MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

A WORKING CASE REGARDING THE MEMBERSHIP OF MISSOURI'S INVESTOR-OWNED ELECTRIC UTILITIES IN REGIONAL TRANSMISSION ORGANIZATIONS

FILE NO. EW-2021-0104

JUNE 11, 2021

** Denotes Confidential Information **

TABLE OF CONTENTS OF

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I. Executive Summary

On October 14, 2020, the Commission issued an Order Opening a Working Case to Consider the Membership of Missouri's Investor-owned Electric Utilities in Regional Transmission Organizations ("RTO"). The Commission ordered Staff to investigate "1) the kind of information needed to respond to the Commission's current and previous orders on RTO membership; 2) whether such information is reasonably and economically available, and if not, what kind of information could be used as a proxy to control costs and expeditiously respond to the Commission; 3) the cost of gathering, analyzing, and interpreting such information; and 4) whether there are any identifiable "deal breaker" events or categories of events that would make it unreasonable for a Missouri investor-owned utility to remain in an RTO." The Commission ordered the investor owned utilities to cooperate with Staff in its investigation. On December 21, 2020, the Commission ordered the investor-owned utilities to responds to questions posed by Staff and invited other stakeholders to respond. Union Electric Company, d/b/a Ameren Missouri ("Ameren Missouri"), Evergy Metro, Inc., d/b/a Evergy Missouri Metro and Evergy Missouri West, Inc., d/b/a Evergy Missouri West (collectively, "Evergy") and The Empire District Electric Company, a Liberty Utilities company ("Liberty") submitted comments in response to the questions posed by Staff on February 16, 2021 and no other stakeholders responded. This Staff Report provides a summary of the information provided and includes recommendations for further actions.

II. General Discussion of Benefits and Costs

A. Discussion of Benefits

Staff asked each of the investor-owned utilities to identify the direct and indirect benefits received by RTO participation. In general, all utilities pointed to benefits falling into the broad categories of socialized transmission, reliability coordination, market operations, and reserve sharing. Evergy provided the following specific benefits which it considers quantifiable:

- Adjusted Production Cost Savings
- Assumed Benefit of Mandated Reliability Projects
- Increased Wheeling Through and Out Revenues
- Mitigation of Transmission Outage Costs
- Marginal Energy Loss Benefits
- Cost Savings from On-peak Transmission Losses
- Avoided or Delayed Reliability Projects
- Capital Savings from Reduced Minimum Required Reserve Margin
- Reduced Loss of Load Probability
- RTO Services

Additional benefits identified by Evergy include reduction of emission rates and values, savings due to lower ancillary services, and meeting public policy goals. Ameren Missouri pointed to benefits of its participation in Midwest Independent Transmission System Operator ("MISO"), including a transparent capacity market and a co-optimized energy and ancillary services market.

All investor-owned utilities expect the benefits of RTO participation to continue over the life of participation.

B. **Discussion of Costs**

Staff requested each electric investor-owned utility to identify and describe the costs it incurs from RTO participation and whether these costs are quantifiable. The utilities generally identified administrative costs, RTO transmission costs, and internal labor costs. Ameren Missouri noted that only administrative costs are solely attributable to RTO participation as market and transmission costs would be incurred regardless of participation.

The investor-owned utilities expect RTO participation costs to exist over the life of participation. Ameren Missouri noted a 5% decrease in recent years in its MISO administrative fees. Evergy expects RTO administration costs to remain relatively stable. Liberty provided a more detailed response outlining the expected direction of several administrative costs:[1]

[1] Liberty's Response to Commission Order, Page 10.

- *"Membership Fee* – Annually in perpetuity. It has not changed in the recent past and a significant change to the membership process would most likely be the reason that the cost could change.

- *Schedule 1A-Tariff Administration Fee* – Monthly in perpetuity. It is expected to decrease for most market participants by approximately 2.5% in January of 2021 with a new four-part methodology. It changes annually based largely on coincident peak allocation and projected costs of the SPP.

- *Schedule 12 FERC Charge* – Monthly in perpetuity. The recovery of Schedule 12 fees varies monthly based on native load and traditionally increases in the year following a mild heating/cooling season and decreases in a year following a more extreme heating/cooling season.

- *Schedule 11 base plan funding* – Monthly in perpetuity. With the exception of a reduction in the annual transmission revenue requirement ("ATRR") due almost exclusively to the Tax Cuts and Jobs Act of 2017 which lowered income tax and refunded accumulated deferred income tax ("ADIT"), Schedule 11 expense has always increased. The cause of the increase in[sic] continued investment in SPP's transmission system which has consistently outpaced depreciation. At this point in time, investment is expected to continue to outpace deprecation into the near future.

- *SPP Working Group Participation Costs* – As incurred (monthly). The cost will be incurred based on the working group's schedule and meeting location. More frequent meetings or meetings requiring or benefitting from face to face gathering will require more costs than less frequent and virtual option meetings.

- *SPP Study Costs* – Incurred as a service as requested. Depending on the nature of the request, the costs are largely related to either the cost of labor or the cost of the investment."

All the electric utilities indicated that costs related to RTO participation are quantifiable, though Liberty noted that "identifying the future costs of these items would be significantly more difficult and would rely on more and more assumptions, which may compromise their accuracy."[2]

C. **<u>Information Needed to Complete Study</u>**

Although the costs of RTO participation appear to be well understood from the utility perspective, the benefits of RTO participation over time are more difficult to quantify. All of the electric utilities pointed to the need to hire outside consulting support to complete a cost-benefit

[2] Liberty's Response to Commission Order, Page 11.

study, indicating such a study would ideally include "multiple scenarios and heavily researched assumptions."[3] Liberty noted it could attempt to quantify the adjusted production cost benefits by "running back casts", however, the "[r]emaining benefits would either have to be culled from SPP published reports, assessed via a third party study, or left unquantifiable."[4]

All the electric utilities commented that although many of the benefits are quantifiable a resulting analyses would be an estimate. For example Ameren Missouri noted that "[b]ecause future prices, generation mix, transmission configuration, market design – including new products and services – cannot be known with certainty, and since ascertaining the value of participation based upon assumed variables for the items just mentioned can only be done by comparing the economic benefit of participation to an alternative, hypothetical scenario (e.g., operating as an Independent Coordinator of Transmission ("ICT"), the economic consequences of MISO participation can only be estimated."[5]

D. Proxy Information

All the electric utilities commented that their respective RTO has completed a number of studies that quantify benefits and that individual member benefits can be gleaned from those studies. For example, Ameren Missouri explains "MISO estimates that it brings approximately $3.6 billion in annual net benefits to its members. See Attachment 1 hereto. Based upon Ameren Missouri's load ratio share in MISO, a rough estimation of Ameren Missouri's share of those benefits would be approximately $250 million annually."[6]

E. Cost of Study

All the electric utilities believe that the cost of a study outweighs the benefit such a study would provide. Ameren Missouri estimates that a study comparing its participation in MISO versus Southwest Power Pool (SPP) or operating as an Independent Coordinator of Transmission would be approximately $1 million in outside consulting fees and require significant internal labor.

[3] Ameren Missouri's Response to Order Directing Comments, Page 3.
[4] Liberty's Response to Commission Order, Page 3.
[5] Ameren Missouri's Response to Order Directing Comments, Pages 1-2.
[6] Ameren Missouri's Response to Order Directing Comments, Page 2.

Evergy notes that "SPP has already evaluated the benefits and costs in various studies with Evergy participation in the study processes. This makes any further efforts by Evergy to quantify benefits redundant, unnecessary and an inefficient use of resources."[7]

Additionally, Ameren Missouri and Evergy question the value of seeking approval to maintain RTO membership. Ameren Missouri notes that "[t]he Commission through its Staff, interested Stakeholders and the Company itself, are all active participants in MISO's stakeholder process, and thus aware of proposals which impact market design and transmission expansion. If a proposal were to move forward at MISO that was of such significance that it could reasonably be expected to wipe out the benefits of MISO participation, it would be well known by all, and an inquiry could be initiated at that time. Such proposals do not exist today."[8] Evergy points to the SPP stakeholder process, "SPP also has an active stakeholder process in which the Commission participates, such as the Regional State Committee and other committees, and has visibility to proposals and policy under consideration at SPP that may impact its members such as Evergy."[9]

Liberty acknowledges the benefit in the Commission requiring a review of benefits and costs associated with continued RTO membership but offers such a review should occur only if there were to be a significant change in the operation of the RTO.

F. <u>Deal Breaker Events</u>

The electric utilities were generally able to offer potential events that from their perspective may warrant a cost benefit analyses or be considered a "deal-breaker." Evergy offered that a significant change in the RTO footprint or membership may warrant a cost-benefit study. Liberty notes that "any change that substantially increases the costs to the utility without associated benefits could be considered a deal-breaker. However, based on the current exit fees associated with Liberty's membership, the cost shifting would have to be significant enough that a net benefit could be considered by severing SPP membership. Any analysis would have to be on a case by case basis."[10]

[7] Evergy Missouri Metro's and Evergy Missouri West's Response to Order Directing Filing, Page 5.
[8] Ameren Missouri's Response to Order Directing Comments, Page 8.
[9] Evergy Missouri Metro's and Evergy Missouri West's Response to Order Directing Filing, Page 11.
[10] Liberty's Response to Commission Order, Page 14.

G. Exit Fees

Evergy provided a confidential table of estimated applicable exit fees at various times in the future in its filing at page 10, the estimates ranged from ** [redacted]. **

Ameren Missouri provided a list of estimated exit fees as of indicated dates, as follows:

- 2018 - $24-28 Million
- 2016 - $22 Million.
- 2011 - $40-45 Million (by reference to the amount we understood to have been paid by First Energy)
- 2010 - $26.5 Million (by scaling the exit fee paid by LGE.)
- 2007 - $35 Million (CRA study).[11]

Empire supplied the SPP exit fee calculation formula that would be applicable to Empire, Evergy West, and Evergy Metro as follows:

$$A = 100[0.25(1/N) + 0.75(B/C)]$$

Where A= Member's share (expressed as a percentage)

N= Total number of Members

B= The Member's previous year Net Energy for Load

C= Total of Factor B for all Members

> Withdrawing members must pay any existing or outstanding obligations such as (unpaid annual membership fees, unpaid dues, assessments, and other charges) described under section 3.8 of the membership agreement, as well as the Members share of the entire principal amounts of all SPP Financial Obligations outstanding as of the Termination Date. "Financial Obligations" are all long-term (in excess of six months) financial obligations of SPP. Additionally the Member must pay any costs, expenses, or liabilities incurred by SPP directly due to the Termination. Lastly, Members must pay their share of all interest that will become due for payment with respect to all interest-bearing Financial Obligations after the Termination Date and until the maturity of all Financial Obligations in accordance with their respective ("Future Interest").[12]

[11] Ameren Missouri's Response to Order Directing Comments, Page 7.
[12] Liberty's Response to Commission Order, Page 13.

In general, Staff's understanding is that the exit fees due under each RTO decline over time as existing projects are depreciated, and rise over time as new projects are built. Given the lengthy planning process that proceeds the buildout of new transmission ratebase receiving RTO funding, it should be possible to predict a "sweet spot," at which the exit fees applicable to a given utility will reflect the most depreciation for existing projects prior to the inclusion of new projects. Staff recommends each utility work with its respective RTO to identify the point in time of this sweet spot, and notify the Commission of that time. If the Commission were to order a given utility to undertake a rigorous study of the potential decision to exit its current RTO at some point in the future, such a point in time would provide the lowest level of costs in offset of any calculated benefit.

III. Previous Studies

Ameren Missouri is the only electric utility in Missouri to have commissioned a study, and that study was filed in Case No. EO-2008-0134. "[T]he study concluded that over the ensuing 3-years, MISO participation would generate between $153 and $203 million of incremental benefits as compared to the alternatives (and over 10-years, MISO participation would generate between $346 and $563 million of incremental benefits as compared to the alternatives)."[13] In Case No. EO-2011-0128, Ameren Missouri used the 2008 study as a base. "That analysis concluded that the three-year benefit case (2012-2014 as compared to 2008-2011) had improved by $105 million. All workpapers, reports, etc. were provided to Staff in that docket."[14] Ameren Missouri estimates a similar study would cost approximately "$1 million for outside consulting services and would require more than 100 hours of internal information gathering, oversight, and analysis".[15]

Liberty commented that it has "attempted to quantify a limited portion of the adjusted production cost benefit"[16] while Evergy pointed to studies done by SPP.

[13] Ameren Missouri's Response to Order Directing Comments, Page 2.
[14] Ameren Missouri's Response to Order Directing Comments, Page 2.
[15] Ameren Missouri's Response to Order Directing Comments, Page 2.
[16] Liberty's Response to Commission Order, Page 5.

IV. Staff Recommendation

Staff recommends the Commission order each electric utility to work with its respective RTO to identify the point in time at which the exit fees applicable to a given utility will reflect the most depreciation for existing projects prior to the inclusion of new projects, and file that information in this docket by December 31, 2021. Additionally, Staff recommends the Commission order each electric utility to provide in this docket, by December 31, 2021, the estimated revenue requirement impact (positive and negative) for each of the next five years of continued RTO participation. Such an estimation shall include an explanation of the level of certainty regarding those estimated revenue requirement impacts, and an identification of which costs and benefits would be flown through the Fuel Adjustment Clause.