MISSOURI GENERAL ASSEMBLY

INTERIM REPORT

THE JOINT INTERIM COMMITTEE ON TELECOMMUNICATIONS AND ENERGY

Senator Chuck Gross, Co-Chair
District 23

Senator Paula Carter
District 5

Senator Doyle Childers
District 29

Senator Patrick Dougherty
District 4

Senator Wayne Goode
District 13

Senator David Klarich
District 26

Senator Sarah Steelman
District 16

Representative Carol Jean Mays, Co-Chair
District 50

Representative Gary Burton
District 128

Representative Shannon Cooper
District 120

Representative Thomas George
District 74

Representative Thomas Green
District 15

Representative John Griesheimer
District 109

Representative Craig Hosmer
District 138

Prepared by
Terry Finger, Senior Legislative Analyst, House Research Office
Cindy Kadlec, Staff Attorney, Senate Research Office
January, 2002

MISSOURI
GENERAL ASSEMBLY

State Capitol • 201 West Capitol Avenue • Jefferson City, MO 65101

January, 2002

The Honorable Peter Kinder
President Pro Tem
Missouri Senate
State Capitol, Room 431
Jefferson City, Missouri 65101

The Honorable James Kreider
Speaker
Missouri House of Representatives
State Capitol, Room 308
Jefferson City, Missouri 65101

Dear Mr. President and Mr. Speaker:

Pursuant to your charge and the calls of SS HCR 5 and SCR 18, your Joint Interim Committee on Telecommunications and Energy gathered information from a variety of sources during the fall. The committee heard public testimony at hearings conducted in Jefferson City on October 22, November 5, and November 19, 2001. We also conducted a work session on January 9, 2002. Testimony has been received from the National Conference of State Legislatures, the Missouri Energy Policy Task Force, The Missouri Public Service Commission and Office of the Public Counsel, the Department of Natural Resources Energy Center, other state agencies, and utilities, telecommunication businesses, citizens, and other groups.

There is widespread interest and concern about several energy and telecommunication issues, including potential impacts of deregulation of electricity markets, natural gas pricing and its impact on low-income customers, energy conservation, use of alternative fuels, and mobile telecommunication sourcing and taxation. The committee expresses its gratitude to all the individuals who testified and provided vital information and assistance. The committee will continue to study these complex issues throughout the remaining period of our charge. Enclosed herein is our interim report.

Sincerely,

Senator Chuck Gross, Co-Chair

Representative Carol Jean Mays, Co-Chair

INTRODUCTION

In the last few years, the restructuring of retail markets for electricity, volatility in prices for transportation fuels and natural gas, and concerns about energy supplies and the reliability of energy and telecommunication services have been topics of widespread concern. Several recent crises, including California's experience with restructuring of retail electric markets, the events of September 11, 2001, and unprecedented prices for natural gas during last winter and resulting impacts on low-income residents, have heightened concerns about these issues.

In response to continued interest in these topics and the calls of SS HCR 5 and SCR 18 (Appendix A), in September, 2001, the Honorable Peter Kinder, President Pro Tem of the Missouri Senate, and the Honorable Jim Kreider, Speaker of the Missouri House of Representatives, appointed an interim committee to examine selected energy and telecommunications issues. Members of the committee are Senator Chuck Gross, Co-Chair (R-23, St. Charles), Senator Paula Carter (D-5, St. Louis), Senator Doyle Childers (R-29, Reeds Spring), Senator Patrick Dougherty (D-4, St. Louis), Senator Wayne Goode (D-13, St. Louis), Senator David Klarich (R-26, Ballwin), Senator Sarah Steelman (R-16, Rolla), Representative Carol Jean Mays, Co-Chair (D-50, Independence), Representative Gary Burton (R-128, Joplin), Representative Shannon Cooper (R-120, Clinton), Representative Thomas George (D-74, Florissant), Representative Thomas Green (D-15, St. Charles), Representative John Griesheimer (R-109, Washington), and Representative Craig Hosmer (D-138, Springfield). This report includes an analysis based on information received to date from state agencies, businesses, and citizens, and the committee's interim recommendations.

TESTIMONY AND MAJOR ISSUES

The committee, to date, has heard public testimony at hearings conducted in Jefferson City on October 22, November 5, and November 19, 2001. Testimony has been received from the National Conference of State Legislatures, the Missouri Energy Policy Task Force, The Missouri Public Service Commission and Office of the Public Counsel, the Department of Natural Resources Energy Center, other state agencies, utilities, telecommunication businesses, citizens, and other groups (see Appendix B).

The following major issues emerged from the testimony:

General Energy Policy

The Missouri Energy Policy Task Force recommended that the Governor should have a standing energy policy advisory council available for consultation during energy crises. The council should include members with specific expertise in energy issues from businesses, the legislature, and state agencies. The Task Force also recommended that the Department of Natural Resources Energy Center should continue to provide information to the public on energy issues.

Restructuring of Electric Markets

Many witnesses, including those from the Missouri Energy Policy Task Force, discussed various aspects of the restructuring of wholesale and retail electric markets and the roles of federal and state governments in these markets. Retail restructuring usually has involved limited deregulation of electric generation, which only accounts for 40% to 60% of a typical electric bill. Costs associated with transmission and distribution have tended to remain regulated. State public utility commissions control oversight of retail electric prices and use, generation and transmission facility siting, tax policies, and policies on renewable fuels and energy efficiency measures. The federal government controls regional wholesale prices, transmission pricing and policies, and some aspects of wholesale power markets.

By January, 2001, twenty-four states had restructured retail electric markets to some degree, but by August, 2001, seven of those states had pulled back from or delayed action, largely because of the California crisis. This crisis was caused by a number of factors. About 75% of the state's power is generated within the state, with the remaining 25% coming from northwestern and southwestern states. Demand has been growing throughout the west, including those out-state areas that had supplied California, but as in California, utilities in these states were not building power plants, mainly for financial reasons. Savings from energy efficiency measures had fallen for several years and there was a drought in the Pacific Northwest. All these factors resulted in less power being available for importation. California had also had prohibited companies from entering low-term contracts for electricity, and had enacted incentives for utilities to divest themselves of their own generation facilities. This left the utilities at the mercy of the spot wholesale market. These prices went up dramatically, but retail prices were generally capped, causing utilities to sell power for considerably less than the wholesale price. Resulting bankruptcies severely affected the state's economy. Heavy reliance on natural gas for recently constructed generation facilities in California also caused natural gas prices to rise sharply. Policy mistakes included prohibiting long-term contracts for power purchases and a lack of incentives for power plant construction.

In addition to California, several witnesses discussed the problems that had developed in other states that had attempted restructuring of their retail electric markets. They stated that retail prices have increased and become more volatile, and reliability has decreased. Customers are not calling for retail restructuring and competition has not developed. Participation by competitors in retail markets has been limited, especially in rural areas, because high distribution costs lessen their attractiveness for investment. As a result, residential and small commercial customers have had few choices and no appreciable benefits from restructuring. The resulting savings for these customers are small, and few switch suppliers. Large industrial consumers, however, tend to support establishment of competitive retail markets for electricity, believing that competition could reduce those rates.

Most witnesses agreed that the central cause of most restructuring problems appears to be inadequate development of wholesale markets. These markets must be functioning well for retail markets to function well, and to date wholesale markets have been problematic and competition has not developed. The existing transmission network has constrained paths that inhibit wholesale power transactions. Open access to transmission lines is contentious, pertinent federal legislation is still under development, and start-up costs for a seamless transmission network could be substantial. These transmission constraints and a small number of large wholesalers prevent wholesale markets from being truly competitive and make them ripe for manipulation. Converting from a system based on networked territorial monopolies to a system based on real competition will not be easy or rapid.

Several witnesses stated that Missouri is now a low-cost state with safe, affordable, reliable power. Although other witnesses disagreed, these witnesses noted that the state has enough implemented and planned generation capacity to remain a net exporter of power for at least several years, and can afford to wait and see what develops with regard to federal regulation and wholesale markets. If Missouri proceeds with restructuring, they believed that there should be adequate safeguards to ensure reasonable rates, reliability, and safety, and clear benefits for all consumers and no cost shifting to small customers that are unable to attract their own supply arrangements. Enough generation and transmission assets should remain regulated to serve residential and other customers who do not choose competitive suppliers, and utilities should be required to build generation necessary to fulfill their obligations to serve. There must also be an adequate transmission network, adequate generation capacity to ensure competition, and adequate safeguards to prevent abuse of market power by large operators.

Several witnesses stated that rural electric cooperatives and municipalities should be allowed the option of not participating in restructuring. Many cooperatives and municipalities have long-time contracts that enable them to avoid the volatility of the spot market and deliver affordable power. If municipalities chose to participate, allowing them to aggregate their customers in acting as a buying agent could help avoid the negative impacts of restructuring on residential and small commercial consumers. Aggregation would also make it easier for municipalities to construct more of their own generation facilities. This aggregation is currently allowed by state law, but only with regulation by the Public Service Commission. As a result, no aggregated municipal plants have been built. These witnesses stated that legislation to remove Public Service Commission regulation of aggregated municipalities could foster construction of new generation facilities and better allow small municipal utilities to effectively participate in electric markets.

Natural Gas Pricing and Impacts on Low-Income Customers

Several witnesses discussed last winter's crisis in natural gas prices and the findings of the Missouri Public Service Commission's Natural Gas Commodity Task Force that was formed to investigate the situation. The crisis was caused by an abnormally cold winter and unprecedented spikes in natural gas prices. Because of a series of abnormally warm winters, there were few financial incentives for exploration and development of new gas sources. Storage inventories were also low. During last winter supply then lagged demand, which had increased sharply because of cold weather, increased use of gas for electrical generation, and a generally strong economy. Average gas bills more than doubled because of increased usage and dramatic price increases. As prices rose, the number of households disconnected for lack of payment or in jeopardy of disconnection increased. Rates remained high during the summer to allow utilities to recover purchase costs, but this resulted in some summer users essentially subsidizing payments for those whose main use is for winter heating.

The Task Force recommended that local gas distribution companies should be encouraged to use price risk mitigation tools like storage and hedging, and create balanced portfolios of different supply contracts to reduce market sensitive pricing. This strategy may have over-market prices at times, as may be necessary to dampen price volatility. Allowing purchase gas adjustments to rates more frequently than the current three per year may also help reduce volatility.

The Task Force also noted that the current gas cost recovery process may be a disincentive for local distribution companies to assume risks that could lower costs. Financial incentives for local distribution companies to reduce costs, either as alternatives or supplements to the current cost recovery process, should be targeted in areas that can be expected to have meaningful impacts on reducing consumer costs, enhancing net revenue for local distribution companies, or providing other customer benefits. Incentives should also be structured to allow local distribution companies to respond to changing market conditions. Rate or bill caps should not be implemented because they expose local distribution companies to too much risk during periods of price volatility. There should be more information exchange between local distribution companies, the Public Service Commission and the Office of the Public Counsel on procurement plans and strategies to minimize disincentives for reducing natural gas costs.

Many witnesses stated that low-income consumers have difficulty paying for utility services. Maintaining service to these households averts health care costs, reduces use of unsafe heating methods, and reduces use of homeless shelters. Providing financial assistance can be cost effective because collection, disconnection, and re-connection costs are considerable and these costs are borne by all customers. These witnesses recommended that the federal Low-Income Home Energy Assistance Program (LIHEAP) should be funded for at least $3.4 billion per year. Leveraging of these funds through incentive programs should be pursued more thoroughly by the state, and using funding for contracts to buy heating fuel in advance would better utilize available revenue. Federal funds only provide about 30% of the state's needs, so some state assistance is also needed. Qualification guidelines for LIHEAP and the state Utilicare program are not consistent and should be integrated for maximum benefit. The Public Service Commission should also be provided with the authority to decide how to allocate refunds from utilities to ratepayers. Currently, all refunds must be allocated equally. It may serve the public interest to allocate minimal refunds to energy assistance programs. Funds for low-income weatherization assistance should also be increased and tied to heating assistance. Conservation of energy is the most important long-term solution to reducing the need for assistance.

Several witnesses stated that low-income payment plans should be developed to minimize service disconnections. Low-income customers should address their debt through these payment plans and reductions in consumption that can result from improved weatherization and other increases in energy efficiency. Payment plans can be based on a percentage of income or a percentage of the actual bill, but Missouri statutes do not allow development of these plans because the Public Service Commission cannot established a low-income category of ratepayers. Mandatory contributions from other customers, taxpayers, or the utility are also possible sources of aid in addition to existing programs that provide supplemental assistance through voluntary customer and utility company contributions.

Witnesses also discussed a recently filed emergency amendment to the Public Service Commission's cold-weather rule. Last winter's extremely high natural gas prices and abnormally cold weather resulted in many low-income households having their gas service disconnected. There is an immediate public health danger if these households face impending winter weather without a source of heat. The amendment will provide more lenient terms for re-connection of discontinued residential gas service. It is temporary and will expire on March 31, 2002.

Energy Efficiency

Several witnesses discussed the economic and environmental benefits of increasing energy efficiency. They noted that use of simple, cost-effective methods can conserve resources, reduce pollution, reduce the need for additional energy supplies, reduce consumer costs and price volatility, and improve the local economy by reducing the exportation of energy funds. Barriers to increasing efficiency include initial consumer costs, lack of expertise, and reduction in gross revenue for utilities. Incentives for increasing efficiency may include education programs, low-interest loans or rebates for insulation and high efficiency equipment, and mechanisms to mitigate the effects of reduced energy use on the revenue of utilities.

Witnesses recommended that existing state statutes for energy efficiency in state buildings and state vehicle fleets should be more fully implemented. State agencies could each have an energy efficiency officer, and agencies that achieve energy savings should be rewarded by being allowed to retain a portion of those savings. The state could also establish an energy efficiency education program.

Witnesses also stated that Missouri could improve energy efficiency greatly by implementing energy codes, either as part of local building codes or as a statewide standard. State and local governments could benefit from performance contracting, where equipment costs and preventative maintenance are paid from energy savings from retrofitting efficient equipment. The state could reap additional savings by doing its own energy efficient retrofitting. Financial incentives in the form of low-cost loans, tax credits, and rebates should be provided to all consumers to encourage energy efficiency.

Alternative and Renewable Energy Sources

Several witnesses discussed the advantages of developing alternative and renewable energy sources, including wind, solar, biomass, and small hydroelectric sources. They noted that these sources either are already competitive, or are becoming competitive with traditional energy sources, and offer additional economic, security, and environmental benefits that are not considered in traditional decision-making processes. Use of alternative sources can decrease our dependence on foreign energy sources and provide a diverse system of smaller, distributed energy sources that is more efficient and less vulnerable to terrorism than a system based solely on large, centralized facilities. Alternative systems also can mitigate price volatility, and, if based on in-state sources, can help keep some of the $12 billion we spend annually on energy in the local economy.

Witnesses also noted that biomass fuels, including those produced from corn, soybeans, animal waste, and crop residues, and wind power, through the leasing of land in agricultural fields for wind turbines, can boost agricultural economies. Missouri also has significant solar potential. Solar power can be used for space heating, water heating, and generation of electricity with photovoltaic cells. As photovoltaic technology progresses, use of solar power for electrical generation will become more generally competitive with traditional fuels. Fuel cells also offer much future potential.

Several witnesses recommended implementation of incentives to aid the development and use of renewable fuels. Providing technical expertise, financial incentives, incentives for partnerships, and, for public institutions, allowing retention of some of the resulting cost savings are all important in providing a proper environment for innovation. The Missouri Energy Policy Task Force recommended that the state should adopt a renewable fuels portfolio standard for utilities. The Task Force and several other witnesses noted that net metering, established with proper regard for interconnection and utility safety and limited to sources fueled by renewable fuels, will encourage the development of new alternative energy supplies. Kansas recently passed a net metering bill that could be a suitable model for Missouri.

Mobile Telecommunication Sourcing and Taxation

Witnesses from the mobile telecommunications industry stated that legislation is needed to bring Missouri statutes into conformance with the federal Mobile Telecommunications Sourcing Act, which takes effect on August 1, 2002. The major issue is how mobile telecommunication calls are sourced for tax purposes. The federal law will prohibit Missouri from taxing nonresidents when they call from the state, but will allow Missouri to tax its residents when they call from other states. To simplify conformity with federal law, the telecommunications industry wishes to change state law from taxing calls on a call-by-call basis to taxing monthly bill transactions, with the taxing jurisdiction being the primary use location. After August 1, 2002, Missouri will lose the revenue it currently receives from taxing nonresidents calling from Missouri, but can offset this loss if state law is amended to allow taxation of residents calling from outside the state. Primary use locations can be determined by zip code or through a state database. The federal law will also allow companies to bundle taxable and nontaxable bill components, which, without a stated allocation, will make the entire charge taxable.

The mobile telecommunications industry also favors implementation of a customer remedy provision that is not part of the federal law. The industry is now facing many class action lawsuits about improper taxation. Taxing jurisdictions are often named as co-defendants. The suggested customer remedy provision would create a procedure for customers to contact their service provider in writing and attempt to resolve the dispute within 60 days. The customer could then take whatever legal action they wished.

Competition for Local Telephone Service

Several witnesses noted that competition for local telephone service began with the federal Telecommunications Act of 1996 and corresponding state laws. Sixty or seventy companies are now certificated by the Missouri Public Service Commission as competitive local exchange carriers. The commission is now examining the state of competition for Southwestern Bell exchanges. Future cases will examine Sprint and Verizon exchanges. Areas must be examined within five years after competition was introduced, but no conclusions have yet been reached. If the commission determines that local competition is present, then companies can raise or lower their rates as they see fit.

INTERIM RECOMMENDATION

The committee recognizes the complexity of many of the energy and telecommunication issues discussed during our hearings and expresses its gratitude to the National Conference of State Legislatures, the Missouri Energy Policy Task Force, The Missouri Public Service Commission and Office of the Public Counsel, the Department of Natural Resources Energy Center, and all the other state agencies, utilities, telecommunication businesses, citizens, and other groups who provided vital information and assistance.

During its work session on January 9, 2002, the committee decided that many of the issues enumerated in this interim report warrant further analysis. The committee will continue to receive testimony and study these issues throughout the remainder of the Ninety-first General Assembly, and will submit its final recommendations, as charged, prior to the commencement of the First Regular Session of the Ninety-second General Assembly, including any recommendations for legislative action.

APPENDIX A

TEXTS OF 2001 SS HCR 5 AND SCR 18

I. SENATE SUBSTITUTE FOR HOUSE CONCURRENT RESOLUTION NO. 5

WHEREAS, telecommunications services and energy services and sources are vital to the economic vitality and well-being of the state of Missouri; and

WHEREAS, attempts across the nation to deregulate telecommunications services and energy services and sources have met with both success and failure in the effort to create competitive markets and make available new services and customer choices; and

WHEREAS, the state and political subdivisions have imposed taxes, fees and other assessments on various telecommunications and energy services which vary widely based on locality and, within a locality, may vary widely due to increasingly related and competitive services, such as telephone and cable television; and

WHEREAS, the current nationwide effort to establish competition in the production, distribution and sale of energy, including electricity, natural gas and other energy sources has potential benefits and adverse effects on energy producers, distributors, retailers, customers and the citizens of this state; and

WHEREAS, ensuring adequate and affordable telecommunications services and energy services and sources necessitate a fair and equitable tax structure across different telecommunications and energy services and across different regions of the state; and

WHEREAS, the issue of whether governmental entities should expend public resources to compete with private telecommunications and energy entities should be explored; and

WHEREAS, recent increases in the cost of natural gas has affected home heating costs, electricity costs and energy costs for businesses and created a greater need for efficient use of energy resources; and

WHEREAS, Missouri produces little of the energy resources it consumes, resulting in a considerable export of wealth from the state to other parts of the nation and the rest of the world;

WHEREAS, a Joint Interim Committee on Telecommunications and Energy has studied several of the above-mentioned issues during the tenure of the Ninetieth General Assembly and recommends that a similar study committee be established to continue the study during the tenure of the Ninety-first General Assembly:

NOW, THEREFORE, BE IT RESOLVED by the members of the Missouri Senate, Ninety-first General Assembly, First Regular Session, the House of Representatives concurring therein, that a Joint Legislative Committee on Telecommunications and Energy be created to be composed of seven members of the Senate, to be appointed by the President Pro Tem of the Senate, and seven members of the House of Representatives, to be appointed by the Speaker of the House of Representatives, and that said committee be authorized to function throughout the Ninety-first General Assembly; and

BE IT FURTHER RESOLVED that said committee continue and expand the in-depth studies conducted by the prior Joint Interim Committee on Telecommunications and Energy and make appropriate recommendations concerning financial, legal, social, taxation, environmental, technological and economic issues of telecommunications, cable television, all Internet services, including asymmetrical digital subscriber lines (ADSL) and service via cable lines, and energy services taxation, competition between governmental entities and private telecommunication entities, and any other issues the committee deems relevant; and

BE IT FURTHER RESOLVED that said committee continue and expand the in-depth studies conducted by prior Joint Interim Committees on Telecommunications and Energy and make appropriate recommendations concerning financial, legal, social, taxation, environmental, technological and economic issues of deregulation and increasing competition in energy production, distribution and sale, including consideration of the effects on residential customers, small and large business customers, utility shareholders and other stakeholders and any other issues the committee deems relevant with such studies to specifically include an analysis of (i) the existing and projected demands in this state for electric power and energy over the next ten years, and the basis for determining the projected demand; (ii) the adequacy and reliability of available and planned electric generation to serve the needs of customers in this state; (iii) permitting retail customers having load at a single premises in excess of 1 or 2 MW to utilize alternative sources of supply without adversely affecting state and municipal tax revenues; (iv) the adequacy and availability of available and planned transmission facilities used to transfer electricity into and within the state; and (v) incentives that would encourage the ongoing investment needed to ensure adequate generation and transmission capacity within the state; and

BE IT FURTHER RESOLVED that said committee study and make appropriate recommendations concerning financial, legal, social, taxation, environmental, technological and economic issues of energy costs, energy demand management options, decentralization of energy sources, production of alternative energy, energy efficiency and any other issues the committee deems relevant;

BE IT FURTHER RESOLVED that said committee prepare an interim report, which must at a minimum include a detailed summary of the committee's analysis of the adequacy and reliability of available and planned electric generation and transmission capacity to serve the projected needs of customers in this state currently and over the next ten years and incentives for ongoing investment and allowing retail customers having load at a single premises in excess of 1 or 2 MW to utilize alternative sources of supply without adversely affecting state and municipal tax revenues, together with its recommendations for any legislative action it deems necessary for submission to the General Assembly prior to the commencement of the Second Regular Session of the Ninety-first General Assembly but in any event no later than December 1, 2001, and a final report, together with its recommendations for any legislative action it deems necessary for submission to the General Assembly prior to the commencement of the First Regular Session of the Ninety-second General Assembly; and

BE IT FURTHER RESOLVED that said committee may solicit any input and information necessary to fulfill its obligations from the Missouri Public Service Commission, the Department of Economic Development, the Division of Energy within the Department of Natural Resources, the Office of Public Counsel, political subdivisions of this state, telecommunications and energy service providers, energy utilities and representatives of all telecommunications and energy customer groups; and

BE IT FURTHER RESOLVED that House Research, the Committee on Legislative Research, and Senate Research shall provide such legal, research, clerical, technical and bill drafting services as the committee may require in the performance of its duties; and

BE IT FURTHER RESOLVED that the actual and necessary expenses of the committee, its members and any staff personnel assigned to the committee incurred in attending meetings of the committee or any subcommittee thereof shall be paid from the Joint Contingent Fund.

II. SENATE CONCURRENT RESOLUTION NO. 18

WHEREAS, telecommunications services and energy services and sources are vital to the economic vitality and well-being of the state of Missouri; and

WHEREAS, attempts across the nation to deregulate telecommunications services and energy services and sources have met with both success and failure in the effort to create competitive markets and make available new services and customer choices; and

WHEREAS, the state and political subdivisions have imposed taxes, fees and other assessments on various telecommunications and energy services which vary widely based on locality and, within a locality, may vary widely due to increasingly related and competitive services, such as telephone and cable television; and

WHEREAS, the current nationwide effort to establish competition in the production, distribution and sale of energy, including electricity, natural gas and other energy sources has potential benefits and adverse effects on energy producers, distributors, retailers, customers and the citizens of this state; and

WHEREAS, ensuring adequate and affordable telecommunications services and energy services and sources necessitate a fair and equitable tax structure across different telecommunications and energy services and across different regions of the state; and

WHEREAS, the issue of whether governmental entities should expend public resources to compete with private telecommunications and energy entities should be explored; and

WHEREAS, a Joint Interim Committee on Telecommunications and Energy has studied the above-mentioned issues during the tenure of the Ninetieth General Assembly and recommends that a similar study committee be established to continue the study during the tenure of the Ninety-first General Assembly:

NOW, THEREFORE, BE IT RESOLVED by the members of the Missouri Senate, Ninety-first General Assembly, First Regular Session, the House of Representatives concurring therein, that a joint legislative committee on Telecommunications and Energy be created to be composed of seven members of the Senate, to be appointed by the President Pro Tem of the Senate, and seven members of the House of Representatives, to be appointed by the Speaker of the House of Representatives, and that said committee be authorized to function throughout the Ninety-first General Assembly; and

BE IT FURTHER RESOLVED that said committee continue and expand the in-depth studies conducted by prior Joint Interim Committees on Telecommunications and Energy and make appropriate recommendations concerning financial, legal, social, taxation, environmental, technological and economic issues of telecommunications, cable television, all Internet services, including asymmetrical digital subscriber lines (ADSL) and service via cable lines, and energy services taxation, competition between governmental entities and private telecommunication entities, and any other issues the committee deems relevant; and

BE IT FURTHER RESOLVED that said committee continue and expand the in-depth studies conducted by prior Joint Interim Committees on Telecommunications and Energy and make appropriate recommendations concerning financial, legal, social, taxation, environmental, technological and economic issues of deregulation and increasing competition in energy production, distribution and sale, including consideration of the effects on residential customers, small and large business customers, utility shareholders and other stakeholders, and any other issues the committee deems relevant; with such studies to specifically include an analysis of (i) the existing and projected demands in this state for electric power and energy over the next ten years, and the basis for determining the projected demand; (ii) the adequacy and reliability of available and planned electric generation to serve the needs of customers in this state; (iii) permitting retail customers having load at a single premises in excess of 1 or 2 MW to utilize alternative sources of supply without adversely affecting state and municipal tax revenues; (iv) the adequacy and availability of available and planned transmission facilities used to transfer electricity into and within the state; and (v) incentives that would encourage the ongoing investment needed to ensure adequate generation and transmission capacity within the state; and

BE IT FURTHER RESOLVED that said committee prepare an interim report, which must at a minimum include a detailed summary of the committee's analysis of the adequacy and reliability of available and planned electric generation and transmission capacity to serve the projected needs of customers in this state currently and over the next ten years and incentives for ongoing investment and allowing retail customers having load at a single premises in excess of 1 or 2 MW to utilize alternative sources of supply without adversely affecting state and municipal tax revenues, together with its recommendations for any legislative action it deems necessary for submission to the General Assembly prior to the commencement of the Second Regular Session of the Ninety-first General Assembly but in any event no later than December 1, 2001, and a final report, together with its recommendations for any legislative action it deems necessary for submission to the General Assembly prior to the commencement of the First Regular Session of the Ninety-second General Assembly; and

BE IT FURTHER RESOLVED that said committee may solicit any input and information necessary to fulfill its obligations from the Missouri Public Service Commission, the Department of Economic Development, the Division of Energy within the Department of Natural Resources, the Office of Public Counsel, political subdivisions of this state, telecommunications and energy service providers, energy utilities and representatives of all telecommunications and energy customer groups; and

BE IT FURTHER RESOLVED that House Research, the Committee on Legislative Research, and Senate Research shall provide such legal, research, clerical, technical and bill drafting services as the committee may require in the performance of its duties; and

BE IT FURTHER RESOLVED that the actual and necessary expenses of the committee, its members and any staff personnel assigned to the committee incurred in attending meetings of the committee or any subcommittee thereof shall be paid from the Joint Contingent Fund.

APPENDIX B

SUMMARY OF INDIVIDUAL TESTIMONY
(* = also submitted written materials)

I. JEFFERSON CITY, OCTOBER 22, 2001

1. Matthew Brown -- National Conference of State Legislators* *(video conference)*

Mr. Brown provided an overview of the ramifications of restructuring wholesale and retail electric markets and the roles of federal and state governments in these markets. Retail restructuring usually has involved limited deregulation of electric generation, which only accounts for 40% to 60% of a typical electric bill. Costs associated with transmission and distribution have tended to remain regulated. By January, 2001, twenty-four states had restructured retail electric markets to some degree, but by August, 2001, seven of those states had pulled back from or delayed action, largely because of the California crisis. Federal activities are also affecting wholesale markets. These markets must be functioning well for retail markets to function well, and to date wholesale markets have been problematic. Further, in most retail markets, suppliers will not seek residential and small commercial customers because of high distribution costs. The resulting savings for these customers are small, and few switch suppliers.

The crisis in California was caused by a number of factors. About 75% of the state's power is generated within the state, with the remaining 25% coming from northwestern and southwestern states. Demand has been growing throughout the west, including those out-state areas that had supplied California, but as in California, utilities in these states were not building power plants, mainly for financial reasons. Savings from energy efficiency measures had fallen for several years and there was a drought in the Pacific Northwest. All these factors resulted in less power being available for importation. California had also had prohibited companies from entering low-term contracts for electricity, and had enacted incentives for utilities to divest themselves of their own generation facilities. This left the utilities at the mercy of the spot wholesale market. These prices went up dramatically, but retail prices were generally capped, causing utilities to sell power for considerably less than the wholesale price. Resulting bankruptcies severely affected the state's economy. Heavy reliance on natural gas for recently constructed generation facilities in California also caused natural gas prices to rise sharply. Policy mistakes included prohibiting long-term contracts for power purchases and a lack of incentives for power plant construction.

In electric markets, states control oversight by public utility commissions, retail electric prices and use, generation and transmission facility siting, tax policies, and policies on renewable fuels and energy efficiency measures. The federal government controls regional wholesale prices, wholesale natural gas prices, transmission pricing and policies, and some aspects of wholesale power markets. With regard to restructuring of the electric industry, Missouri should consider specific goals and the state of the wholesale market. Goals can include rate reductions, transition periods, protection of residential and small commercial consumers, and promotion of alternative fuel sources. The state of the wholesale market depends on generation and transmission capacity, planning, access to the transmission network, demand response programs, and risks associated with reliance on fuels subject to volatility in price and availability.

2. Kelvin Simmons, Tom Green -- Missouri Public Service Commission*

Mr. Simmons noted the need to assist low-income residents with heating bills. Many customers are in arrears and have had their service disconnected because of last year's high natural gas prices. The federal government has increased funding for assistance, but further action is needed to avoid immediate problems as the weather turns cold this fall.

Mr. Green noted that, to date, every state that has restructured its electric markets has had problems. Retail prices have tended to increase and become more volatile, and participation in retail markets has been limited because they generally are not attractive for investment. Wholesale markets are not yet competitive, in part because the existing transmission network has constrained paths that inhibit wholesale power transactions. Open access to transmission lines is contentious, pertinent federal legislation is still under development, and start-up costs for a seamless transmission network could be substantial.

3. Ryan Kind -- Missouri Office of the Public Counsel*

Mr. Kind noted that restructuring of retail electric markets in other states has failed to produce the lower rates that had been promised. The central cause appears to be inadequate development of wholesale markets. Transmission constraints and a small number of large wholesalers prevent the wholesale market from being truly competitive and make it ripe for manipulation. Missouri has enough implemented and planned generation capacity to remain a net exporter of power for at least several years. The state can, therefore, afford to wait and see what develops with regard to federal regulation and wholesale markets. Restructuring of retail markets should not occur without adequate safeguards to ensure reasonable rates, reliability, and safety. Enough generation assets should remain regulated to serve residential and other customers who do not choose competitive suppliers. There must also be an adequate transmission network, adequate generation capacity to ensure competition, and adequate safeguards to prevent abuse of market power by large operators.

4. Melanie Newman -- Missourians for Affordable Reliable Electric Service (MOFARES)

Ms. Newman noted that there is no evidence that deregulation has benefitted consumers. In fact rates have increased, reliability has decreased, and competition has not developed. Consumer protection should be foremost. Wholesale markets should be protected from price volatility and abuse of market power. Generation and transmission assets should remain regulated and utilities should be required to build generation necessary to fulfill their obligations to serve. The tradition power reserve margin of 13% to 15% should be increased to improve reliability and prevent market abuse during peak demand periods. Utilities should also be required to have long-term contracts for power purchases.

5. Maurice Brubaker -- Missouri Industrial Energy Consumers

Mr. Brubaker noted that large industrial consumers support establishment of competitive retail markets for electricity. Rates in Missouri are in the top third for investor-owned utilities in the region, and competition could reduce those rates. Restructuring must be done carefully to avoid problems experienced by other states. Clearly wholesale markets are not fully developed, and cannot be developed without a fully functional independent transmission network. In the long run, the best service will be supplied in a competitive market.

6. Mary Scruggs -- Association of Missouri Electric Cooperatives*

Ms. Scruggs noted that rural areas have attracted little attention from power marketers in states that have attempted restructuring of retail markets. As a result, rural customers have had few choices and no appreciable benefits from restructuring. Missouri is now a low-cost state with safe, affordable, reliable power. If Missouri proceeds with restructuring, there should be clear benefits for all consumers and no cost shifting to small customers unable to attract their own supply arrangements. Cooperatives should be allowed the option of not participating in restructuring. Many cooperatives have long-time contracts that enable them to avoid the volatility of the spot market and deliver affordable power.

7. Duncan Kincheloe -- Missouri Association of Municipal Utilities*

Mr. Kincheloe noted that Missouri has 88 non-profit municipal electric utilities that serve 13 to 14% of the state's electric load. Because they are managed by elected officials, they are not regulated by the Public Service Commission. Most buy the majority of their power from larger utilities and have small peak generation facilities. The Missouri Joint Municipal Electric Utility Commission also provides wholesale power trading services to its member cities.

Municipal customers want reliable power at low cost, and are not calling for retail restructuring. In other states, restructuring has not provided any benefits for municipal customers. Most states have wisely allowed municipalities and cooperatives to retain local control and provided options for participation in competitive markets. Allowing municipalities to aggregate their customers and act as a buying agent can help avoid negative impacts of restructuring on residential and small commercial consumers. All customers suffer when retain markets have been opened without an effective competitive wholesale market, and no such wholesale market yet exists. Mergers by power suppliers and the lack of fully effective transmission facilities have tended to prevent competition from emerging. Converting from a system based on networked territorial monopolies to a system based on real competition will not be easy or rapid.

Municipalities would like to provide more of their own generation by joining together to construct facilities. Aggregation is currently allowed by state law, but only with regulation by the Public Service Commission. As a result, no plants have been built, but legislation to remove this regulation could foster construction.

8. Michael McGrath -- Edison Electric Institute* *(video conference)*

Mr. McGrath noted that the crisis in California was not caused by the failure of retail competition, but caused by supply/demand imbalances, inadequate transmission facilities, and rules that did not allow hedging in contracts. The crisis did show that peak demand can be easily reduced by 8 to 14%, and this reduction can affect prices significantly. In other states, restructuring has provided either slightly positive or no impact on consumers. Large customers have seen some rate reductions from competition, but many rate reductions for residential consumers have been mandated rather than the result of competition.

Residential and small commercial consumers usually account for 25 to 40% of electricity demand. All customers want low prices, reliability, good service, and the ability to choose suppliers. Competition has been shown to reduce prices in other industries, but customers are skeptical about retail competition in electric markets. Rekindling interest in competition will require demonstrated success, a falling price environment, and, most importantly, a solution to the safety net service problem. Consumers who cannot find a supplier need to obtain service at a stable price, but a non-market based price can increase costs and ruin the competitive market, particularly if the price is set lower than the wholesale acquisition cost. In some states, this service is put out on bid or fixed for several years.

II. JEFFERSON CITY, NOVEMBER 5, 2001

1. Warren Wood -- Missouri Public Service Commission*

Mr. Wood discussed last winter's crisis in natural gas prices and the findings of the Missouri Public Service Commission's Natural Gas Commodity Task Force that was formed to investigate the situation. The crisis was caused by an abnormally cold winter and unprecedented spikes in natural gas price. Because of a series of abnormally warm winters, there were few financial incentives for exploration and development of new gas sources. Storage inventories were also low. During last winter supply then lagged demand, which had increased sharply because of cold weather, increased use of gas for electrical generation, and a generally strong economy. Average gas bills more than doubled; 40% of the increase was attributed to increased usage, with the remaining 60% attributed to price increases. As prices rose, the number of households disconnected for lack of payment rose to 29,000, with another 50,000 in jeopardy. Average debt for these households was $670. Rates remained high during the summer to allow for recovery of purchase costs, but this resulted in some summer users essentially subsidizing payments for those whose main use is for winter heating.

The task force examined commodity cost recovery processes, volatile prices, disconnections, budget billing program adjustments, funding and qualifications for low-income assistance programs, and impacts of deregulation of natural gas production. They developed a series of recommendations and a policy statement that stresses use of mechanisms that mitigate and control gas price volatility. Local distribution companies should be encouraged to create balanced portfolios of different supply contracts that reduce market sensitive pricing. This strategy may have over-market prices at times, as may be necessary to dampen price volatility. Allowing purchase gas adjustments to rates more frequently than the current three per year may also help reduce volatility.

2. Scott Glaeser -- Ameren Energy Fuels and Services Company*

Mr. Glaeser discussed natural gas price risk mitigation tools considered by the Missouri Public Service Commission's Natural Gas Commodity Task Force, including hedging, weather derivatives, storage, and outsourcing agreements. Hedging involves use of various forms of supply contracts, financial instruments, and physical assets to manage price and volumetric risk. Fixed price contracts eliminate volatility, but can only be used for base load requirements and result in higher rates if the market price declines. Price cap contracts allow buying at lower rates if the market price declines, but may have high premiums. Price collars create a fixed range of prices, but can only be used for base load requirements and may also have high premiums. Overall, hedging is important because it can limit price volatility, but it may result in higher costs. Costs associated with hedging are passed through to customers in purchase gas adjustments. Weather derivatives are new financial instruments, similar to futures contracts, that allow hedging of weather related risks. Storage is a very important proven method for local distribution companies to reliably meet demand changes and reduce price volatility. With outsourcing agreements, the local distribution company's gas supply function is transferred to another party, typically a gas marketer. The marketer often has a national scope of operation that brings in economy of scale, but control, experienced personnel, and reliability may be lost by the local company. Overall, local distribution companies should be encouraged to create balanced portfolios of different supply contracts to reduce price volatility. This strategy may have over-market prices at times, but this may be necessary to dampen volatility.

3. Barbara Meisenheimer -- Missouri Office of the Public Counsel

Ms. Meisenheimer discussed incentive plans for gas cost reduction and price stabilization considered by the Missouri Public Service Commission's Natural Gas Commodity Task Force. The current gas cost recovery process may be a disincentive for local distribution companies to assume risks that could lower costs. Financial incentives for local distribution companies to reduce costs, either as alternatives or supplements to the current cost recovery process, should be targeted in areas that can be expected to have meaningful impacts on reducing consumer costs, enhancing net revenue for local distribution companies, or providing other customer benefits. Incentives should also be structured to allow local distribution companies to respond to changing market conditions. Rate or bill caps should not be implemented because they expose local distribution companies to too much risk during periods of price volatility. There should be more information exchange between local distribution companies, the Public Service Commission and the Office of the Public Counsel on procurement plans and strategies to minimize disincentives for reducing natural gas costs.

4. Tim Daniel -- Missouri Office of Homeland Security

Colonel Daniel outlined the state's efforts since September 11 to improve our ability to deter and respond to terrorism. These efforts have involved state agencies, local agencies, and the private sector. Integration of the activities of these groups is critical. There is a potential threat to utilities and their generation and transmission facilities, but the greatest threat to the state is probably the use of infectious diseases.

5. Brenda Wilbers -- Missouri Department of Natural Resources Energy Center*

Ms. Wilbers discussed incentives for improving energy efficiency considered by the Missouri Public Service Commission's Natural Gas Commodity Task Force. Reducing demand by increasing energy efficiency is a simple, effective means of reducing consumer costs and price volatility, and there is great potential for increasing energy efficiency in Missouri. Reducing demand also conserves resources, reduces pollution, reduces the need for expansion of utility facilities, and improves the local economy by reducing the exportation of energy funds. Barriers to increasing efficiency include initial consumer costs, lack of expertise, and reduction in gross revenue for utilities. Incentives for increasing efficiency may include education programs, low interest loans or rebates for insulation and high efficiency appliances, and mechanisms to mitigate the effects of reduced energy usage on the revenue of utilities.

6. Jan Marcason -- Mid-America Assistance Coalition

Ms. Marcason discussed alternative cost recovery mechanisms for low-income customers considered by the Missouri Public Service Commission's Natural Gas Commodity Task Force.

Low-income customers use a high proportion of their income for essential utilities. Last winter's gas crisis continues to have a devastating impact on many disconnected households containing children or senior citizens. Maintaining service to these households averts health care costs, reduces use of unsafe heating methods, and reduces use of homeless shelters. Utilities can also reduce costs associated with payment collection, disconnection, and re-connection. Many of these costs are borne by all customers.

Low-income customers should address their debt through payment plans and reductions in consumption that can result from improved weatherization and other increases in energy efficiency. Conservation of energy is the most important long-term solution to reducing the need for assistance. Payment plans can be based on a percentage of income or a percentage of the actual bill. Mandatory contributions from other customers, taxpayers, or the utility are also possible in addition to existing utility and social service agency programs that provide supplemental assistance through voluntary customer and utility company contributions. Missouri statutes do not allow low-income customers to fully use available aid because the Public Service Commission cannot established a low-income category of ratepayers.

7. Karl Zobrist, Martha Hogerty, Peter Shemitz -- Missouri Energy Policy Task Force*

Mr. Zobrist, Ms. Hogerty, and Mr. Shemitz discussed the findings of the Missouri Energy Policy Task Force. The task force dealt with consumer issues, including those affects low-income consumers, energy efficiency, renewable energy supplies, and utility issues.

Low-income consumers have difficulty paying for utility services. The federal Low-Income Home Energy Assistance Program (LIHEAP) should be funded for at least $3.4 billion per year. Leveraging of these funds through incentive programs should be pursued more thoroughly by the state, and using funding for contracts to buy heating fuel in advance would better utilize available revenue. Federal funds only provide about 30% of the state's needs, so some state assistance is also needed. Qualification guidelines for LIHEAP and the state Utilicare program are not consistent and should be integrated for maximum benefit. Low-income payment plans should also be developed to minimize service disconnections for arrearages. These plans can be cost effective because collection, disconnection, and re-connection costs are considerable. The Public Service Commission must be given the authority to establish a category of low-income ratepayers to implement these plans. The Public Service Commission should also be provided with the authority to decide how to allocate refunds from utilities to ratepayers. Currently, all refunds must be allocated equally. It may serve the public interest to allocate minimal refunds to energy assistance programs. Funds for low-income weatherization assistance should also be increased and perhaps tied to heating assistance.

Missouri statutes on energy efficiency, especially for state facilities and for efficiency and use of alternative fuels in state vehicle fleets, should be fully implemented. State and local governments could benefit from performance contracting, where equipment costs and preventative maintenance is paid from energy savings from retrofitting efficient equipment. The state could reap additional savings by doing its own energy efficient retrofitting. Financial incentives in the form of low-cost loans, tax credits, and rebates should be provided to all consumers to encourage energy efficiency and the development of renewable energy sources. Laws for state vehicle fleets should be expanded to increase use of alternative fuels. State agencies should each have an energy efficiency officer, and those agencies that achieve energy savings should be rewarded by being allowed to retain a portion of those savings. The state should also establish an energy efficiency education program.

The Governor should have a standing energy policy advisory council comprised of individuals from both the public and private sectors. The Department of Natural Resources Energy Center should continue to provide energy information via the internet, including information on transportation fuel prices. The attorney general should be given the authority to file cease and desist orders to immediately prevent price gouging of transportation fuels. The general rate-making authority of the Public Service Commission should be retained, but, to allow small municipal utilities to effectively participate in electric markets, municipal utilities should be able to form utility districts without triggering regulation by the Public Service Commission. Utilities should reassess their vulnerability to terrorism, and be allowed to recover costs associated with necessary upgrades in infrastructure. To improve demand side management by consumers and lower peak loads, the Public Service Commission should consider allowing utility rates to vary depending on time of use. The state should adopt a renewable fuels portfolio standard for utilities, and net metering should be allowed, with proper regard for interconnection and utility safety, to encourage the development of new energy supplies.

Restructuring of retail electric markets should continue to be studied, but should not occur before wholesale competition is fully implemented. Wholesale markets cannot develop until there is an adequate transmission network; development of such a network would be aided by the federal establishment of regional transmission organizations. California had problems with restructuring because of insufficient generation, retail rate caps that were lower than wholesale rates, few long-term contracts, heavy reliance on the spot market, and ineffective coordination of transmission. Pennsylvania had a more favorable initial experience with restructuring because it had more new generation, more flexible retail rate caps, effective transmission coordination, and a mix of long- and short-term purchasing contracts. Wisconsin required all utilities to pass control of their transmission assets to an independent operator. The midwest needs to improve its transmission coordination through the further development of independent transmission operators.

8. Janet Hoerschgen -- Missouri Public Service Commission*

Ms. Hoerschgen discussed a recently filed emergency amendment to the Public Service Commission's cold-weather rule. Last winter's extremely high natural gas prices and abnormally cold weather resulted in many low-income households having their gas service disconnected. There is an immediate public health danger if these households face impending winter weather without a source of heat. The amendment will provide more lenient terms for re-connection of discontinued residential gas service. It is temporary and will expire on March 31, 2002.

9. Anita Randolph -- Missouri Department of Natural Resources Energy Center*

Ms. Randolph discussed the economic and environmental benefits of energy efficiency. Efficiency displaces the need for additional energy supplies, and, because most money spent on energy leaves the state, can boost the local economy. Buildings with better insulation and passive solar design and more efficient appliances, lighting, and motors are all cost effective with existing technology. Efficiency improvements typically cost 2 to 3 cents per kilowatt hour saved, while new power plant construction typically costs 4 to 5 cents per kilowatt hour generated. Energy efficiency also makes us less vulnerable to supply disruptions, price volatility, and terrorism. Missouri could improve energy efficiency greatly by implementing energy codes, either as part of local building codes or as a statewide standard.

III. JEFFERSON CITY, NOVEMBER 19, 2001

1. Anita Randolph -- Missouri Department of Natural Resources Energy Center*

Ms. Randolph discussed alternative and renewable energy sources available in Missouri, including wind, solar, biomass, and small hydroelectric sources. As costs decrease, these sources are becoming more competitive with traditional energy sources, and many offer additional economic, security, and environmental benefits. Many of these benefits are not considered in traditional decision-making processes. In terms of security, use of alternative sources can decrease our dependence on foreign energy sources and provide a diverse system of smaller, distributed energy sources that is less vulnerable to terrorism than a system based solely on large, centralized facilities. Alternative systems are also less vulnerable to the effects of price volatility, and, if based on in-state sources, help keep some of the $12 billion we spend annually on energy in the local economy. Biomass fuels, including those produced from corn, soybeans, animal waste, crop residues, and wind power, through leasing land in agricultural fields for wind turbines, have the potential to boost agricultural economies. Solar power is currently useful for water heating and for niche applications in generating electricity. As photovoltaic technology progresses, use of solar power for electrical generation will become more generally competitive with traditional fuels. Fuel cells also offer much future potential. Policies that address net metering, renewable energy portfolios for utilities, standards for interconnecting alternative systems to the existing power grid, and financial incentives for development of new technology can significantly increase use of renewable fuels in Missouri.

2. William Roush -- Heartland Solar Energy Industries Association*

Mr. Roush noted that solar power can be used for passive space heating and lighting in building designs, for water heating and radiant space heating, and for generation of electricity with photovoltaic cells. Missouri has significant solar potential. Effective laws that allow net metering are important in fostering further development of small solar electrical generation systems. Effective technology has been developed; what is needed now is increasing the volume of development that bring in the economy of scale.

3. Robert Bush -- Northwest Missouri State University*

Dr. Bush described Northwest Missouri State University's successes in using biomass energy for more than 20 years. An important part of this success in making a cultural change so that people think about using alternative energy sources. Efforts began during the late 1970's, when natural gas and fuel oil prices were projected to increase sharply and, during a harsh winter, supply to the university was in jeopardy. Diversification is important to reduce these risks. Phase I of the project used wood waste to replace 65% of fossil fuel use. Phase II used recycled paper pellets to bring total fossil fuel displacement to 79%. Phase III has involved use of pelletized animal waste, and has brought the fossil fuel displacement to 85%. Waste materials have been utilized, and, since 1982, the university has saved over $4 million, purchased a $2 million facility, and paid off initial loans. Cost savings have allowed more funding to be used for education, the university's main function. Providing technical expertise, financial incentives, and incentives for partnerships, and, for public institutions, allowing retention of some of the resulting savings are all important in providing a proper environment for innovation.

4. Joseph Bahr -- Utilicorp*

Mr. Bahr described Utilicorp's 20-year supply planning, which considers reliability, cost stability, and environmental responsibility. Current demands are met with owned generation (72%), purchase contracts (20%), and spot market purchases (8%). Future plans include meeting most base load requirements with coal-fired plants and combined cycle gas-fired plants, and meeting peak demands with gas-fired combustion turbines. Planning goals also include a targeted reserve capacity of 14%. Current purchase contracts are set to expire in several years, resulting in a shortfall of capacity by 2005. Replacement power sources are being sought now. Some demand is being met by a 110-megawatt wind farm in southwestern Kansas. The 170-turbine facility is owned by Florida Power and Light Company; all the output is purchased by Utilicorp. The price is quite competitive with the federal wind production tax credit. With regard to transmission, Utilicorp supports the federal plan to move to regional transmission organizations, which will result in a more efficient, cost-effective transmission network.

5. Karl Zobrist -- Missouri Energy Policy Task Force

Mr. Zobrist stated that having the standing Energy Policy Council proposed by the Missouri Energy Policy Task Force available to the Governor during an energy crisis would be valuable to the state. The council should include members from businesses, the legislature, and state agencies with specific expertise in energy issues. He also noted that net metering can encourage development of small, independent energy supplies, but should be restricted to renewable sources, and should be accomplished with due regard for utility safety and infrastructure. Kansas recently passed a net metering bill that could be suitable for Missouri.

The Public Service Commission should also be provided with the authority to decide how to allocate refunds from utilities to ratepayers. Currently, all refunds must be allocated equally. It may serve the public interest to allocate minimal refunds to energy assistance programs.

6. Charles Broomfield -- Missouri Cable Telecommunications Association*

Mr. Broomfield noted that the cable industry has over one million subscribers in Missouri and has over 5,000 employees. Cable companies are regulated by the Federal Communication Commission and must receive franchises from each municipality served. Franchises are not exclusive, and franchise fees are paid to each municipality.

7. Carol Rothwell -- Time Warner Cable

Ms. Rothwell noted that the cable industry is upgrading from analog cable to fiber optic digital networks with internet, telephone, and other broadband telecommunication capabilities. Cable companies provide free cable and internet services to schools and libraries. The greatest competition for cable companies comes from satellite dishes, for which there is little regulation, no franchise fee, and no community investment.

8. Paul Berra -- Charter Communications*

Mr. Berra noted that Charter Communications has 2,250 Missouri employees, and serves about 500,000 subscribers in the St. Louis area and about 138,000 subscribers in other areas of the state. The system is being upgraded with improved technology to increase bandwidth and provide other services, including internet access.

9. Arnold Kuhl -- Mediacom*

Mr. Kuhl stated that Mediacom is the eighth largest cable television company in the country, and serves about 111,000 subscribers in Missouri. The company offers traditional cable, digital cable, and internet service, mainly in non-metropolitan areas. The system is being rapidly upgraded and expanded to include more services.

10. John Cmelak -- Verizon Wireless*

Mr. Cmelak stated that legislation is needed to bring Missouri statutes into conformance with the federal Mobile Telecommunications Sourcing Act, which takes effect on August 1, 2002. The major issue is how mobile telecommunication calls are sourced for tax purposes. Because of the difficulty in determining the points of origin and reception of mobile phone calls, there is the potential for calls to be subject to no tax or multiple taxation. The federal law prohibits states from taxing nonresidents when they call from that state, but allows states to tax their own residents when they call from other states. To simplify conformity with federal law, the industry wishes to change state law from taxing calls on a call-by-call basis to taxing the monthly bill transaction, with the taxing jurisdiction being the primary use location. After August 1, 2002, Missouri will lose the revenue it currently receives from taxing nonresidents calling from Missouri, but can offset this loss if state law is amended to allow taxation of residents calling from outside the state. Primary use locations can be determined by zip code or through a state database. The federal law also allows companies to bundle taxable and nontaxable bill components, which, without a stated allocation, makes the entire charge taxable.

The mobile telecommunications industry also favors a customer remedy provision that is not part of the federal law. The industry is now facing many class action lawsuits about improper taxation. Taxing jurisdictions are often named as co-defendants. The suggested customer remedy provision would create a procedure for customers to contact their service provider in writing and attempt to resolve the dispute within 60 days. The customer could then take whatever legal action they wished.

11. Douglas Galloway -- Sprint

Mr. Galloway noted that amending state law to conform with the taxing provision of the federal Mobile Telecommunications Sourcing Act would not trigger the Hancock Amendment because calls are currently being taxed.

12. Richard Telthorst -- Missouri Telecommunications Industry Association

Mr. Telthorst explained that broadband communication provides high speed internet access that can handle both voice and data. It can be provided by cable modem or by digital subscriber line on existing copper cable. Deployment depends on technology and economics.

He also noted that competition for local telephone service was started by the federal Telecommunications Act of 1996 and corresponding state laws. Sixty or seventy companies are now certificated by the Missouri Public Service Commission as competitive local exchange carriers. The commission is now examining the state of competition in various regions, but no conclusions have been reached.

13. Max Huffman -- Missouri Network Alliance*

Mr. Huffman stated that the Missouri Network Alliance is a consortium of fourteen independent telephone companies that is constructing a fiber optic network across northern Missouri. The network will link existing fiber optic cables of each company to provide broadband services and link internet service providers to rural Missouri.

14. John Van Eschen -- Missouri Public Service Commission

Mr. Van Eschen stated that the Missouri Public Service Commission is currently examining the state of competition for local telephone service for Southwestern Bell exchanges. Future cases will examine Sprint and Verizon exchanges. Areas must be examined within five years after competition was introduced. If the commission determines that local competition is present, then companies can raise or lower their rates as they see fit.