

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of a Working Case to)	
Consider Mechanisms to Encourage)	File No. EW-2016-0041
Infrastructure Efficiency.)	

RESPONSE TO REQUEST FOR PARTY SUBMISSIONS

COMES NOW Union Electric Company d/b/a Ameren Missouri (“Ameren Missouri” or “Company”) and for its Response to Request for Party Submissions states as follows:

1. The Staff (“Staff”) of the Missouri Public Service Commission (“Commission”) filed their Request for Party Submissions (“Request”) on November 18, 2015.

2. In paragraph 2 of that Request, Staff requested the participating investor owned electric utilities and interested parties to respond to discussion points identified by Chairman Hall by no later than November 30, 2015. Ameren Missouri’s responses are outlined below.

Issue #1: Line Extension Reform – Bifurcated or Differentiated Line Extension Tariff Design

3. During the recently held workshop, Chairman Hall expressed interest in utility review of a policy change whereby line extension requirements and costs would be differentiated by geographic zone. In areas with capacity on the distribution system, customers would receive the benefit of waived or relaxed line extension requirements. Conversely, in areas with distribution capacity congestion, customers and developers would be required to front most, if not all, of the capital required to extend, modify and enlarge the system to serve that customer's load. The policy objective would be to utilize utility infrastructure in a more cost-effective manner.

4. Ameren Missouri supports the efficient use of all energy infrastructure used to provide service to customers. Ameren Missouri is also in favor of exploring new ideas and

strategies pertaining to the replacement of aging infrastructure. For the reasons discussed in detail below, the *specific* straw-man proposal identified by Chairman Hall is not recommended. However, the Company believes that there may be merit in exploring targeted reforms. Specifically, there may be potential for use of waivers of line extension policies (or relaxation of those policies) as a tool to incentivize load growth and system utilization in areas where such use may not otherwise occur. Additionally, Ameren Missouri believes that there may be merit in further study of reforms to economic development riders to incorporate line extension considerations, as well as modifications to line extension policies in areas where cooperatives compete for customers and often attract load into more rural areas away from franchise communities with pre-existing, investor-owned infrastructure.

Public Utility Law and Policy

5. As a threshold matter, Missouri law, and public utility law in general, establishes a strong preference for standardized, universally-applicable terms, rates and charges for all customers who connect to the system. Tariffed rates and charges assessed on a non-discriminatory basis is an important policy objective of utility regulation (Non-discriminatory ratemaking¹). Preferred or differentiated rates or terms are generally discouraged, and can be discriminatory and unlawful without a cost of service justification for such differentiation. In addition, standardized, non-discriminatory rates promote better customer understanding and customer acceptance of rates and tariffs.

6. Utility rates are generally set to reflect the cost of service. Line extension tariffs are no exception. A generally applicable rule is that the costs considered must be considered reflective of all costs of providing service. Looking only at certain costs to the exclusion of other

¹ See *State ex. rel. Laundry, Inc. v. Public Service Comm'n*, 34 S.W.2d 37 (Mo.Sup.Ct. 1937)(Articulating the prohibition on discriminatory rates).

cost considerations is not allowed and can be considered to violate what is referred to as the prohibition on single-issue ratemaking (Single issue ratemaking²). This is important to the inquiry at bar in this case because an examination of only distribution-related costs could violate this important prohibition if generation, transmission and other non-distribution costs are not considered. Distribution costs for Ameren Missouri are approximately 15% of the overall cost of providing service to customers. Generation, transmission, overhead and general costs make up the remainder, with generation costs making up the largest cost category. This is important to consider when examining line extension policies because load growth, wherever it occurs, spreads fixed generation and other costs more broadly to the benefit of all customers.

7. Another key legal requirement to consider is the utility's obligation to serve all customers in its service territory. Public utilities are generally required to serve all customer load that locates in its certificated service territory on non-discriminatory terms. Further, the franchise agreements we have in place with municipalities and counties allow use of public streets and roads in exchange for the obligation of providing service to all customers within the municipal area covered in the agreement. Utilities are expected to be able to extend facilities upon request to accommodate new development in franchise communities.

Analysis

8. Overall, Ameren Missouri is well positioned to accommodate development and growth throughout its system. Distribution constraints are the exception and where they do exist, the Company is in a position to upgrade facilities in a cost-effective and efficient manner. Certain areas do have greater, non-committed circuit capacity than others at any given point in time. The utilization and construction of the Company's distribution system is not static. Rather

² See State ex. Rel. Missouri Water Co. v. Public Service Comm'n, 308 S.W. 2d 704 (Mo.Sup.Ct. 1957) (Explaining the prohibition on single issue ratemaking).

it is dynamic in nature as expected and unexpected load changes, circuit switches, outages, etc., can cause real time changes to the capacity available on any given feeder. The Company continuously monitors this system to ensure the safe and reliable delivery of energy to customers in a cost-effective manner.

9. However, there are certain areas that are more challenging to manage changes in load, including accommodating new growth. For example, The City of St. Louis has many older neighborhoods where 4kV line capacity is prevalent. Today, most new areas are served by 12kV distribution circuits. The reason older portions of St. Louis have the lower voltage line is due to the fact that these portions of the system were developed in the early to mid-1900's when the system was designed and originally built.

10. The system was designed for the era in which it was put into service. For example, the system was designed to service residences with 60 AMP service. Today, construction code requires 200 AMP boxes to accommodate the electrical usage of modern residential consumers. As redevelopment occurs, new residential (or re-habilitated existing residential areas) will require circuit upgrades to 12kV capacity. Upgrading distribution voltage is expensive and labor intensive, but can be feasibly accomplished as new load moves into these areas as the new load justifies the investment in the shared infrastructure installed. Further, growth in these areas benefits all customers by maximizing use of generation resources, the costs of which are spread among all customers.

11. Despite the technical challenges facing new load moving into older urban areas served by Ameren Missouri, existing line extension policies incentivize customers to interconnect with the distribution system in close proximity to existing circuits (irrespective of the capacity of those systems). In this sense, the policies promote the utilization of existing

easements and facilities over the geographic expansion of the system. Customers who located in areas with little proximity to distribution circuits in contrast are required to guarantee that new load will pay its way through the contribution of revenue. Urban or municipal areas have the beneficial use of municipal easements reserved by operation of planned developments. Large commercial or industrial customers also must pay for interconnection construction costs for locating in areas where service cannot meet their specific needs. Therefore, residential, commercial and industrial development is strongly incentivized to locate near existing facilities or to locate near facilities that can meet the development's specific requirements. Where constraints do exist in older areas, new growth can prompt circuit upgrades that offer long term benefits by accommodating greater capacity for customer use going forward and introduce new revenue to support fixed system operating costs.

12. In rural areas, the Company often has existing facilities and capacity to serve customers, but new development or re-development is often lost to competing rural electric cooperatives that can offer low or waived-line extension charges to move customers and development to more rural tracts. The Company is precluded by its own tariffs from competing for customers in this manner. The Company could seek variance from certain provisions, but by the time an adjudicated decision would be received, the customer would likely have already made a decision.

13. Special circumstances do exist. In Berkeley, Missouri (by Lambert Airport), Ameren Missouri currently has adequate substation capacity to serve additional light industrial and commercial load locating in the "North Park" industrial park due to declining economic conditions beginning in 2008. To the extent load does come to this area, the Company would be in a position to serve said load without incurring additional material costs.

14. Other areas have also been impacted by demographic and economic changes. In many areas, loss of shopping malls, strip malls, and "big box" retail stores has occurred. Today, many consumers favor online shopping and "destination retail" in areas where multi-use zoning has created mixed developments that include entertainment, retail and residential space. While there are adaptive, re-use opportunities for these structures, a revival of the big box and shopping mall developments prevalent in the 1990's and early 2000's is unlikely to occur. Therefore, little opportunity appears to exist to influence these demographic terms with line extension policies.

Conclusion

15. With the above-stated considerations in mind, Ameren Missouri does not recommend implementation of geographically-differentiated line extension policies that include steep costs for development in areas with constrained distribution capacity. Areas with aging infrastructure would be disproportionately burdened under such a regimen, with areas in the City of St. Louis being specifically impacted due to the prevalence of 4kV circuits. Also, the Company is reluctant to make dramatic changes to line extension policies that have been in place since 1989 and customers appear satisfied overall with those provisions (evidenced by a lack of complaints).

16. From a policy standpoint, Ameren Missouri and our urban communities share a strong interest in re-development of older areas within these municipalities. The vitality of our franchise communities is highly dependent on the success of job creation, development, and growth. In urban areas struggling with relatively higher unemployment and lack of capital investment, development and renewal are beneficial to both Ameren Missouri and its customers. To the extent our service territory communities succeed in attracting growth, all customers benefit and Ameren Missouri shares that benefit. Community growth and development allows

Ameren Missouri to have a broader base over which to spread centralized costs, including the fixed cost of generation, as the Company embarks on the replacement of aging electric infrastructure and other reliability initiatives.

17. From a legal standpoint, to the extent geographically-differentiated line extension policies were to prevail, there is a substantial risk customers would find such policies to be *discriminatory ratemaking* because they would lack a basis in differences in the overall cost to serve each area. As earlier noted, distribution costs are only a small part of the overall cost to serve. This means that spreading the large fixed costs incurred to provide service will in most cases outweigh any incremental cost to extend distribution service. Moreover, revenue tests and guarantee requirements existing in tariffs today sufficiently cover the risk that development will not contribute to benefits inuring to all customers. It would be difficult, if not impossible, to justify departure from these safeguards in a manner that imposes additional costs for interconnection on one geographic area to make up for lower interconnection charges for another area.

18. While Ameren Missouri does not recommended geographically-differentiated line policies as a general rule, the Company does support further exploration of relaxed or waived line extension requirements in connection with efforts to promote economic development in areas with sufficient distribution capacity. Specifically, the Company is interested in reviewing innovative policies designed to encourage growth in areas where it would not likely otherwise occur in urban areas. Additionally, Ameren Missouri believes there is merit in allowing utilities to match or beat line extension offers from competing cooperatives in rural areas in order to get the most efficient use of utility facilities and minimize the risk of load leaving these areas.

Issue #2 - Economic Development Riders and Utility Discretion

19. The Company currently has two riders (EDRR and EDR) that are designed to encourage load growth through competitive economic options. Both allow for the exercise of utility discretion. The purpose of such discretion is primarily to ensure that there are no “free riders” receiving the benefits offered by the tariffs. Free ridership would be detrimental to all stakeholders to the extent discounts were unnecessarily provided to new customers, and in such a situation, the discount offered would be arbitrary. To the extent tariffs are revised to have very prescriptive language to protect against free ridership from occurring, in theory, the discretionary control of the utility could be reduced. In any event, Ameren Missouri is open to reviewing the potential for re-examining economic development rates and tariffs, but ultimately, it is critical that any proposed tariff be carefully reviewed to insure its provisions are not unduly discriminatory or otherwise unlawful. In addition, any policy should incorporate provisions providing for consultation with local governmental authorities. Economic development (designed to focus on certain segments of the utilities system) should be done in cooperation with local government and not be imposed without input from municipal planners.

WHEREFORE, Ameren Missouri submits this response to paragraph 2 of Staff’s Request for Party Submissions filed on November 18, 2015.

Respectfully Submitted,

/s/ Matthew R. Tomc

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**ATTORNEYS FOR UNION ELECTRIC
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CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing has been served this 30th day of November, 2015, electronically or by First Class Mail, postage prepaid, upon all of the parties hereto according to the Service List for this case.

/s/ Matthew R. Tomc