plus-year-old traditional regulatory process utilized in Illinois was in need of streamlining; rate cases had become frequent, numerous adjustment mechanisms, riders and deferral accounts had significantly complicated the process and it had become highly adversarial and costly for all parties to participate. The results of the proceedings were unpredictable, volatile and incomprehensible for most consumers. The time had come to develop a comprehensive solution as a more productive alternative.

Through many iterations at the legislature and with input from many stakeholders, the Illinois legislature passed our EIMA law which provided for a new process to develop performance based rates (PBR) through electric utility rate proceedings while still maintaining the Illinois Commerce Commission's oversight and authority. The Commission retained its authority to ensure rates are just and reasonable and based only on prudently incurred costs, and parties retained the right to file for appeal of a Commission Order. In fact, the Commission exercises its historic authority in these cases that the utilities are required to file on an annual basis. This process, now in its fifth year, allows for better alignment of interests between customers and the utility; places the emphasis on performance, not just

the cost building blocks that add up to a utility's revenue requirement; and provides an equitable division of the benefits of performance improvement and cost management. Without implementation of PBR, Illinois' electric system would have been at risk of under investment or cost recovery challenges leading to service degradation, credit downgrades and overall customer dissatisfaction. PBR is a proactive solution that can provide sustained benefits for all utility stakeholders, and that takes a longer-term perspective on the balancing of interests and establishment of utility service that is in the public interest.

I appreciate the due diligence that you and your colleagues are going through as you consider this change. I admit I was skeptical when we first started looking at making these changes to our regulatory model. However, we are five years out since we implemented the changes and we now have an abundance of evidence that clearly shows this was the correct path. In particular:

- Illinois' residential and industrial electric rates remain the lowest in the Midwest Region as well as some of the lowest in the United States; our rates have risen less than Missouri's (an average of 2.5% increase in the last 4 years) while at the same time the dynamic transformation of our electric grid is taking place and currently delivering benefits to all sectors. Low prices, new build, better services to industrial and residential customers, job creation are all occurring under the watchful eye of the public utility regulators. To be clear, this legislation has been truly transformative for our state as a whole;
- Regulatory oversight by the public utility regulatory commission has been enhanced with annual rate filings requiring review and approval of the yearly costs through fully litigated proceedings open to all stakeholders. As a Commissioner a big concern to me was that we not lose that important role. Extensive and timely annual Commission review under performance based ratemaking is a critical component of the process and one of the pillars of its success. In fact as I understand SB 1028, your Public Service Commission would enjoy more discretion than would be afforded under the Illinois legislation. Also the prudence standard of review by the Commission, that ensures just and reasonable rates, remains intact and unchanged under this legislation;
- Performance based ratemaking allows the Commission, its Staff and other parties to have a timely and discrete annual review of all costs resulting in less time and overall rate case expense, which benefits everyone;
- Transparent and measurable performance metrics are required of utilities with penalties for non-compliance as well as strong consumer protection provisions; again Commission oversight is at work;
- Illinois was just rated second in the nation for grid modernization and our state is benefiting from record reliability improvements resulting in millions of dollars saved by consumers. Since 2012 we have experienced the following societal savings in our two regions-Ameren Illinois-\$228 million/Commonwealth Edison-\$3.1 billion;

- 4,800 jobs have been created statewide not including indirect supply chain employment opportunities; Robust programs have been implemented that bring together our consumer advocates, educational sectors and many community organizations as critical partners in building Illinois' energy future;
- Modern grid technology has been deployed system-wide, such as smart meters, modern distribution/transmission components and the grid has been better secured against storms/cyberattacks;
- Utilities have been enabled to make much needed long-term investments to modernize the electric grid at the same time ensuring customers realize the benefits of these improvements; and
- Credit ratings of the utilities have been kept sound during times of accelerated investments in the system which in turn keep construction costs and debt service costs lower thereby benefiting all.

I know that you, your colleagues and your Public Service Commission have the best interests of the future of Missouri at heart. I can tell you that of all the programs that I was involved with in my 30 years of public service, my participation in the implementation of performance based ratemaking is one of my proudest accomplishments. It has allowed a reality of growth and forward movement for my state in a manner I did not think possible. It is my firm belief that all the attributes I referenced above simply would not have happened if we had not changed the channel to performance based ratemaking regulation.

In closing, I appreciate your thought and consideration of the many sides to this issue. Given our experience with performance based rates you and your colleagues can be assured it is not an untried idea but a regulatory model that is transformative. This legislation is currently allowing Illinois utility customers to be participants in the 21st century by leveraging a modernized utility foundation with new technologies, services and customer benefits that are the value streams of tomorrow. I hope the same path is in the future for the citizens of Missouri.

Sincerely,



Erin M. O'Connell-Diaz-Commissioner Emeritus
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