

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

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

**REPLY COMMENTS OF
THE MISSOURI INDUSTRIAL ENERGY CONSUMERS**

COME NOW the Missouri Industrial Energy Consumers (MIEC) and for their Reply Comments state as follows:

1. On October 10, the MIEC filed comments demonstrating that there are substantial incentives under the current regulatory framework for utilities to invest capital in Missouri. The MIEC pointed out that an investment of \$50 million of equity in assets with a 40 year life will provide a return of over \$90 million.

2. On November 7, Ameren filed additional comments that agree with the MIEC calculation of \$90 million of profit on a \$50 million equity investment. Ameren's comments also note that its profit would be even higher if regulatory lag were entirely eliminated, and with higher profits, Ameren would invest more in Missouri. The MIEC does not agree with all aspects of Ameren's analysis, but even this flawed analysis supports the MIEC's calculation of \$90 million on a \$50 million equity investment. KCPL filed comments on November 10 in which it claims that it might adopt a "proactive capital expenditure philosophy" if Missouri were to adopt a regulatory scheme that provides higher returns for additional investments.

3. The fundamental problem with these responses is that nothing from the utilities shows that an increased level of capital expenditure would provide benefits to customers in excess of the costs. Throughout this whole discussion, in this case and in the Senate Interim Committee hearings, the utilities have not answered the threshold question of why Missouri should provide

additional incentives to make electric utilities invest capital -- with corresponding rate increases -
- at a level higher than that which is needed to provide the current level of service. If the investment is to be made to replace existing AMR meters with AMI meters, where is the cost/benefit study showing that ratepayers will gain benefits to offset the costs of the wholesale replacement of their meters? If the investment is to be made to replace aging substations before they are currently scheduled to be replaced, where is the analysis to show that early replacement lowers the present value of revenue requirement?

4. Ameren in its comments notes that it gets better returns investing money in FERC-jurisdictional transmission projects than it does investing in Missouri-jurisdictional projects. But FERC has deliberately and explicitly set a very high return for these transmission projects. FERC saw a need for increased capital investment in transmission and addressed that need by creating incentive returns for such investments.

5. There is not a similar situation in Missouri. Of course the utilities could invest more money in Missouri; they have ready access to debt and equity markets. But do we want them to? Under the current regulatory structure, they are providing high quality service and Missouri utilities' reliability compares favorably to their peers across the US. Under the current regulatory structure, they are investing hundreds of millions of dollars in Missouri every year (Ameren invests about \$800 million in Missouri annually). In return, they earn a very attractive profit. The three aspects of utility regulation -- safety and adequacy of service, rates, and compensation for investors -- are well-balanced in the current system. The Commission should only consider structural changes that permanently and systematically increase returns to investors if there is a clearly proven corresponding benefit in terms of the quality of service or lower rates to customers.

WHEREFORE, the MIEC respectfully submits these Reply Comments.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been emailed this 18th day of November, 2016, to all parties on the Commission's service list in this case.

/s/ Diana Vuylsteke