BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of a Working Case to Address	)	
Legislative Concerns Regarding Proposals to	)	File No. EW-2013-0425
Modify Ratemaking Procedures for Electric Utilities.	)	

COMMENTS OF MISSOURI ELECTRIC ALLIANCE

In response to a request from a member of the General Assembly, the Commission opened this proceeding to better understand legislative proposals to modify ratemaking procedures for Missouri's electric utilities, particularly as related to recovery of infrastructure investments. In its order initiating this proceeding, the Commission solicited comments from interested stakeholders on a number of specific issues and, more generally, any other information that the Commission would find relevant to this legislation. The Missouri Electric Alliance ("MEA") appreciates the opportunity to provide comments on this important topic. We will address each of the specific issues identified in the Commission's order later in these comments, but we would like to begin by responding to the request for other information that the Commission would find relevant to the proposed legislation. Specifically, we will provide a brief introduction to MEA, an overview as to why Missouri's electric utilities must be focused on making investments to maintain and improve the high level of reliability that customers have come to expect, and a discussion of the challenges utilities face in making those investments. We will explain why regulatory reform is needed in Missouri, and in particular, why the current regulatory framework in Missouri discourages investment and operates as a barrier to electric utilities making proactive investments in the infrastructure. We will also explain how the specific bills being considered by the Missouri Senate and House of Representatives will address these issues, improve reliability, and result in long-term benefits to customers and the State of

Missouri as a whole. Finally, we will explain how the infrastructure investment supported by the proposed legislation will create much-needed jobs for Missouri, and how the legislation provides robust consumer protections.

Other Information Which the PSC Finds Relevant to this Legislation

MEA Introduction

MEA is an alliance of Missouri's three investor-owned electric utilities: Ameren Missouri, Kansas City Power & Light Company and KCP&L-Greater Missouri Operations Company ("KCP&L") and The Empire District Electric Company ("Empire").[1] The companies that comprise MEA provide electric service to approximately 1.9 million Missouri residential, commercial and industrial customers over a service territory in excess of 49,000 square miles. We operate fleets of generating facilities with a total capacity of 16,623 megawatts, and serve our customers through facilities connected by tens of thousands of miles of transmission and distribution lines. We employ over 8,000 people, and invest over $1 billion in Missouri every year. Our collective mission is to provide a product that is critical to our customers, communities and the economy of our state – electricity – in a safe and reliable manner and at a price that is reasonable compared to other utilities across the country. Due to the hard work of all our co-workers, we have been successful in accomplishing our mission and are focused on achieving that mission in the future.

Securing Missouri's Energy and Economic Future—Key Areas of Focus

While the MEA companies have been successful in achieving our mission in the past, we are constantly looking ahead to ensure that we can fulfill our mission in the future. In doing so, we are focused on several key areas. Our first area of focus is meeting our customers' increasing

[1] The Empire District Electric Company intends to submit to the Commission its own company-specific comments in this matter as well.

energy needs and expectations. In this digital age, customers expect near-perfect reliability from their electric suppliers. This applies to residential customers, whose homes are increasingly reliant on computers and digital devices that are impacted by even momentary outages. Similarly, for manufacturers who rely on 21st century digital technology, even a brief outage can cost hundreds of thousands, if not millions of dollars in lost production. And near-perfect electric reliability is increasingly a requirement for businesses looking to start or expand operations in a particular area. Meeting our customers' increasing energy needs and high expectations for reliability is of paramount importance to us. Meeting those needs in the future will require increasing levels of investment in our aging energy infrastructure.

At the same time, electric utilities are also facing an increasing need to spend capital to meet pending or new legislative and regulatory mandates. For example, the power that serves our customers comes primarily from our expansive fleet of coal plants. In recent years, a host of environmental regulations associated with air quality, water quality and ash management have been implemented or proposed. Complying with these requirements in the future will require meaningful amounts of capital expenditures at our power plants. While there are several implications associated with this reality, one clear implication is that these mandated expenditures take away from the limited pool of capital we have available to enhance the reliability of our aging infrastructure to meet customers' rising needs and expectations, as well as enhance the efficiency of our power plants.

Of course, addressing our state's aging infrastructure will undoubtedly be a critically important area of focus for electric utilities in the coming years. Electric utilities are in fact facing a "bow wave" of major investment across their systems to simply replace or enhance with new "smarter grid" technology substations, transformers, poles and wires, as well as power plant equipment, and other facilities. These facilities and equipment were, in many instances, installed 40 to 60 years ago to meet the increasing demand for electricity to serve new air conditioning load, or to serve new and/or larger houses being built in the suburbs, as well as meet the energy needs of growing industry. When these facilities were originally constructed, the revenues derived from that new load at least partially offset the cost of the new facilities. But now with customer demand slowing significantly from that time period, these facilities must be replaced with limited, if any, new revenue to support the replacement.

Aging energy infrastructure is not just a Missouri problem, but it is a problem that electric utilities and states are facing across the country, as noted in a recent report by the American Society of Civil Engineers, attached hereto as Appendix A. In summary, that report calls on our country to move forward now to support investment in its aging infrastructures to preserve the nation's economy and save consumers costs in the long run. As a result, proactively addressing our state's aging energy infrastructure must be a priority if we are to meet our customers' and state's energy needs and expectations in the future, as well as to position our state for economic growth in the future.

As a consequence of the issues described previously, the last area of focus for MEA is to advocate for policies which better support investment in our energy infrastructure like many other states around the country already have adopted, including Missouri for the water and gas industry. While our customers' and state's energy needs and expectations have changed radically over the last 100 years, one thing that has not changed is the regulatory framework related to investments. Not only does this framework not help solve the aging infrastructure problem we face, it in fact provides strong disincentives for electric utilities to invest in their infrastructure. Specifically, electric utilities are required to invest money up front in equipment or facilities, then place those assets in service for customers, prepare a rate case filing (which takes several months) and then complete the normal rate case process which takes approximately 11 months to complete. Only then are utilities allowed to begin recovering the investments they have made that have been serving customers in some cases for several years. The recovery of that investment is usually over 30 or 40 years, and the total investment made and related return on those investments is not ever recovered in full. This is one of the primary reasons why you have witnessed so many rate case filings by the MEA companies over the last several years. Recovery of the costs of the investments made, including the cost of capital, is only “partial” because the current framework requires the utility to absorb these costs from the time that each asset is placed in service until the time it is reflected in rates, months or even years later. Consequently, the more an electric utility invests in its system, the more costs it is forced to absorb. And these permanently unrecovered costs are significant. For every incremental dollar of investment in rate base growth, approximately 15 cents in capital cost and depreciation expense is permanently lost each year those investments are not reflected in rates.

The unfairness and inappropriateness of this process is illustrated by the treatment of capital investments made in response to the devastating tornado experienced by Empire in Joplin in May, 2011, and a smaller tornado experienced by Ameren Missouri in April 2011. In both cases the utilities worked diligently to restore service to customers as quickly as possible and spent tens of millions of dollars to replace damaged infrastructure. But in both cases, because of the lag in cost recovery occasioned by Missouri’s regulatory framework, the affected utilities did not begin being reimbursed for those infrastructure investments for nearly 2 years after those events; as a consequence, the utilities were required to lose a portion of their investments and the capital costs of making those investments, as well as incur higher borrowing costs as the price of restoring service to their customers in a timely fashion.

To be clear, the MEA companies have made and will continue to make all the necessary investments in their energy infrastructure to deliver the "safe and adequate" service they are required to deliver, as well as comply with all regulatory requirements. However, our customers expect, if not demand, better than "safe and adequate" service, and we are delivering on that expectation – today. Because of the issues set forth previously, our ability to meet our customers' needs and expectations in the future will be increasingly challenged under the existing regulatory framework. That is why MEA is advocating for a change in the regulatory framework this legislative session.

Infrastructure Strengthening and Streamlining Legislation

Recognizing the importance of taking steps today to provide a robust energy infrastructure to meet our customers' and state's energy needs and expectations in the future, coupled with the challenges we have highlighted previously, MEA strongly supports the ISRS legislation being considered by the General Assembly (Senate Bill 207 and House Bill 398). The proposed legislation modernizes current energy policies to support and encourage incremental investment in the state's energy infrastructure rather than discouraging that investment. It provides electric utilities with more timely cash flows that can be re-invested in infrastructure to meet our customers' number one priority – reliability. These investments facilitate sustaining and creating good-paying jobs for the state and those objectives are accomplished with strong consumer protections beyond those already in place for similar frameworks used for the water and gas utilities in the state.

Now is an opportune time for the state to move forward with this initiative. In addition to the fact that there is an imminent need for significant electric infrastructure investment in order to meet the ever-increasing expectations of our customers, market conditions support making incremental investments today. Interest rates are at historic lows, which drive down the cost of every capital project. There is an ample supply of skilled labor available, and the backlogs of many suppliers are not full, which also will help drive down project costs. Investing in infrastructure now will save customers money later, when conditions for investment are unlikely to be as favorable.

And as has been already noted, other states that have faced these issues have recognized the serious consequences that can flow from an aging electric infrastructure, and many have taken steps to modify their regulatory processes to address the disincentive to invest. In fact, the majority of states have taken one or more significant steps to support investment in energy infrastructure. If Missouri doesn't take steps to modernize its regulatory framework and encourage more timely infrastructure replacement and enhancement, it will simply fall further behind other states that have proactively addressed this issue.

ISRS Legislation Will Create Jobs

This legislation is going to help sustain the jobs we have today, as well as put more people to work right away. These are good paying jobs for electrical workers, linemen, surveyors, engineers and pipefitters, just to name a few. We believe this legislation will help support an incremental $100 million to $150 million in infrastructure investment each year in Missouri. A recent study shows that those investment levels will create and sustain in excess of 1,000 new jobs across our state, including approximately 300-350 new direct jobs. This legislation will also lead to more jobs in the future. With a reliable and technologicallyadvanced electric infrastructure, Missouri will be well positioned to attract 21st century jobs to our state like those related to the small modular nuclear reactor industry. A modern, reliable electric infrastructure is a critically important consideration to many types of businesses when they consider locating or expanding their operations in a particular state. Economic development will migrate to the states that encourage investment in such facilities, and other states will likely fall behind as the quality of their electric infrastructure declines on a relative basis.

Regulatory Reform Proposals

It is against this background that the current legislative proposals must be considered. MEA believes that two versions of the legislation are currently the most relevant for purposes of these comments—the version of House Bill 398 which was voted out of the House Committee on March 13, 2013 (attached hereto as Appendix B) and the floor substitute version of Senate Bill 207 (attached hereto as Appendix C), which is being considered by the Senate. Although these versions of the bill have some differences, both bills borrow the overall structure that has been successfully used for the recovery of capital costs in the water and gas industry for the last decade, as well as expense tracking processes similar to those being used by the Commission today.

Specifically, both bills allow electric utilities to adjust rates periodically between rate cases to allow more timely recovery of the cost of certain infrastructure investments that are already serving customers, similar to the manner that gas and water utilities are able to recover the cost of certain infrastructure investments under existing law. As is the case with the gas and water ISRS, customers pay no more than the actual cost of investment in facilities that are currently being used to serve them. The costs of new revenue generating investments, and investments in new electric generating facilities and office buildings are specifically excluded.

The bills also contain an ISRS expense tracking mechanism, which is modeled after the expense tracking mechanisms approved in the past by the Commission. The objective of this mechanism is to track changes in certain expenses (up or down) between the completion of rate cases (which can be up to almost four years) and that bear relationship to infrastructure investments. In general, these expenses include labor, benefits, property taxes, transmission and outside contractor costs associated with the transmission, distribution and generation of electricity. These expenses exclude all officer salaries and general and administrative personnel.

Robust Consumer Protections

The ISRS legislation before the Senate and House today contains robust consumer protections, and in many respects, they are meaningfully greater than those in place for the water and gas utility industry for nearly a decade.

In terms of the interim rate adjustment between rate cases for infrastructure investments, the Commission has 150 days (SB 207) or 195 days (HB 398) to review information related to ISRS filings to ensure they are in compliance with the law before any charges show up on customer bills. This provides more time than the gas or water statutes (which allow a review of 120 days), and will provide more transparency for the investment of electric utilities between rate cases than currently exists. The Commission also has a full opportunity to review the prudence of ISRS investments in the electric utility's next general rate proceeding, and if any costs are found to be imprudent, customers' bills are credited for all amounts paid to the utility for these investments, along with interest at the utility's weighted average cost of capital—a higher interest rate than the gas and water ISRS statutes provide. In addition, general rate proceedings must be filed every three years by any electric utility utilizing an ISRS, so that is the very longest a prudence review on any particular project could be delayed.

Like the ISRS applicable to gas and water utilities, there are also strict limits on the timing of ISRS filings and the amount of costs that can be recovered through interim ISRS charges. Specifically, ISRS filings are limited to two per year, and the ISRS cannot increase rates more than 8% between changes in base rates, which can be up to nearly four years (the limit is currently 10% for gas and water utilities, with current proposals in both chambers of the General Assembly to increase these percentages for the gas utilities).

As for the ISRS expense tracking mechanism, the variances in the specified expenses are tracked between changes in base rates resulting from a general rate proceeding. These costs are not part of the interim rate adjustment between rate cases and are subject to a complete review by the Commission as part of a general rate case. Should the Commission deem these expenditures to be prudent, they are then recovered over three years. Importantly, there is a 2% rate cap on these expenses. That is, customers' rates as a result of this mechanism can change no more than 2% for expenses tracked for a period of up to four years, and expenses ultimately recovered under this mechanism are only for those costs actually incurred by the utility.

Finally, both bills contain sunset provisions which are not present in the gas and water ISRS legislation. The Senate bill contains a 20-year sunset on the entire legislation, and the House bill contains a 12-year sunset applicable only to the ISRS expense tracker.

In all, the bills being considered by the legislature contain strong consumer protections that exceed those that have been successfully employed over the past decade for the water and gas utilities. In addition, the Commission will continue to have comprehensive oversight over the entire process to ensure that consumers are properly protected.

In summary, the ISRS legislation before the Senate and House will modernize century old energy policies that will support important investment in our state's aging electric infrastructure. That investment will enhance reliability and create jobs. This legislation will accomplish these objectives with robust consumer protections, while at the same time streamlining regulation. As a result of these factors, the ISRS legislation enjoys strong support across the entire State of Missouri. Supporters of policies which encourage investment in our energy infrastructure include the rural electric cooperatives, the municipal owned electric utilities, organized labor, large and small businesses, local chambers of commerce, residential consumers, suppliers to our industry and many others. They all agree that moving ahead with forward thinking policies now will bring significant long-term benefits to Missouri and its communities in the future.

Commission Requests for Specific Information

With regard to each of the specific issues that the Commission asked interested stakeholders to address, MEA provides the following comments:

A. The safety, adequacy and reliability of Missouri's current electric infrastructure.

Today, the MEA utilities' current infrastructure is safe, adequate and reliable, which is the minimum standard we are required to meet. As stated previously, the MEA utilities today exceed those minimum standards to meet our customers' needs and expectations. Several measures are indicative of our strong performance. For example, Ameren Missouri's and KCP&L's reliability as measured by SAIFI (System Average Interruption Frequency Index), a measure of the frequency of outages on the system each year, is well within the top quartile of our industry. Ameren Missouri's power plants have also performed very well. Last year both the Labadie and Rush Island Energy Centers won awards for economical and reliable operation, and the Callaway nuclear plant recently completed a breaker-to-breaker run without an unscheduled outage. KCP&L's Iatan Generating Station last year ranked as one of the most efficient coal sites in the country. In addition, KCP&L was recognized for the sixth time in a row by PA Consulting Group as the recipient of the 2012 ReliabilityOne™ Award in the Plains Region. The ReliabilityOne™ Award is given annually to the utilities that have achieved outstanding reliability performance and have excelled in delivering reliable electric service to their customers.

In summary, the safety, adequacy and reliability of our service is strong. Our challenge as a state is to make sure that we take steps today to be able to deliver this same strong performance in the future in light of our customers' and state's rising needs and expectations, increasing capital investment requirements for various mandates, and to address our aging infrastructure, as previously discussed. Waiting until we see signs of meaningful reliability problems is too late and not sound energy policy. Proactive steps are needed today to address the needs and challenges of the future.

B. <u>Identification of electric infrastructure problems, costs and needs.</u>

The electric utility industry in general, and the MEA companies in particular, face significant infrastructure needs in order to continue the high level of performance our customers have enjoyed and they increasingly expect. As previously mentioned, a bow wave of investment needs is imminent in order to meet those expectations given the age of our equipment and facilities. This is not just an issue Missouri utilities are facing—it is an industry-wide challenge. As the 2013 report by the American Society of Civil Engineers attests, electric infrastructure across the country is nearing the end of its useful life and our reliance on such facilities places us at increasing risk for significant outages. (See ASCE 2013 Report Card attached as Appendix

A). These significant outages aren't simply an inconvenience. Outages cost consumers money and have a significant impact on local and state economies.

The MEA companies' mix of facilities fit the same profile. For example, the chart attached as Appendix D shows the age of Ameren Missouri's distribution and transmission substations. Although a few substations are extremely old (66-70 years old), more troubling is the significant number of substations that fall into the age range from 41-50 years old, and whose replacement cost is expected to be over $700 million. In addition, major portions of Ameren Missouri's downtown St. Louis underground distribution system are approximately 80-100 years old, and are increasingly experiencing reliability challenges.

Similarly, a significant amount of KCP&L's infrastructure is aging and nearing the end of its expected life. For example:

- Currently KCP&L has approximately 500 miles of direct buried Underground Residential Cable (URD) between 30 and 50 years old, which is being replaced at a rate of about 20 miles per year, or a 25-year timeframe to replace it all;
- Much of the downtown Kansas City and Plaza underground cable, manhole, and conduit systems are 50-80 years old and continue to deteriorate;
- Approximately 12 miles of 161kV underground transmission high-pressure oil filled cable systems serve critical substations in the downtown and Plaza areas and are between 40 and 50 years old;
- Like Ameren Missouri, KCP&L has a significant number of key substation assets (transformers and circuit breakers) that are 30-50 years old.

Meeting the minimum standards for replacing these facilities is not the best course of action. Instead, systematically and proactively investing in replacement facilities and staying ahead of the curve, which would be facilitated by the proposed legislation, is a far better approach. The attached letter from Tony Earley, President and CEO of PG&E and Edwin Hill, International President of IBEW, explains this (see Appendix E).

C. <u>Rate impact of the implementation of Senate Bill 207.</u>

Both of the bills currently being considered would allow electric utilities to more timely recover the costs they have actually spent on infrastructure that is currently providing service to customers -- no more and no less. Absent this infrastructure cost recovery mechanism, these investments would have to be recovered through the current rate case process. Earlier, the shortfalls of that process as it relates to investments in energy infrastructure were highlighted. As stated previously, this legislation is all about removing disincentives to make greater levels of investment in our aging energy infrastructure to meet our customers' and state's energy needs and expectations. Consequently, we believe one way to assess the impact on customers is to evaluate the impact on customers' bills should incremental investments be made over and above those which are already being planned to be spent. For example, if Ameren Missouri would make an "incremental" investment of $100 million in a given year (which approximates the amount of incremental investment Ameren Missouri is targeting if ISRS legislation passes) while ignoring changes in other costs, the company estimates that when using allocation methods employed in a traditional rate case, this incremental impact would be about ½ of 1% per year or about 50 cents per month for the average residential customer. For some of Ameren Missouri's large industrial customers, that percentage increase would be less.

Under ISRS legislation, we will recover the cost of both the ISRS qualifying investments in our normal course of business in a more timely fashion, as well as incremental investments to address our aging infrastructure from those already being planned. In response to a request from

Senator Mike Kehoe, the Commission Staff performed an analysis of the potential impact on customers due to the interim adjustment mechanism. The Staff's findings are attached as Appendix F. As stated previously, the percentage change in customers' rates under this mechanism between the completion of rate cases (which can be up to almost four years) is capped at 8%.

The ISRS legislation also contains an expense tracker. As discussed previously, the impact of this provision on customers' rates is capped at 2% between the completion of rate cases, which could be up to four years. As stated previously, amounts reflected in the expense tracker are only for those changes in qualifying expenses that are actually incurred by the utility. As previously explained, the customers will receive significant benefits from this legislation, which exceeds these costs.

D. <u>Electric utilities' financial need for legislation.</u>

The electric utilities' financial need for this legislation has been explained at length throughout these comments. In short, under the current framework, electric utilities do not fully recover their costs when they make incremental investments in infrastructure for the benefit of their customers. This provides a disincentive for electric utilities to invest at the very time they need to be replacing a bow wave of aging infrastructure, and at the very time investment is most affordable due to low financing costs, supplier capacity and an available labor pool. And it is important to remember that this legislation simply provides for a more timely reimbursement of dollars the electric service provider has already made to serve customers so that more of these funds can be more quickly reinvested in additional infrastructure projects.

In addition, Missouri's less favorable regulatory environment impacts electric utilities' credit quality, which imposes a hidden cost in the form of higher costs of capital than other utilities operating in more favorable regulatory climates can achieve. This too is a financial need as those higher costs between the times when rates are adjusted are borne by the utility. Of course, these higher costs of capital are also ultimately borne by our customers. And although the MEA utilities do have access to the capital markets today, we may not always have that access in the future. Supportive regulatory policies are needed if utilities are to retain access to capital on favorable terms compared to our peers with whom we compete for capital.

The state also has a financial need for this legislation. A healthy electric infrastructure attracts businesses to the state. Also, investments in infrastructure create immediate jobs for those who build and install infrastructure, jobs that are needed today in Missouri. This investment, the attraction of industry, and those jobs produce needed economic activity and tax dollars, all of which would benefit the state and ultimately its citizens.

E. <u>Due process and appropriate procedure in respect to the new rate mechanisms proposed by Senate Bill 207.</u>

Like the gas and water ISRS, the proposed electric ISRS and all of the costs on which it are based are subject to full review prior to the implementation of an interim rate adjustment to ensure that it complies with each and every aspect of the statute; indeed, under the proposed legislation the review is longer than for the gas and water utilities. Moreover, the Commission retains all of its existing authority to examine the prudence of every dollar reflected in the interim adjustment, and if imprudent costs were included, customers must be credited with interest at the utility's weighted average cost of capital. At least five months of pre-review[2] and a rate case process starting with a 60-day notice followed by an 11-month process constitutes robust and appropriate due process under any reasonable use of that term. The ISRS expense tracker is similar to tracking mechanisms currently used by the Commission, and it does not

[2] The House version of the bill provides for an additional 45 days of notice.

permit adjustment of rates outside of a general rate proceeding for those costs, so it too presents no due process or procedural concerns. Both mechanisms allow the Commission to conduct a comprehensive prudence review in the following rate case, and, as mentioned, they contain numerous consumer protections.

Summary

In closing, addressing our state's aging electric infrastructure is a big job. But Missouri has big plans and a big future. The ISRS legislation is a "Missouri Solution" to modernize century-old energy regulations to support 21st-century investment. Today, the majority of states have more supportive policies for investment in energy infrastructure. If we stand still, we lose ground to the states surrounding Missouri. The ISRS legislation creates opportunities for important infrastructure investment to meet our customers' energy needs and expectations today while protecting consumers, creating good-paying jobs, and laying groundwork for major economic expansion in the future. The ISRS legislation will lead to significant long-term benefits for our customers, our communities and the State of Missouri as a whole.

Respectfully submitted,

/s/WarrenWood

Warren Wood
Vice President of Regulatory & Legislative Affairs
Union Electric Company d/b/a Ameren Missouri
101 Madison
Jefferson City, MO 65101
Telephone: 573-681-7126
Email: wwood2@ameren.com

/s/ Darrin R. Ives

Darrin R. Ives
Senior Director-Regulatory
Kansas City Power & Light Company
1200 Main Street, 19th Floor
Kansas City, MO 64105
Telephone: 816-556-2522
Email: Darrin.Ives@kcpl.com

/s/ James C. Swearengen

James C. Swearengen, #21510
312 East Capitol Avenue
P.O. Box 456
Jefferson City, MO 65102-0456
Phone (573) 635-7166
Facsimile (573) 634-7431
Email: lrackers@brydonlaw.com

Attorney for The Empire District Electric Company

ASCE

AMERICAN SOCIETY OF CIVIL ENGINEERS

2013 REPORT CARD for AMERICA'S INFRASTRUCTURE

ENERGY:

D+

America relies on an aging electrical grid and pipeline distribution systems, some of which originated in the 1880s. Investment in power transmission has increased since 2005, but ongoing permitting issues, weather events, and limited maintenance have contributed to an increasing number of failures and power interruptions.

While demand for electricity has remained level, the availability of energy in the form of electricity, natural gas, and oil will become a greater challenge after 2020 as the population increases.

Excerpted from: ASCE, "Failure to Act: The Economic Impact of Current Investment Trends in Electricity Infrastructure," 2012

ENERGY: GLOSSARY

Electricity generation — The first process in the delivery of electricity to consumers; it is the process of generating electric power from sources of energy.

Transmission — The transfer of electrical energy from generating power plants to electrical substations using power lines that carry the electricity.

Electricity distribution — The final stage in the delivery of electricity to consumers using smaller power lines and substations.

Planning reserve margin — A standard used in the energy industry to gauge the amount of excess generation capacity available to meet expected demand over a specified time period.

Smart grid — New technologies that are managing and automating the delivery of electricity using two-way communication systems.

ENERGY:
CONDITIONS & CAPACITY

The Electric Grid

The electric grid in the United States consists of a system of interconnected power generation, transmission facilities, and distribution facilities, some of which date back to the 1880s. Today, we have an aging and complex patchwork system of power generating plants, power lines, and substations that must operate cohesively to power our homes and businesses. There are thousands of power generating plants and systems spread across the United States and almost 400,000 miles of electric transmission lines. With the addition of new gas-fired and renewable generation, the need to add new transmission lines has become even greater.

Aging equipment has resulted in an increasing number of intermittent power disruptions, as well as vulnerability to cyber attacks. Significant power outages have risen from 76 in 2007 to 307 in 2011. Many transmission and distribution system outages have been attributed to system operations failures, although weather-related events have been the main cause of major electrical outages in the United States in the years 2007 to 2012. While 2011 had more weather-related events that disrupted power, overall there was a slightly improved performance from the previous years. Reliability issues are also emerging due to the complex process of rotating in new energy sources and "retiring" older infrastructure.

Capacity

In the near term, it is expected that energy systems have adequate capacity to meet national demands. From 2011 through 2020, demand for electricity in all regions is expected to increase 8% or 9% in total, based on population growth and projections from the U.S. Energy Information Administration.

After 2020, capacity expansion is forecast to be a greater problem, particularly with regard to generation, regardless of the energy resource mix. Excess capacity, known as planning reserve margin, is expected to decline in a majority of regions, and generation supply could dip below resource requirements by 2040 in every area except the Southwest without prudent investments.

Congestion at key points in the electric transmission grid has been rising over the last five years, which raises concerns with distribution, reliability and cost of service.

This congestion can lead to system-wide failures and unplanned outages. The public has a low tolerance for these outages, even in extreme weather events. Additionally, these outages put public safety at risk and increase costs to consumers and businesses. The average cost of a one-hour power outage is just over $1,000 for a commercial business.

ENERGY: CONDITIONS & CAPACITY

AVERAGE COST OF A POWER INTERRUPTION IN THE U.S.

Duration	Residential	Commercial	Industrial
Momentary	$2.64	$733	$2,294
1 hour	$3.27	$1,074	$3,943
Sustained*	$3.62	$1,293	$5,124

**Mean time of sustained interruption: 106 minutes*

ENERGY: INVESTMENT & FUNDING

Investment for transmission has been increasing annually since 2001 at a nearly 7% annual growth rate. For local distribution systems, however, national-level investment peaked in 2006 and has since declined to less than the level observed in 1991. Construction spending has decreased in recent years, although the aging of local distribution networks, lack of funding for maintenance, and resulting equipment failures have received public attention and put pressure on some utilities to make improvements.

The **investment gap** for distribution infrastructure is estimated to be $57 billion by 2020, much larger than the investment gap for transmission infrastructure of $37 billion.

The increase in adoption of smart grid technologies – computer-based, automated systems for the delivery of electricity – has led to additional investment in recent years. **To date, 25 states have already adopted policies relating to smart grid technology.** At least nine states discussed smart grid deployment bills in the 2011 legislative sessions, and more than 70 million smart meter units were deployed in 2010, compared to 46 million in 2008. Ensuring that these systems work together will be an ongoing challenge.

ENERGY:
INVESTMENT & FUNDING

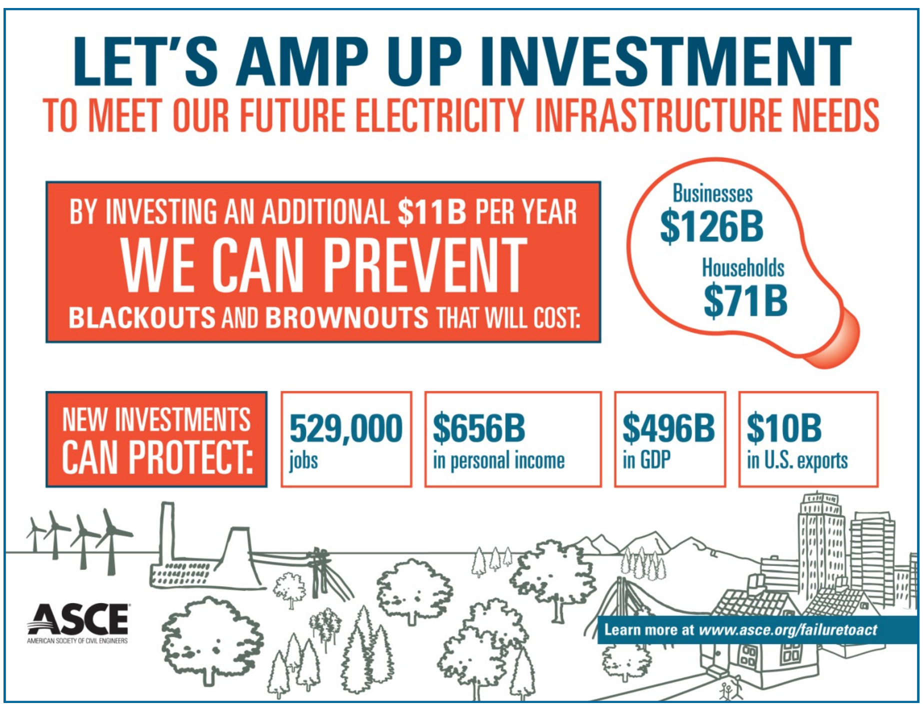
INVESTMENT GAP ESTIMATES BY REGION

Region	Transmission Gap	Distribution Gap
Florida	$1.8 billion	$2.4 billion
Mid-Atlantic	$6.4 billion	$11.8 billion
Midwest	$1.4 billion	$3 billion
Northeast	$1.6 billion	$6.4 billion
Southeast	$10.9 billion	$18.8 billion
Southwest	0	$2.4 billion
Texas	0	$2.3 billion
West	$15.2 billion	$10.3 billion
TOTAL	$37.3 billion	$57.4 billion

ENERGY: CONCLUSION

Looking ahead in the 21st century, our nation is increasingly adopting technologies that will automate our electric grid and help manage congestion points. In turn, this will require robust integration of transmission and distribution systems so that the network continues to be reliable.

Investments in the grid, select pipeline systems, and new technologies have helped alleviate congestion problems in recent years, but capacity and an aging system will be issues in the long term. In addition, with an automated, dynamic energy grid system comes the increased risk of cybersecurity threats. Protecting the nation's energy delivery systems from cyberattacks and ensuring that these systems can recover is vital to national security and economic well-being.



ENERGY:
CONCLUSION

Raising the Grades:
Solutions that Work Now

- **Adopt a national energy policy** that anticipates and adapts to future energy needs and promotes the development of sustainable energy sources, while increasing the efficiency of energy use, promoting conservation, and decreasing dependence on fossil fuels as sources are depleted. Such a policy must be adaptable and scalable to local and state policy.

- **Provide mechanisms for timely approval of transmission lines** to minimize the time from preliminary planning to operation.

- **Identify and prioritize risks to energy security,** and develop standards and guidelines for managing those risks.

- **Design and construct additional transmission grid infrastructure** to efficiently deliver power from remote geographic generation sources to developed regions that have the greatest demand requirements.

- **Create incentives to promote energy conservation** and the concurrent development and installation of highly efficient coal, natural gas, nuclear, and renewable (solar, wind, hydro, biomass, and geothermal) generation.

- **Continue research to improve and enhance the nation's transmission and generation infrastructure** as well as the deployment of technologies such as smart grid, real-time forecasting for transmission capacity, and sustainable energy generation which provide a reasonable return on investment.

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HOUSE COMMITTEE SUBSTITUTE

FOR

HOUSE BILL NO. 398

AN ACT

To amend chapter 393, RSMo, by adding thereto four new sections relating to ratemaking for public utilities.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF MISSOURI, AS FOLLOWS:

Section A. Chapter 393, RSMo, is amended by adding thereto four new sections, to be known as sections 393.1200, 393.1205, 393.1210, and 393.1215, to read as follows:

393.1200. As used in sections 393.1200 to 393.1215, the following terms mean:

(1) "Appropriate pretax revenues", the revenues necessary to produce net operating income equal to:

(a) The electrical corporation's weighted cost of capital multiplied by the net original cost of eligible infrastructure system replacements and additions less associated plant-related accumulated deferred income taxes in compliance with normalization requirements of federal tax law;

(b) State, federal, and local income or excise taxes applicable to such income; and

(c) All other ISRS costs;

(2) "Commission", the Missouri public service commission;

(3) "Electric corporation", shall have the same meaning as in subdivision (15) of section 386.020;

(4) "Electric utility plant projects", means:

(a) Electric plant, as defined in subdivision (14) of section 386.020, excluding newly constructed or newly acquired electric generating plants and administrative office buildings and their furnishings;

(b) If not being recovered in a rate schedule authorized by subsection 2 of section 386.266, the costs of capital projects undertaken to comply with federal, state, or local environmental or safety statutes, ordinances, or regulations; and

(c) The costs of facilities relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the electrical corporation;

(5) "Eligible infrastructure system replacements and additions", electric utility plant projects that:

(a) Do not increase revenues by directly connecting the infrastructure replacement or addition to new customers;

(b) Are in service and used and useful;

(c) Were not included in the electrical corporation's rate base in its most recently concluded general rate case; and

(d) Replace or extend the useful life of existing infrastructure or are for additional infrastructure;

(6) "ISRS", infrastructure system replacement surcharge;

(7) "ISRS costs", depreciation expense for all eligible infrastructure system replacements and additions that are placed in service and became used and useful since the date through which rate base additions were accounted for in developing the

revenue requirement in the electrical corporation's most recently concluded general rate case or its last ISRS filing, offset by retirements and depreciation expenses accrued since the effective date of rates in the electrical corporation's most recently concluded general rate proceeding or its last ISRS filing on the plant included in the rate base in that general rate proceeding or included in that ISRS filing, and the return on said eligible infrastructure system replacements and additions at the electrical corporation's weighted cost of capital used to determine the appropriate pretax revenues, with both the depreciation and return to be deferred on the electrical corporation's books between the time the eligible infrastructure system replacements and additions were placed in service and the effective date of an ISRS rate schedule reflecting the deferred depreciation and return;

(8) "ISRS revenues", revenues produced through an ISRS exclusive of revenues from all other rates and charges;

(9) "Net original cost of eligible infrastructure system replacements and additions", the original cost of the eligible infrastructure replacements and additions net of accumulated depreciation on the eligible infrastructure replacements and additions, offset by (i) depreciation expense accrued on the plant included in the rate base in the electrical corporation's most recently concluded general rate proceeding since the effective date of rates developed in that proceeding, and (ii) the original cost of plant retirements and accrued depreciation expenses associated with such retirements for retirements recorded after the date through which the rate base additions

were accounted for in developing the commission-approved revenue requirement in that general rate proceeding.

393.1205. 1. Notwithstanding any provisions of chapter 386 or this chapter to the contrary, beginning August 28, 2013, an electrical corporation providing electric service may file a petition and proposed rate schedules with the commission to establish or change ISRS rate schedules that will allow for the adjustment of the electrical corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements and additions. The commission may not approve an ISRS to the extent it would produce total annualized ISRS revenues below the lesser of one million dollars or one-half of one percent of the electrical corporation's base revenue level approved by the commission in the electrical corporation's most recent general rate proceeding. The commission may not approve an ISRS to the extent it would produce total annualized ISRS revenues exceeding eight percent of the electrical corporation's base revenue level approved by the commission in the electrical corporation's most recent general rate proceeding. An ISRS and any future changes thereto shall be calculated and implemented in accordance with the provisions of sections 393.1200 to 393.1215. ISRS revenues shall be subject to a refund based upon a finding and order of the commission to the extent provided in subsections 5 and 8 of section 393.1210.

2. The commission shall not approve an ISRS for any electrical corporation that has not had a general rate proceeding decided or dismissed by issuance of a commission order within the past three years, unless the electrical corporation has filed for

or is the subject of a new general rate proceeding.

3. In no event shall an electrical corporation collect an ISRS for a period exceeding three years unless the electrical corporation has filed for or is the subject of a new general rate proceeding; provided that the ISRS may be collected until the effective date of new rate schedules established as a result of the new general rate proceeding, or until the subject general rate proceeding is otherwise decided or dismissed by issuance of a commission order without new rates being established. An electrical corporation shall be permitted to establish or change ISRS rate schedules during the pendency of a general rate proceeding so long as the establishment or change in the ISRS rate schedules takes effect on or before the date through which rate base additions were accounted for in developing the commission-approved revenue requirement in that general rate proceeding.

393.1210. 1. (1) No later than forty-five days prior to filing a petition with the commission to establish or change an ISRS, an electrical corporation shall submit to the commission a preliminary list of projects costing in excess of five million dollars which are to be included in the ISRS filing. The list shall include a detailed description of each such project and each such project's cost. At the time that an electrical corporation files a petition with the commission seeking to establish or change an ISRS, it shall submit proposed ISRS rate schedules and its supporting documentation regarding the calculation of the proposed ISRS with the petition, and shall serve the office of the public counsel with a copy of its petition, its proposed rate schedules, and its supporting documentation.

(2) Upon the filing of a petition, and any associated rate schedules, seeking to establish or change an ISRS, the commission shall publish notice of the filing.

2. (1) When a petition, along with any associated proposed rate schedules, is filed pursuant to the provisions of sections 393.1200 to 393.1215, the commission shall conduct an examination of the proposed ISRS.

(2) The staff of the commission may examine information of the electrical corporation to confirm that the underlying costs are in accordance with the provisions of sections 393.1200 to 393.1215, and to confirm proper calculation of the proposed charge, and may submit a report regarding its examination to the commission not later than ninety days after the petition is filed. No other revenue requirement or ratemaking issues may be examined in consideration of the petition or associated proposed rate schedules filed pursuant to the provisions of sections 393.1200 to 393.1215.

(3) The commission may hold a hearing on the petition and any associated rate schedules and shall issue an order to become effective not later than one hundred fifty days after the petition is filed.

(4) If the commission finds that a petition complies with the requirements of sections 393.1200 to 393.1215, the commission shall enter an order authorizing the corporation to impose an ISRS that is sufficient to recover appropriate pretax revenue, as determined by the commission pursuant to the provisions of

sections 393.1200 to 393.1215.

3. An electrical corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months.

4. In determining the appropriate pretax revenue, the commission shall consider only the following factors:

(1) The current state, federal, and local income tax or excise rates;

(2) The electrical corporation's actual regulatory capital structure as determined during the most recent general rate proceeding of the electrical corporation;

(3) The actual cost rates for the electrical corporation's debt and preferred stock as determined during the most recent general rate proceeding of the electrical corporation;

(4) The electrical corporation's cost of common equity as determined during the most recent general rate proceeding of the electrical corporation;

(5) The current property tax rate or rates applicable to the eligible infrastructure system replacements and additions;

(6) The current depreciation rates applicable to the eligible infrastructure system replacements and additions; and

(7) In the event information pursuant to subdivisions (2), (3), and (4) of this subsection is unavailable and the commission is not provided with such information on an agreed-upon basis, the commission shall refer to the testimony submitted during the most recent general rate proceeding of the electrical corporation and use, in lieu of any such unavailable information, the recommended capital structure, recommended cost rates for debt

and preferred stock, and recommended cost of common equity that would produce the average weighted cost of capital based upon the various recommendations contained in such testimony.

5. (1) The monthly ISRS charge may be calculated based on a reasonable estimate of billing units in the period in which the charge will be in effect, which shall be conclusively established by dividing the appropriate pretax revenues by the customer numbers reported by the electrical corporation in the annual report it most recently filed with the commission pursuant to subdivision (6) of section 393.140, and then further dividing this quotient by twelve. Provided, however, that the monthly ISRS may vary according to customer class and may be calculated based on customer numbers as determined during the most recent general rate proceeding of the electrical corporation so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. In any event, the ISRS for any customer that has a demand level that exceeds four hundred megawatts shall be set using an allocation of appropriate pretax revenue based on the proportional relationship of the customer charge paid by that customer to the total charges paid by all customers.

(2) At the end of each twelve-month calendar period the ISRS is in effect, the electrical corporation shall reconcile the differences between the revenues resulting from an ISRS and the appropriate pretax revenues as found by the commission for that period and shall submit the reconciliation and a proposed ISRS adjustment to the commission for approval to recover or refund

the difference, as appropriate, through adjustments of an ISRS charge.

6. (1) An electrical corporation that has implemented an ISRS pursuant to the provisions of sections 393.1200 to 393.1215 shall file revised rate schedules to reset the ISRS to zero when new base rates and charges become effective for the electrical corporation following a commission order establishing customer rates in a general rate proceeding that incorporates in the utility's base rates subject to subsections 8 and 9 of this section eligible costs previously reflected in an ISRS.

(2) Upon the inclusion in an electrical corporation's base rates subject to subsections 8 and 9 of this section of eligible costs previously reflected in an ISRS, the electrical corporation shall immediately thereafter reconcile any previously unreconciled ISRS revenues as necessary to ensure that revenues resulting from the ISRS match as closely as possible the appropriate pretax revenues as found by the commission for that period.

7. An electrical corporation's filing of a petition or change to an ISRS pursuant to the provisions of sections 393.1200 to 393.1215 shall not be considered a request for a general increase in the electrical corporation's base rates and charges.

8. Commission approval of a petition, and any associated rate schedules, to establish or change an ISRS pursuant to the provisions of sections 393.1200 to 393.1215 shall in no way be binding upon the commission in determining the ratemaking treatment to be applied to eligible infrastructure system replacements and additions during a subsequent general rate

proceeding when the commission may undertake to review the prudence of such costs. In the event the commission disallows, during a subsequent general rate proceeding, recovery of costs associated with eligible infrastructure system replacements and additions previously included in an ISRS, the electrical corporation shall credit the bills of its customers as of the time the credit is being given for the disallowed amount, plus interest at the electrical corporation's weighted cost of capital from its last general rate proceeding, over a period of no longer than six months. Credits shall be allocated to each rate class in proportion to the ISRS charges applicable to that rate class during the period when the over-collections occurred. Each customer in a given rate class shall receive the same credit, and each credit shall be shown as a separate line item on customers' bills.

9. Nothing in this section shall be construed as limiting the authority of the commission to review and consider infrastructure system replacement and addition costs along with other costs during any general rate proceeding of any electrical corporation.

10. Nothing contained in sections 393.1200 to 393.1215 shall be construed to impair in any way the authority of the commission to review the reasonableness of the rates or charges of an electrical corporation, including review of the prudence of eligible infrastructure system replacements and additions made by an electrical corporation, pursuant to the provisions of section 386.390.

11. The commission shall have the authority to promulgate

rules for the implementation of this section, but only to the extent such rules are consistent with, and do not delay the implementation of, the provisions of this section. Any rule or portion of a rule, as that term is defined in section 536.010 that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536, and, if applicable, section 536.028. This section and chapter 536 are nonseverable and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2013, shall be invalid and void.

393.1215. 1. Notwithstanding any provision of chapter 386 or this chapter to the contrary, any electrical corporation that has had a general rate proceeding decided or dismissed by issuance of a commission order within the past three years shall, commencing with the first day of the month following the month in which this section becomes effective, implement a mechanism to track the differences between the following:

(1) The noncapitalized costs used to set the revenue requirement in that rate case for the electrical corporation's or its affiliate's labor, training, benefits, including but not limited to workers' compensation insurance, payroll taxes, transmission charges or expenses, property taxes, property insurance, and for external contractors contracted by the electrical corporation for the operation or maintenance of the

<u>electrical corporation's transmission, distribution, or generation systems; and</u>

<u>(2) The sum of those costs that are actually incurred by, or allocated to, the electrical corporation as reflected on its books and records in subsequent periods.</u>

<u>2. The electrical corporation shall defer any amounts tracked under subsection 1 of this section on its books and records as a regulatory asset or regulatory liability. In its next general rate proceeding, the regulatory asset or regulatory liability will be included in the determination of the electrical corporation's revenue requirement through an amortization over a period of three years, without any offset, reduction, or adjustment based upon consideration of any other factor or otherwise, except for a review of the prudence of the costs included in any regulatory asset as part of the general rate proceeding unless the amount of the annual amortization as of the time the amortization is to occur exceeds two percent of the electrical corporation's base revenue level as determined by the commission in the electrical corporation's prior general rate proceeding, in which event the annual amortization will be reduced so that it equals the two percent limitation. Notwithstanding the foregoing, the following costs shall not be included in the electrical corporation's or its affiliate's labor or benefits components of the foregoing calculation:</u>

<u>(1) Any costs in a separate, deferred accounting mechanism, tracker, or rate adjustment mechanism;</u>

<u>(2) Labor costs for the electrical corporation's or the electrical corporation parent company's officers;</u>

(3) That portion of the electrical corporation's labor costs that consist of incentive compensation that is dependent on the electrical corporation's or the electrical corporation's parent company's earnings; and

(4) Administrative and general labor costs recorded in Account 920 of the Uniform System of Accounts, or any successor account, applicable to electrical corporations.

3. In subsequent general rate proceedings occurring after a general rate proceeding where an amortization through rates of a regulatory asset or regulatory liability began, any unamortized balance shall be included in the electrical corporation's revenue requirement through a reamortization of said balance over a period of three years, also without any offset, reduction, or adjustment based upon consideration of any other factor or otherwise. The sums to be reamortized under this subsection shall not count toward the two percent limitation under subsection 2 of this section.

4. The commission shall have the authority to promulgate rules for the implementation of this section, but only to the extent such rules are consistent with, and do not delay the implementation of, the provisions of this section. Any rule or portion of a rule, as that term is defined in section 536.010 that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536, and, if applicable, section 36.028. This section and chapter 536 are nonseverable and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to

<u>disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2013, shall be invalid and void.</u>

<u>5. Section 393.1215 shall terminate and be of no further force and effect after August 27, 2025, unless that section shall be reenacted by the general assembly.</u>

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SENATE SUBSTITUTE

FOR

SENATE COMMITTEE SUBSTITUTE

FOR

SENATE BILL NO. 207

AN ACT

To amend chapter 393, RSMo, by adding thereto four new sections relating to ratemaking for public utilities.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF MISSOURI, AS FOLLOWS:

Section A. Chapter 393, RSMo, is amended by adding thereto four new sections, to be known as sections 393.1200, 393.1205, 393.1210, and 393.1215, to read as follows:

393.1200. As used in sections 393.1200 to 393.1215, the following terms mean:

(1) "Appropriate pretax revenues", the revenues necessary to produce net operating income equal to:

(a) The electrical corporation's weighted cost of capital multiplied by the sum of the net original cost of eligible infrastructure system replacements and additions less associated plant-related accumulated deferred income taxes in compliance with normalization requirements of federal tax law, and ISRS costs;

(b) State, federal, and local income or excise taxes applicable to such income; and

(c) An annualized level of depreciation expense on the eligible infrastructure system replacements and additions net of retirements occurring since the date through which rate base additions were accounted for in developing the revenue requirement in the electrical corporation's most recently concluded general rate proceeding or in developing the electrical corporation's last ISRS, and an annualized level of amortization expense on the ISRS costs;

(2) "Commission", the Missouri public service commission;

(3) "Electric corporation", shall have the same meaning as in subdivision (15) of section 386.020;

(4) "Electric utility plant projects", consist of the following:

(a) Electric plant, as defined in subdivision (14) of section 386.020, excluding newly constructed or newly acquired electric generating plants and administrative office buildings and their furnishings;

(b) If not being recovered in a rate schedule authorized by subsection 2 of section 386.266, the costs of capital projects undertaken to comply with federal, state, or local environmental or safety statutes, ordinances, or regulations; and

(c) The costs of facilities relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the electrical corporation;

(5) "Eligible infrastructure system replacements and additions", electric utility plant projects that:

(a) Do not increase revenues by directly connecting the infrastructure replacement or addition to new customers;

(b) Are in service and used and useful;

(c) Were not included in the electrical corporation's rate base in its most recently concluded general rate proceeding; and

(d) Replace or extend the useful life of existing infrastructure or are for additional infrastructure;

(6) "ISRS", infrastructure system replacement surcharge;

(7) "ISRS costs":

(a) The original cost of eligible infrastructure system replacements and additions that were placed in service and became used and useful since the date through which rate base additions were accounted for in developing the revenue requirement in the electrical corporation's most recently concluded general rate proceeding or in developing the electrical corporation's last ISRS, less the retirements during the same period, multiplied by the applicable weighted average depreciation rate;

(b) "ISRS costs" also include the amount calculated under paragraph (a) of this subdivision less changes in the electrical corporation's accumulated depreciation reserve since the date through which rate base additions were accounted for in developing the revenue requirement in the electrical corporation's most recently concluded general rate proceeding or in developing the electrical corporation's last ISRS, multiplied by the electrical corporation's weighted cost of capital used to determine the appropriate pretax revenues, plus applicable state, federal, and local income or excise taxes.

The sum of the amounts determined by paragraph (a) of this subdivision, and the amount determined in paragraph (b) of this subdivision shall be deferred on the electrical corporation's books as a regulatory asset or regulatory liability between the time the eligible infrastructure system replacements and additions were placed in service and the effective date of an ISRS rate schedule reflecting the deferred depreciation and return;

(8) "ISRS revenues", revenues produced through an ISRS exclusive of revenues from all other rates and charges;

(9) "Net original cost of eligible infrastructure system replacements and additions", the original cost of the eligible infrastructure system replacements and additions net of accumulated depreciation on the eligible infrastructure system replacements and additions, offset by depreciation expense accrued on plant included in rate base in the electrical corporation's most recently concluded general rate proceeding since the effective date of rates developed in that proceeding, and plant retirements and accumulated depreciation reserve associated with such retirements for retirements recorded after the date through which rate base additions were accounted for in developing the commission-approved revenue requirement in that general rate proceeding.

393.1205. 1. Notwithstanding any provisions of chapter 386 or this chapter to the contrary, beginning August 28, 2013, an electrical corporation providing electric service may file a petition and proposed rate schedules with the commission to establish or change ISRS rate schedules that will allow for the adjustment of the electrical corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements and additions. The commission may not approve an ISRS to the extent it would produce total annualized ISRS revenues below the lesser of one million dollars or one-half of one percent of the electrical corporation's base revenue level approved by the commission in the electrical corporation's most recent general rate proceeding. The commission may not approve an ISRS to the extent it would produce total annualized ISRS revenues exceeding eight percent of the electrical corporation's base revenue level approved by the commission in the electrical corporation's most recent general rate proceeding. An ISRS and any future changes thereto shall be calculated and implemented in accordance with the provisions of sections 393.1200 to 393.1210.

2. The commission shall not approve an ISRS for any electrical corporation that has not had a general rate proceeding decided or dismissed by issuance of a commission order within the past three years, unless the electrical corporation has filed for or is the subject of a new general rate proceeding.

3. In no event shall an electrical corporation collect an ISRS for a period exceeding three years unless the electrical corporation has filed for or is the subject of a new general rate proceeding; provided that the ISRS may be collected until the effective date of new rate schedules established as a result of the new general rate proceeding, or until the subject general rate proceeding is otherwise decided or dismissed by issuance of a commission order without new rates being established. An electrical corporation shall be permitted to establish or change

ISRS rate schedules during the pendency of a general rate proceeding so long as the establishment or change in the ISRS rate schedules takes effect on or before the date through which rate base additions were accounted for in developing the commission-approved revenue requirement in that general rate proceeding.

393.1210. 1. (1) At the time that an electrical corporation files a petition with the commission seeking to establish or change an ISRS, it shall submit proposed ISRS rate schedules and its supporting documentation regarding the calculation of the proposed ISRS with the petition, and shall serve the office of the public counsel with a copy of its petition, its proposed rate schedules, and its supporting documentation.

(2) Upon the filing of a petition, and any associated rate schedules, seeking to establish or change an ISRS, the commission shall publish notice of the filing.

2. (1) When a petition, along with any associated proposed rate schedules, is filed pursuant to the provisions of sections 393.1200 to 393.1210, the commission shall conduct an examination of the proposed ISRS.

(2) The staff of the commission may examine information of the electrical corporation to confirm that the underlying costs are in accordance with the provisions of sections 393.1200 to 393.1210, and to confirm proper calculation of the proposed charge, and may submit a report regarding its examination to the commission not later than ninety days after the petition is filed. No other revenue requirement or ratemaking issues may be

examined in consideration of the petition or associated proposed rate schedules filed pursuant to the provisions of sections 393.1200 to 393.1210.

(3) The commission may hold a hearing on the petition and any associated rate schedules and shall issue an order to become effective not later than one hundred fifty days after the petition is filed.

(4) If the commission finds that a petition complies with the requirements of sections 393.1200 to 393.1210, the commission shall enter an order authorizing the corporation to impose an ISRS that is sufficient to recover appropriate pretax revenue, as determined by the commission pursuant to the provisions of sections 393.1200 to 393.1210.

3. An electrical corporation may effectuate a change in its rate pursuant to the provisions of this section no more often than two times every twelve months.

4. In determining the appropriate pretax revenue, the commission shall consider only the following factors:

(1) The current state, federal, and local income tax or excise rates;

(2) The electrical corporation's actual regulatory capital structure as determined during the most recent general rate proceeding of the electrical corporation;

(3) The actual cost rates for the electrical corporation's debt and preferred stock as determined during the most recent general rate proceeding of the electrical corporation;

(4) The electrical corporation's cost of common equity as determined during the most recent general rate proceeding of the

electrical corporation;

(5) The current depreciation rates applicable to the eligible infrastructure system replacements and additions;

(6) In the event information pursuant to subdivisions (2), (3), and (4) of this subsection is unavailable and the commission is not provided with such information on an agreed-upon basis, the commission shall refer to the testimony submitted during the most recent general rate proceeding of the electrical corporation and use, in lieu of any such unavailable information, the recommended capital structure, recommended cost rates for debt and preferred stock, and recommended cost of common equity that would produce the average weighted cost of capital based upon the various recommendations contained in such testimony.

5. (1) The monthly ISRS charge may be calculated based on a reasonable estimate of billing units in the period in which the charge will be in effect, which shall be conclusively established by dividing the appropriate pretax revenues by the customer numbers reported by the electrical corporation in the annual report it most recently filed with the commission pursuant to subdivision (6) of section 393.140, and then further dividing this quotient by twelve. Provided, however, that the monthly ISRS may vary according to customer class and may be calculated based on customer numbers as determined during the most recent general rate proceeding of the electrical corporation so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class.

(2) At the end of each twelve-month calendar period the

ISRS is in effect, the electrical corporation shall reconcile the differences between the revenues resulting from an ISRS and the appropriate pretax revenues as found by the commission for that period and shall submit the reconciliation and a proposed ISRS adjustment to the commission for approval to recover or refund the difference, as appropriate, through adjustments of an ISRS charge.

6. (1) An electrical corporation that has implemented an ISRS pursuant to the provisions of sections 393.1200 to 393.1210 shall file revised rate schedules to reset the ISRS to zero when new base rates and charges become effective for the electrical corporation following a commission order establishing customer rates in a general rate proceeding that incorporates in the utility's base rates subject to subsections 8 and 9 of this section eligible costs previously reflected in an ISRS.

(2) Upon the inclusion in an electrical corporation's base rates subject to subsections 8 and 9 of this section of eligible costs previously reflected in an ISRS, the electrical corporation shall immediately thereafter reconcile any previously unreconciled ISRS revenues as necessary to ensure that revenues resulting from the ISRS match as closely as possible the appropriate pretax revenues as found by the commission for that period.

7. An electrical corporation's filing of a petition or change to an ISRS pursuant to the provisions of sections 393.1200 to 393.1210 shall not be considered a request for a general increase in the electrical corporation's base rates and charges.

8. Commission approval of a petition, and any associated

rate schedules, to establish or change an ISRS pursuant to the provisions of sections 393.1200 to 393.1210 shall in no way be binding upon the commission in determining the ratemaking treatment to be applied to eligible infrastructure system replacements and additions during a subsequent general rate proceeding when the commission may undertake to review the prudence of such costs. In the event the commission disallows, during a subsequent general rate proceeding, recovery of costs associated with eligible infrastructure system replacements and additions previously included in an ISRS, the electrical corporation shall credit the bills of its customers as of the time the credit is being given for the disallowed amount, plus interest at the electrical corporation's weighted cost of capital from its last general rate proceeding, over a period of no longer than six months. Credits shall be allocated to each rate class in proportion to the ISRS charges applicable to that rate class during the period when the overcollections occurred. Each customer in a given rate class shall receive the same credit, and each credit shall be shown as a separate line item on customers' bills.

9. Nothing in this section shall be construed as limiting the authority of the commission to review and consider infrastructure system replacement and addition costs along with other costs during any general rate proceeding of any electrical corporation.

10. Nothing contained in sections 393.1200 to 393.1210 shall be construed to impair in any way the authority of the commission to review the reasonableness of the rates or charges

of an electrical corporation, including review of the prudence of eligible infrastructure system replacements and additions made by an electrical corporation, pursuant to the provisions of section 386.390.

11. The commission shall have the authority to promulgate rules for the implementation of this section, but only to the extent such rules are consistent with, and do not delay the implementation of, the provisions of this section. Any rule or portion of a rule, as that term is defined in section 536.010 that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536, and, if applicable, section 536.028. This section and chapter 536 are nonseverable and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2013, shall be invalid and void.

393.1215. 1. Notwithstanding any provision of chapter 386 or this chapter to the contrary, any electrical corporation that has had a general rate proceeding decided or dismissed by issuance of a commission order within the past three years shall, commencing with the first day of the month following the month in which this section becomes effective, implement a mechanism to track the differences between the following:

(1) The noncapitalized costs used to set the revenue requirement in that rate proceeding for the electrical

corporation's or its affiliate's labor, training and benefits, including but not limited to workers' compensation insurance and payroll taxes, transmission charges or expenses, property taxes, property insurance, and for external contractors contracted by the electrical corporation for the operation or maintenance of the electrical corporation's transmission, distribution, or generation systems; and

(2) The sum of those costs that are actually incurred by, or allocated to, the electrical corporation as reflected on its books and records in subsequent periods.

2. The electrical corporation shall defer any amounts tracked under subsection 1 of this section on its books and records as a regulatory asset or regulatory liability. In its next general rate proceeding, the regulatory asset or regulatory liability will be included in the determination of the electrical corporation's revenue requirement through an amortization over a period of three years, without any offset, reduction, or adjustment based upon consideration of any other factor or otherwise, except for a review of the prudence of the costs included in any regulatory asset as part of the general rate proceeding unless the amount of the annual amortization as of the time the amortization is to occur exceeds two percent of the electric corporation's base revenue level as determined by the commission in the electric corporation's prior general rate proceeding, in which event the annual amortization will be reduced so that it equals the two percent limitation. Notwithstanding the foregoing, the following costs shall not be included in the electrical corporation's or its affiliate's labor

or benefits components of the foregoing calculation:

(1) Any costs included in a separate deferred accounting mechanism, tracker, or rate adjustment mechanism;

(2) Labor costs for the electrical corporation's or the electrical corporation's parent company's officers;

(3) That portion of the electrical corporation's labor costs that consist of incentive compensation that is dependent on the electrical corporation's or the electrical corporation's parent company's earnings; and

(4) Administrative and general labor costs recorded in Account 920 of the Uniform System of Accounts, or any successor account, applicable to electrical corporations.

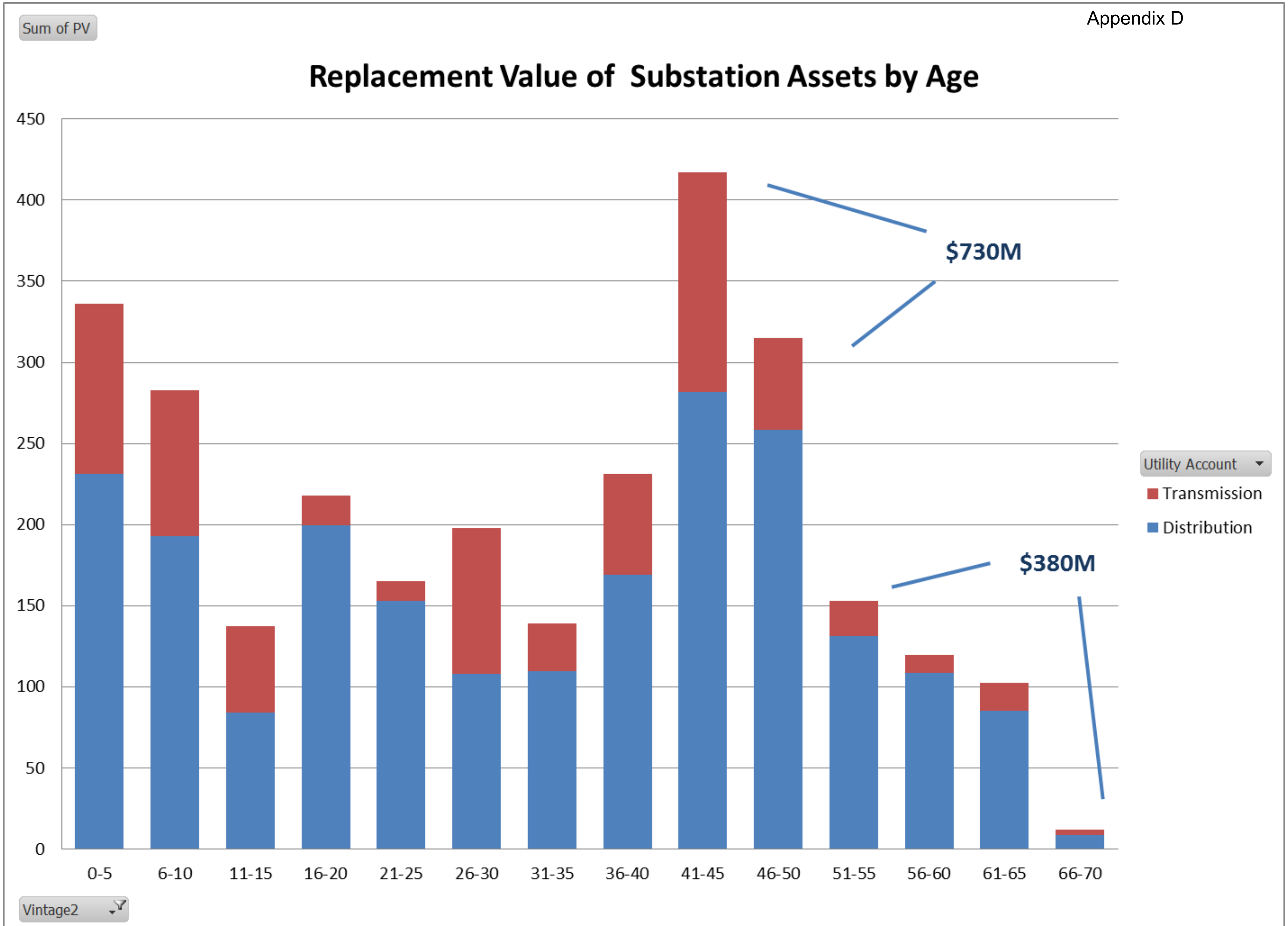
3. In subsequent general rate proceedings occurring after a general rate proceeding where an amortization through rates of a regulatory asset or regulatory liability began, any unamortized balance shall be included in the electrical corporation's revenue requirement through a reamortization of said balance over a period of three years, also without any offset, reduction, or adjustment based upon consideration of any other factor or otherwise.

4. The commission shall have the authority to promulgate rules for the implementation of this section, but only to the extent such rules are consistent with, and do not delay the implementation of, the provisions of this section. Any rule or portion of a rule, as that term is defined in section 536.010 that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536, and, if applicable, section

536.028. This section and chapter 536 are nonseverable and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2013, shall be invalid and void.

5. Sections 393.1200, 393.1205, 393.1210 and 393.1215 shall terminate and be or no further force and effect after August 27, 2033, unless those sections shall be reenacted by the general assembly. In the event of termination, any ISRS in effect shall also terminate and be of no further force and effect after such date.

Appendix D



Sum of PV
Replacement Value of Substation Assets by Age
450
400
350
300
250
200
150
100
50
0
0-5
6-10
11-15
16-20
21-25
26-30
31-35
36-40
41-45
46-50
51-55
56-60
61-65
66-70
$730M
$380M
Utility Account
Transmission
Distribution
Vintage2

Modernize our outdated energy infrastructure

By: Tony Earley and Edwin Hill

March 18, 2013 09:45 PM EDT

Imagine buying the latest computer with access to all the state-of-the-art games and programs — and then trying to access the Internet through a rotary phone. Forcing the latest technology to rely on outdated delivery systems doesn't make sense in telecommunications, and it doesn't make sense in energy either. Yet that is what America would essentially be trying to do if we don't invest in our basic energy infrastructure.

Even as the national debate on carbon emissions rages on, our nation is undergoing a boom in clean energy innovation that is helping to reshape America's energy future. President Obama seized on this progress in his State of the Union address and made a strong case for more investment in cleaner energy sources and better efficiency, from natural gas and renewables to smarter electric grids.

But if we are serious about speeding the transition to more sustainable technologies, as the president called for, we also need to get serious about making new investments in the nation's basic energy infrastructure, which is still the backbone of our energy economy. It will do America little good to be the world leader in energy innovation if the other core components of the grid are not similarly advanced enough or reliable enough to get the power to the end user.

Yet the reality is that, a lot like our interstate highway system, vast portions of our power and natural gas networks were built in the post-World War II era. After half a century, critical parts of the system are reaching the limits of what they were designed to do. These limitations threaten to hold back progress toward our longer-term energy sustainability and security goals.

To his credit, the president touched on this challenge when he said America's energy sector is part of an aging infrastructure badly in need of work. But while age is a crucial factor, it's not the only reason we need to invest.

Integrating new technologies and new energy sources into our existing grid is not a simple matter of "plug and play." Introducing technologies like distributed generation and electric cars on a large scale brings with it real-world engineering and operating challenges. Many of these can't be addressed without upgrading or strengthening the supporting infrastructure.

Take renewables, for example. For all their benefits, power from solar and wind resources can be highly variable. As these resources become a bigger share of our overall energy mix, we need infrastructure to support them, from backup generation to new transmission and other technology that can keep power flows on the grid stable as renewable output fluctuates.

Vehicle electrification is another example. Charging an electric car can draw almost as much energy as a small home. Supporting large numbers of electric cars will require upgrading neighborhood electric distribution systems and installing new transformers and other equipment.

One leading study estimates the power industry alone needs to make as much as $2 trillion in basic system investments over the next couple of decades. By any measure, that's a sobering figure. Fortunately though, it also comes with some good news.

These investments can put tens of thousands of Americans back to work. One analysis estimates that modernizing and upgrading the electric transmission system alone could create an additional 150,000 to 200,000 jobs every year over the next two decades. Investments Pacific Gas and Electric plans to make in the next several years in California are expected to support as many as 30,000 jobs. Moreover, this work is laying the foundation for future growth in a world where affordable, reliable and clean energy is only going to become more vital if America intends to stay competitive.

The president is right that "no area holds more promise than our investments in American energy." But if we hope to realize this promise, we need to reverse the trend of underinvesting in our basic energy infrastructure over the past 20 years. With our long-term clean energy and energy security goals hanging in the balance and a workforce ready to put its skills to the task, the time to start is now.

Tony Earley is chairman and CEO of PG&E, one of the country's largest gas and electric utilities, serving 15 million people and with 21,000 employees. Edwin Hill is the International president of the International Brotherhood of Electrical Workers, which represents approximately 750,000 union members and retirees.

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Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
http://www.psc.mo.gov

WESS A. HENDERSON
Director of Administration
and Regulatory Policy
SHELLEY BRUEGGEMANN
Acting Secretary/General Counsel
CHERLYN D. VOSS
Director of Regulatory Review

February 25, 2013

The Honorable Mike Kehoe
Missouri Senate
State Capitol, Room 220
Jefferson City, MO 65101

Dear Senator Kehoe:

Attached you will find the Missouri Public Service Commission Staff's analysis of the likely annual rate impact of that portion of SCS SB 207 that allows for periodic ISRS rate adjustments for Missouri electric utilities. The Commission Staff used the SCS SB 207 as the applicable language governing operation of an electric ISRS in this state. In developing these estimates, to the extent possible the Commission Staff worked with the electric utilities to ensure that the calculations were based upon reasonable assumptions. Separate rate impact analyses have been prepared for Ameren Missouri (Ameren), The Empire District Electric Company (Empire), Kansas City Power & Light Company (KCPL), KCPL – Greater Missouri Operations/MPS District (GMO – MPS), and KCPL – Greater Missouri Operations/SJLP District (GMO – SJLP). The latter three entities are all affiliates of Great Plains Energy (GPE) offering electric service to Missouri customers using different approved rate schedules.

In your letter of February 19th, you asked the Missouri Commission to analyze the annual impact of implementing ISRS rate increases for each electric utility based upon an assumption that each utility will place in service $700 million of ISRS eligible infrastructure investments annually. While Ameren has verified that this amount is a reasonable assumption for its annual ISRS eligible plant additions, GPE and Empire believe that the figure of $700 million overstates to a significant degree the amount of annual ISRS additions that they would be expected to be placed in service in the future. Accordingly, these companies provided what they believe to be reasonable estimates of their approximate expected annual ISRS plant additions, and the Commission Staff utilized them for purposes of the attached calculations ($215 million in annual ISRS plant additions for KCPL, $ 122.5 million for GMO – MPS, $40 million for GMO – SJLP,

$85 million for Empire). We would be happy to provide you these same rate impact analyses using different assumptions as to the volume of annual ISRS plant additions if you desire.

The calculations attached to this letter indicate that the estimated amount of annual ISRS revenue requirement for Ameren is approximately $40 million, for Empire approximately $5 million, for KCPL approximately $12.5, for GMO – MPS approximately $7.5, and for GMO – SJLP approximately $2.5. These amounts are estimates only, and do not constitute any sort of prediction of what the ISRS rate impact will be in any given year, or in the first year of an ISRS. Because the amount of annual ISRS investments by utility will be affected by many variables over time, in any given year it can be expected that the actual amount of ISRS eligible plant rate increases may be significantly greater or less than the amount of the estimated annual rate increase calculated for by the Commission Staff for each electric utility.

We have attached a sheet to this letter that provides a more detailed explanation of how the ISRS revenue requirement amounts were derived for each Missouri electric utility.

This analysis only considered the rate impact of the sections of SCS SB 207 pertaining to ISRS increase applications. We have not attempted to examine here the potential customer rate impact of other sections of the legislation in general rate proceedings, primarily 393.1215.

Please do not hesitate to contact me if you have questions or concerns on the attached calculations, or if you need additional analysis of this subject matter performed.

Sincerely,

Kevin D. Gunn

Kevin D. Gunn
Chairman

SCS SB 207 ISRS Rate Analysis Explanation

Per the terms of Senate Bill 207, Senate Committee Substitute, the costs an electric utility would be allowed to recover through ISRS rate filings would be a return on net ISRS "rate base," factored up for income taxes, as well as depreciation expense calculated on net ISRS plant additions.

Each Missouri electric utility provided the Commission Staff a net ISRS rate base amount for purposes of this analysis. ISRS rate base is the amount of annual average plant in service additions projected by each utility eligible for ISRS rate recovery (i.e., excluding generating plant additions, "new business," etc.), less the projected annual growth in a utility's accumulated depreciation reserve and accumulated deferred income tax reserve. The utility's projected ADIT amounts assume that "bonus depreciation" tax benefits now available to electric utilities will not be available to them on an ongoing basis in the future.

Then, the next step in the ISRS rate calculation is application of a "rate of return" to the net ISRS rate base amount. For Ameren Missouri and the GPE utilities, the Commission Staff used the current rate of return values ordered for these entities by the Commission in their recent rate increase applications. For Empire District Electric, because its current rate proceeding has been resolved through a stipulation and agreement entered into by the parties to that proceeding, it is not expected that the Commission will authorize a specific rate of return for Empire. Therefore, consistent with the terms of SB 207, the Commission Staff has relied upon a rate of return value calculated as an average of the rate of return recommendations from those parties that actively participated in the rate of return issue in Empire's current rate case.

The required rate of return on net ISRS rate base is then adjusted for income tax impacts in the following manner. First, the equity portion of a utility's return on ISRS net plant investment "factored up" for income taxes in that the equity return amount is not generally deductible for federal and state income tax purposes. Second, the ISRS revenue requirement is reduced by an interest expense tax deduction calculation that recognizes that any interest expense associated with debt investment made to finance ISRS plant additions would be currently deductible for income tax purposes.
The other component of the ISRS revenue requirement, ISRS depreciation expense, is calculated by applying a depreciation rate to the estimated amount of net annual ISRS plant investment, that is, gross ISRS plant additions less estimated annual plant retirements. For purposes of this calculation, the Commission Staff applied each utility's overall composite depreciation rate authorized by the Commission in its most recent rate application.

The analysis outlines two rate design scenarios for each investor owned electric utility. The two scenarios are:

1. Weighted Customer Charge Allocation Method – ISRS charge based on weighted customer charge per class.
2. Revenue Allocation Method – ISRS charge based on annual revenue per class.

February 25, 2013

Ameren Missouri
Annual SCS SB 207 ISRS Revenue Requirement

Line				
1	Total ISRS Rate Base	$	216,100,000	(1)
2	Current Rate of Return		0.079121	(2)
3	Pre-Tax Required ISRS Return (Line 1 X Line 2)	$	17,098,048	
4	Income Tax Conversion Factor		1.61609	(2)
5	Revenue Req. Before Interest Deduction (Line 3 X Line 4)	$	27,631,985	
6	Total ISRS Rate Base	$	216,100,000	
7	Current Weighted Cost of Debt		0.027424	(2)
8	ISRS Interest Deduction (Line 6 X Line 7)	$	5,926,326	
9	Effective Income Tax Rate		0.3812223	(2)
10	Income Tax Deduction Due to Interest (Line 8 X Line 9)	$	2,259,248	
11	Income Tax Conversion Factor		1.61609	(2)
12	Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	$	3,651,148	
13	Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	$	23,980,837	
14	Annual ISRS Depreciation Net of Retirements	$	15,800,400	(4)
15	Annual Property Taxes		-	(3)
16	**SB207 ISRS REVENUE REQUIREMENT** (Line 13 + Line 14)	**$**	**39,781,237**	

(1) Amount Provided by Utility
(2) From Order in Case No. ER-2012-0166
(3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
(4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0166

Kansas City Power & Light Company
Annual SCS SB 207 ISRS Revenue Requirement

Line				
1	Total ISRS Rate Base	$	57,780,000	(1)
2	Current Rate of Return		0.081240	(2)
3	Pre-Tax Required ISRS Return (Line 1 X Line 2)	$	4,694,047	
4	Income Tax Conversion Factor		1.6231	(2)
5	Revenue Req. Before Interest Deduction (Line 3 X Line 4)	$	7,618,908	
6	Total ISRS Rate Base	$	57,780,000	
7	Current Weighted Cost of Debt		0.03029	(2)
8	ISRS Interest Deduction (Line 6 X Line 7)	$	1,750,156	
9	Effective Income Tax Rate		0.3839	(2)
10	Income Tax Deduction Due to Interest (Line 8 X Line 9)	$	671,885	
11	Income Tax Conversion Factor		1.6231	(2)
12	Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	$	1,090,536	
13	Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	$	6,528,372	
14	Annual ISRS Depreciation Net of Retirements	$	5,940,000	(4)
15	Annual Property Taxes		-	(3)
16	**SB207 ISRS REVENUE REQUIREMENT** (Line 13 + Line 14)	**$**	**12,468,372**	

(1) Amount Provided by Utility
(2) From Order in Case No. ER-2012-0174
(3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
(4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0174

KCPL Greater Missouri Operations - MPS Division
Annual SCS SB 207 ISRS Revenue Requirement

Line				
1	Total ISRS Rate Base	$	26,460,000	(1)
2	Current Rate of Return		0.081240	(2)
3	Pre-Tax Required ISRS Return (Line 1 X Line 2)	$	2,149,610	
4	Income Tax Conversion Factor		1.6231	(2)
5	Revenue Req. Before Interest Deduction (Line 3 X Line 4)	$	3,489,033	
6	Total ISRS Rate Base	$	26,460,000	
7	Current Weighted Cost of Debt		0.03029	(2)
8	ISRS Interest Deduction (Line 6 X Line 7)	$	801,473	
9	Effective Income Tax Rate		0.3839	(2)
10	Income Tax Deduction Due to Interest (Line 8 X Line 9)	$	307,686	
11	Income Tax Conversion Factor		1.6231	(2)
12	Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	$	499,405	
13	Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	$	2,989,628	
14	Annual ISRS Depreciation Net of Retirements	$	4,410,000	(4)
15	Annual Property Taxes		-	(3)
16	**SB207 ISRS REVENUE REQUIREMENT** (Line 13 + Line 14)	**$**	**7,399,628**	

(1) Amount Provided by Utility
(2) From Order in Case No. ER-2012-0175
(3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
(4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0175

KCPL Greater Missouri Operations - SJLP Division
Annual SCS SB 207 ISRS Revenue Requirement

Line				
1	Total ISRS Rate Base	$	8,820,000	(1)
2	Current Rate of Return		0.081240	(2)
3	Pre-Tax Required ISRS Return (Line 1 X Line 2)	$	716,537	
4	Income Tax Conversion Factor		1.6231	(2)
5	Revenue Req. Before Interest Deduction (Line 3 X Line 4)	$	1,163,011	
6	Total ISRS Rate Base	$	8,820,000	
7	Current Weighted Cost of Debt		0.03029	(2)
8	ISRS Interest Deduction (Line 6 X Line 7)	$	267,158	
9	Effective Income Tax Rate		0.3839	(2)
10	Income Tax Deduction Due to Interest (Line 8 X Line 9)	$	102,562	
11	Income Tax Conversion Factor		1.6231	(2)
12	Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	$	166,468	
13	Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	$	996,543	
14	Annual ISRS Depreciation Net of Retirements	$	1,470,000	(4)
15	Annual Property Taxes		-	(3)
16	**SB207 ISRS REVENUE REQUIREMENT** (Line 13 + Line 14)	**$**	**2,466,543**	

(1) Amount Provided by Utility
(2) From Order in Case No. ER-2012-0175
(3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
(4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0175

The Empire District Electric Company
Annual SCS SB 207 ISRS Revenue Requirement

Line				
1	Total ISRS Rate Base	$	23,900,000	(1)
2	Current Rate of Return		7.912%	(2)
3	Pre-Tax Required ISRS Return (Line 1 X Line 2)	$	1,890,968	
4	Income Tax Conversion Factor		1.623076249	(2)
5	Revenue Req. Before Interest Deduction (Line 3 X Line 4)	$	3,069,185	
6	Total ISRS Rate Base	$	23,900,000	
7	Current Weighted Cost of Debt		2.9480%	(2)
8	ISRS Interest Deduction (Line 6 X Line 7)	$	704,572	
9	Effective Income Tax Rate		38.3886%	(2)
10	Income Tax Deduction Due to Interest (Line 8 X Line 9)	$	270,475	
11	Income Tax Conversion Factor		1.623076249	(2)
12	Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	$	439,002	
13	Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	$	2,630,183	
14	Annual ISRS Depreciation Net of Retirements	$	2,472,000	(4)
15	Annual Property Taxes		-	(3)
16	SB207 ISRS REVENUE REQUIREMENT (Line 13 + Line 14)	**$**	**5,102,183**	

(1) Amount Provided by Utility
(2) From Case No. ER-2012-0345
(3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
(4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0345

Ameren Missouri - ISRS Charge Examples

Capital Incremental Investment	$216,100,000
ISRS Revenue Requirement (1)	$39,781,237

Weighted Customer Charge Allocation Method (2)

Customer Class	Number of Customers	Customer Charges	Ratio to Residential Cust. charge	Weighted Customer #	Customer Percentage	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues	Avg. Monthly Bill	% Increase ISRS
Residential	1,035,848	$8.00	1.0000	1,035,848	74.80%	$2.39	$28.73	$29,756,261	$104.50	2.29%
Small General Service	135,468	$12.37	1.5463	209,467	15.13%	$3.70	$44.42	$6,017,260	$194.84	1.90%
Large General Service	10,105	$88.32	11.0400	111,559	8.06%	$26.43	$317.14	$3,204,702	$4,897.33	0.54%
Small Primary Service	644	$299.60	37.4500	24,118	1.74%	$89.65	$1,075.81	$692,819	$29,632.57	0.30%
Large Primary Service	72	$299.60	37.4500	2,696	0.19%	$89.65	$1,075.81	$77,458	$239,236.93	0.04%
Large Transmission Service	1	$299.60	37.4500	37	0.00%	$89.65	$1,075.81	$1,076	$13,179,276.00	0.00%
Lighting	1,382	$6.38	0.7975	1,102	0.08%	$1.91	$22.91	$31,661		
Total	1,183,520			1,384,828	100.00%			$39,781,237		

Revenue Allocation Method - Across the Board (3)

Customer Class	Annual Revenue	Less: MEEIA	Base Revenue	Revenue Allocation	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues		Avg. Monthly Bill	% Increase ISRS
Residential	$1,298,929,983	$44,330,000	$1,254,599,983	45.42%	$1.45	$17.44	$18,067,324		$104.50	1.39%
Small General Service	$316,742,822	$5,720,000	$311,022,822	11.26%	$2.76	$33.06	$4,478,997		$194.84	1.41%
Large General Service	$593,850,329	$16,670,000	$577,180,329	20.89%	$68.55	$822.55	$8,311,896		$4,897.33	1.40%
Small Primary Service	$229,000,527	$7,560,000	$221,440,527	8.02%	$412.65	$4,951.76	$3,188,935		$29,632.57	1.39%
Large Primary Service	$206,700,704	$5,280,000	$201,420,704	7.29%	$3,357.21	$40,286.56	$2,900,632		$239,236.93	1.40%
Large Transmission Service	$158,151,312	$0	$158,151,312	5.73%	$189,792.97	$2,277,515.59	$2,277,516		$13,179,276.00	1.44%
Lighting & MSD	$38,604,409	$0	$38,604,409	1.40%			$555,937			1.44%
Total	$2,841,980,086	$79,560,000	$2,762,420,086	100.00%			$39,781,237			

Notes:

(1) The revenue requirement per rate class with ISRS or without ISRS (normal rate case) will not vary ($0 difference) except for timing difference.

(2) Weighted Customer Charge Method: ISRS charge based on customer charge per class.

(3) Revenue Allocation Method: ISRS charge based on annual revenue per class.

ISRS Revenue Requirement based on Mo PSC Staff estimate of pending legislation.

Number of customers and revenue per class per rate case ER-2012-0166 with new rates effective January 2, 2013.

MEEIA rates based on Stipulation and Agreement in Case No. EO-2012-0142. Linked to Case No. ER-2012-0166.

Small General Service customer charge is weighted average of single phase and three phase service.

MEEIA is Missouri Energy Efficiency Investment Act.

Kansas City Power & Light Company - ISRS Charge Examples

Capital Incremental Investment	$57,780,000
ISRS Revenue Requirement (1)	$12,468,372

Weighted Customer Charge Allocation Method (2)

Customer Class	Number of Customers	Customer Charges	Ratio to Residential Cust. charge	Weighted Customer #	Customer Percentage	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues	Avg. Monthly Bill	% Increase ISRS
Residential	239,058	$9.09	1.0000	239,058	68.39%	$2.97	$35.67	$8,527,456	$99.23	3.00%
Small General Service	25,557	$18.41	2.0253	51,761	14.81%	$6.02	$72.24	$1,846,358	$157.03	3.83%
Medium General Service	5,397	$49.73	5.4708	29,526	8.45%	$16.26	$195.15	$1,053,230	$1,587.44	1.02%
Large General Service	1,010	$184.67	20.3157	20,519	5.87%	$60.39	$724.68	$731,931	$14,738.44	0.41%
Large Power Service	82	$961.50	105.7756	8,674	2.48%	$314.43	$3,773.13	$309,397	$144,830.57	0.22%
Lighting										
Total	271,104			349,537	100.00%			$12,468,372		

Revenue Allocation Method - Across the Board (3)

Customer Class	Annual Revenue	Less: MEEIA	Base Revenue	Revenue Allocation	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues		Avg. Monthly Bill	% Increase ISRS
Residential	$284,659,204	$0	$284,659,204	37.14%	$1.61	$19.37	$4,630,800		$99.23	1.63%
Small General Service	$48,158,803	$0	$48,158,803	6.28%	$2.55	$30.65	$783,441		$157.03	1.63%
Medium General Service	$102,809,231	$0	$102,809,231	13.41%	$25.82	$309.89	$1,672,488		$1,587.44	1.63%
Large General Service	$178,629,890	$0	$178,629,890	23.31%	$239.76	$2,877.16	$2,905,929		$14,738.44	1.63%
Large Power Service	$142,513,279	$0	$142,513,279	18.59%	$2,356.09	$28,273.03	$2,318,388		$144,830.57	1.63%
Lighting	$9,670,989	$0	$9,670,989	1.26%			$157,326			1.63%
Total	$766,441,396	$0	$766,441,396	100.00%			$12,468,372			

Notes:

(1) The revenue requirement per rate class with ISRS or without ISRS (normal rate case) will not vary ($0 difference) except for timing difference.

(2) Weighted Customer Charge Method: ISRS charge based on customer charge per class.

(3) Revenue Allocation Method: ISRS charge based on annual revenue per class.

ISRS Revenue Requirement based on Mo PSC Staff estimate of pending legislation.

Number of customers and revenue per class per rate case ER-2012-0174 with new rates effective January 26, 2013.

Residential, Small General Service, Medium General Service and Large Power Service customer charges based on weighted average.

No MEEIA revenue requirement for KCPL.

The revenue allocation method includes lighting in determining the average increase.

Empire District Electric Company - ISRS Charge Examples

Capital Incremental Investment $23,900,000
ISRS Revenue Requirement (1) $5,102,183

Weighted Customer Charge Allocation Method (2)

Customer Class	Number of Customers	Customer Charges	Ratio to Residential Cust. charge	Weighted Customer #	Customer Percentage	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues	Avg. Monthly Bill	% Increase ISRS
Residential	125,518	$12.52	1.0000	125,518	71.54%	$2.42	$29.08	$3,650,067	$131.56	1.84%
Commercial	17,412	$21.32	1.7029	29,650	16.90%	$4.13	$49.52	$862,236	$192.58	2.14%
Small Heating	3,047	$21.32	1.7029	5,189	2.96%	$4.13	$49.52	$150,886	$280.38	1.47%
Total Electric Building	939	$66.99	5.3506	5,024	2.86%	$12.97	$155.60	$146,105	$3,182.02	0.41%
General Power	1,735	$67.00	5.3514	9,285	5.29%	$12.97	$155.62	$270,001	$3,989.51	0.33%
Large Power	38	$247.73	19.7867	752	0.43%	$47.95	$575.40	$21,865	$111,738.77	0.04%
Special Transmission	1	$246.47	19.6861	20	0.01%	$47.71	$572.47	$572	$316,487.75	0.02%
Feed Mill & Grain Elevator	7	$27.65	2.2085	15	0.01%	$5.35	$64.22	$450	$695.29	0.77%
Lighting										
Total	148,697			175,453	100.00%			$5,102,183		

Revenue Allocation Method - Across the Board (3)

Customer Class	Annual Revenue	Less: MEEIA	Base Revenue	Revenue Allocation	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues		Avg. Monthly Bill	% Increase ISRS
Residential	$198,152,250	$0	$198,152,250	46.18%	$1.56	$18.77	$2,355,935		$131.56	1.19%
Commercial	$40,238,132	$0	$40,238,132	9.38%	$2.29	$27.48	$478,412		$192.58	1.19%
Small Heating	$10,251,657	$0	$10,251,657	2.39%	$3.33	$40.00	$121,887		$280.38	1.19%
Total Electric Building	$35,855,045	$0	$35,855,045	8.36%	$37.83	$453.99	$426,299		$3,182.02	1.19%
General Power	$83,061,534	$0	$83,061,534	19.36%	$47.43	$569.20	$987,562		$3,989.51	1.19%
Large Power	$50,952,878	$0	$50,952,878	11.87%	$1,328.52	$15,942.24	$605,805		$111,738.77	1.19%
Special Transmission	$3,797,853	$0	$3,797,853	0.89%	$3,762.89	$45,154.64	$45,155		$316,487.75	1.19%
Feed Mill & Grain Elevator	$58,404	$0	$58,404	0.01%	$8.27	$99.20	$694		$695.29	1.19%
Lighting	$6,765,150	$0	$6,765,150	1.58%			$80,434			1.19%
Total	$429,132,903	$0	$429,132,903	100.00%			$5,102,183			

Notes:

(1) The revenue requirement per rate class with ISRS or without ISRS (normal rate case) will not vary ($0 difference) except for timing difference.

(2) Weighted Customer Charge Method: ISRS charge based on customer charge per class.

(3) Revenue Allocation Method: ISRS charge based on annual revenue per class.

ISRS Revenue Requirement based on Mo PSC Staff estimate of pending legislation.

Number of customers and revenue per class per rate case ER-2012-0345

No MEEIA costs included in base rates.

The revenue allocation method includes lighting in determining the average increase.

KCP&L Greater Missouri Operations - MPS Rate District - ISRS Charge Examples

Capital Incremental Investment	$26,460,000
ISRS Revenue Requirement (1)	$7,399,628

Weighted Customer Charge Allocation Method (2)

Customer Class	Number of Customers	Customer Charges	Ratio to Residential Cust. charge	Weighted Customer #	Customer Percentage	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues	Avg. Monthly Bill	% Increase ISRS
Residential	213,822	$10.46	1.0000	213,822	78.34%	$2.26	$27.11	$5,797,189	$120.93	1.87%
Small General Service	28,425	$17.24	1.6482	46,850	17.17%	$3.72	$44.69	$1,270,197	$235.25	1.58%
Large General Service	1,435	$66.73	6.3795	9,155	3.35%	$14.41	$172.96	$248,203	$4,334.12	0.33%
Large Power	180	$179.01	17.1138	3,080	1.13%	$38.67	$463.99	$83,519	$42,053.23	0.09%
Special Thermal	1	$200.91	19.2075	19	0.01%	$43.40	$520.76	$521	$41,392.75	0.10%
Lighting										
Total	243,863			272,926	100.00%			$7,399,628		

Revenue Allocation Method - Across the Board (3)

Customer Class	Annual Revenue	Less: MEEIA	Base Revenue	Revenue Allocation	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues		Avg. Monthly Bill	% Increase ISRS
Residential	$310,287,364	$8,665,244	$301,622,120	54.64%	$1.58	$18.91	$4,043,469		$120.93	1.30%
Small General Service	$80,242,540	$1,312,483	$78,930,057	14.30%	$3.10	$37.22	$1,058,116		$235.25	1.32%
Large General Service	$74,633,516	$1,615,760	$73,017,756	13.23%	$56.84	$682.13	$978,857		$4,334.12	1.31%
Large Power	$90,834,967	$2,434,058	$88,400,909	16.02%	$548.65	$6,583.78	$1,185,080		$42,053.23	1.30%
Special Thermal	$496,713	$12,673	$484,040	0.09%	$540.74	$6,488.92	$6,489		$41,392.75	1.31%
Lighting	$9,519,483	$0	$9,519,483	1.72%			$127,616			1.34%
Total	$566,014,583	$14,040,218	$551,974,365	100.00%			$7,399,628			

Notes:

(1) The revenue requirement per rate class with ISRS or without ISRS (normal rate case) will not vary ($0 difference) except for timing difference.

(2) Weighted Customer Charge Method: ISRS charge based on customer charge per class.

(3) Revenue Allocation Method: ISRS charge based on annual revenue per class.

ISRS Revenue Requirement based on Mo PSC Staff estimate of pending legislation.

Number of customers and revenue per class per rate case ER-2012-0175 with new rates effective January 26, 2013.

MEEIA rates based on Stipulation and Agreement in Case No. EO-2012-0009. Linked to Case No. ER-2012-0175.

MEEIA is Missouri Energy Efficiency Investment Act

The revenue allocation method includes lighting in determining the average increase.

KCP&L Greater Missouri Operations - L&P Rate District - ISRS Charge Examples

Capital Incremental Investment $8,820,000
ISRS Revenue Requirement (1) $2,466,543

Weighted Customer Charge Allocation Method (2)

Customer Class	Number of Customers	Customer Charges	Ratio to Residential Cust. charge	Weighted Customer #	Customer Percentage	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues	Avg. Monthly Bill	% Increase ISRS
Residential	57,790	$9.57	1.0000	57,790	60.34%	$2.15	$25.75	$1,488,381	$118.98	1.80%
Small General Service	6,121	$18.85	1.9697	12,057	12.59%	$4.23	$50.73	$310,515	$197.54	2.14%
Large General Service	1,163	$138.78	14.5016	16,865	17.61%	$31.12	$373.49	$434,366	$2,387.82	1.30%
Large Power	78	$1,111.31	116.1243	9,058	9.46%	$249.23	$2,990.78	$233,281	$61,442.71	0.41%
Lighting										
Total	65,152			95,770	100.00%			$2,466,543		

Revenue Allocation Method - Across the Board (3)

Customer Class	Annual Revenue	Less: MEEIA	Base Revenue	Revenue Allocation	ISRS Charge/Mo.	ISRS Charge/Yr.	ISRS Revenues		Avg. Monthly Bill	% Increase ISRS
Residential	$82,509,033	$2,402,612	$80,106,421	42.72%	$1.52	$18.24	$1,053,807		$118.98	1.28%
Small General Service	$14,509,746	$185,121	$14,324,625	7.64%	$2.57	$30.79	$188,442		$197.54	1.30%
Large General Service	$33,324,481	$641,901	$32,682,580	17.43%	$30.81	$369.68	$429,942		$2,387.82	1.29%
Large Power	$57,510,378	$1,463,023	$56,047,355	29.89%	$787.72	$9,452.67	$737,308		$61,442.71	1.28%
Lighting	$4,336,286	$0	$4,336,286	2.31%			$57,044			1.32%
Total	$192,189,924	$4,692,657	$187,497,267	100.00%			$2,466,543			

Notes:

(1) The revenue requirement per rate class with ISRS or without ISRS (normal rate case) will not vary ($0 difference) except for timing difference.
(2) Weighted Customer Charge Method: ISRS charge based on customer charge per class.
(3) Revenue Allocation Method: ISRS charge based on annual revenue per class.
ISRS Revenue Requirement based on Mo PSC Staff estimate of pending legislation.
Number of customers and revenue per class per rate case ER-2012-0175 with new rates effective January 26, 2013.
MEEIA rates based on Stipulation and Agreement in Case No. EO-2012-0009. Linked to Case No. ER-2012-0175.
SGS General Use and SGS General use Net Metering have facilities KW and no customer charge
LGS has no customer charge - took revenue from first block of Facilities charge (first 40 KW) and divided by # of customers and 12 months
LPS has no customer charge - took revenue from first block of Facilities charge (first 500 KW) and divided by # of customers and 12 months
MEEIA is Missouri Energy Efficiency Investment Act
The revenue allocation method includes lighting in determining the average increase.