Approved Ken Grotewiel
Date 3/3/92

MINUTES OF THE HOUSE COMMITTEE ON ENERGY & NATURAL RESOURCES.

The meeting was called to order by Representative Ken Grotewiel at
Chairperson

3:38 ~~x.m.~~/p.m. on February 25, 1992 in room 526-S of the Capitol.

All members were present except:

Representative McKechnie, excused

Committee staff present:
Raney Gilliland, Principal Analyst, Legislative Research Department
Pat Mah, Legislative Research Department
Mary Torrence, Revisor of Statutes Office
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Paul Johnson - Director, Public Assistance Coalition of Kansas
Stewart Welter - Trane Commercial Sales, Lenexa
Scott Andrews - Sierra Club, Kansas Chapter
Jeffrey Palermo - Consultant for Kansas Power and Light
Jim Ludwig - Director of Public Relations, Kansas Power and Light
Chris Giles - Director, Marketing Programs, Kansas City Power & Light
Larry Headley - People's Natural Gas
Louis Stroup - Executive Director, Kansas Municipal Utilities, Inc.
Don Low - Director, Utilities Division, Kansas Corporation Commission

The Chair opened the hearing on HB 2524.

HB 2524 - An act concerning certain electric public utilities; requiring least-cost planning; providing for periodic adjustment of rates.

Representative Stevi Stephens testified in support of HB 2524 and she requested adoption and favorable consideration of Sub. HB 2524. She said that Sub. HB 2524 incorporates modifications while keeping the intent of the original bill. Representative Stephens stressed that while utilities need to have their financial needs met, the needs and desires of our citizens require that new policies be adopted. (Attachment 1)

Paul Johnson, Public Assistance Coalition of Kansas, testified in support of Sub. HB 2524, stating that Kansas has an opportunity to benefit from integrated resource planning. He also said that this bill should be beneficial to low-income Kansans. (Attachment 2)

Stewart Welter, Trane Commercial Sales, testified that he supports HB 2524 because it is Kansas' best hope for effective demand side management and it makes sense.

Scott Andrews, Sierra Club, testified in support of HB 2524. He said that either HB 2524 and HB 2898, or Sub. HB 2524 are needed to initiate the process of integrated resource planning. (Attachment 3)

Jeffrey Palermo, Consultant for Kansas Power and Light, testified in opposition to HB 2524. He said he is concerned that this bill might act as an obstacle to the cooperative coordination that continues to develop among the MOKAN systems, and that comprehensive integrated resource plans can place an undue burdan on smaller utilities. (Attachment 4)

Jim Ludwig, Kansas Power and Light, testified in opposition to HB 2524. He urged the Committee to consider several issues before voting on Sub. HB 2524, as shown on (Attachment 5).

Chris Giles, Kansas City Power and Light, testified in opposition to Sub. HB 2524 and requested several revisions to this bill as shown on (Attachment 6). He commended Representative Stephens for doing a good job on this bill.

Larry Headley, People's Natural Gas, testified in opposition to Sub. HB 2524, because they think the inclusion of natural gas utilities with electric utilities is inappropriate and premature.

Louis Stroup, Kansas Municipal Utilities, testified in opposition to HB 2524. He stated that their membership believes that this bill is premature and that it impedes on the authority of locally-elected city officials to perform functions for which they were elected. (Attachment 7)

Chairperson Grotewiel closed the hearing on HB 2524.

The Chair opened the hearing on HB 2898.

HB 2898 - An act concerning public utilities; relating to rates; amending KSA 1991 Supp. 66-117 and repealing the existing section.

Don Low, Kansas Corporation Commission, testified in support of HB 2898. He asked the Committee to endorse legislation which will enable the KCC to fully address integrated resource planning without restricting its flexibility. (Attachment 8)

Chris Giles, Kansas City Power and Light, testified that he opposes HB 2898.

Chairperson Grotewiel closed the hearing on HB 2898.

Written testimony in support of HB 2524 and HB 2958 was submitted by Margaret J. Miller from Wichita. (Attachment 9)

The meeting adjourned at 5:40 p.m.

GUEST LIST

COMMITTEE: ENERGY & NATURAL RESOURCES DATE: 2/25/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Shaun McGrath	Topeka	KNRC
Paul Johnson	Topeka	PACK
Scott Andrews	Topeka	Sierra Club
Stuart Welter	Olathe, KS.	Trane Co.
Don Schmidt	Topeka	KDOR
Don Low	"	KCC
Robert Elliott	"	KCC
Chris Giles	1330 Baltimore KC. MO.	KCPL
Dan Haas	Overland Park	KCPL
Jim Ludwig	Topeka	KPL Gas Service
Jeff Palermo	Arlington, VA	CSA Energy Consult.
Bob Fackler	Topeka	KPL Gas Service
Louie Stroup Jr.	McPherson	KS Municipal Utilities
~~Ed Hicks~~	Omaha, NE	Peoples Natural Gas
Rebecca Rice	Topeka	"
Larry Headley	1815 Capitol Ave, Omaha	"
Steve Kearney	Topeka	Peter Kiewit Sons
Bill Anderson	Mission	Water Dist No 1 of Co
Dick Hayter	Manhattan	KSU

STATE OF KANSAS

HOUSE OF
REPRESENTATIVES
FORTY-SECOND DISTRICT
LEAVENWORTH COUNTY

REPRESENTATIVE

STEVI STEPHENS

ROUTE 1
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(913) 845-3036

STATE CAPITOL
ROOM 426-S
TOPEKA, KANSAS 66612
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COMMITTEE ASSIGNMENTS

- ENERGY & NATURAL RESOURCES
- ELECTIONS
- LOCAL GOVERNMENT

TESTIMONY ON HB 2524

For years, with few exceptions, utility companies have provided customers with as much electricty as they could consume. While there are obvious advantages to providing adequate supplies to consumers, there are down sides.

Utilities are virtually guaranteed a rate of return on their investment. The more they spend on capital additions, operation and maintenance, etc., the more investment they can place in their rate bases upon which to earn a rate of return. Therefore, the financial incentives provided to utilities have been simple: the more electricity generated and sold, the bigger their profits. Ultimately this has worked to encourage waste of electricity, and thus natural resources, and generally been detrimental to ratepayers and the environment.

In an effort to become pro-active in good, long-range energy policy in Kansas, HB 2524 changes the message the state has been sending to utilities.

HB 2524 was introduced last year, but it did not have a hearing. That has provided us a year to work on modifications that improve it substantially. Over this time I have met with other legislators, the utilities, natural gas interests, the K.C.C., CURB, environmentalists and energy analysts to get their perspective and input on HB 2524. While I still believe HB 2524 addresses the overall direction this state needs to be pursuing, it could be greatly enhanced by some revisions.

Therefore, I would like to briefly go through HB 2524, its intent, and its deficiencies.

The mandate of providing energy at "the least cost" may not take certain factors into account. A broader concept of "integrated resource planning" is better overall energy policy.

Sec. 1 (d) defines an "electric revenue adjustment mechanism" which was then applied in Sec. 6, on page 3, as the mechanism by which the utilities could make a profit. While the idea of decoupling revenues from

2/25/92
Attachment 1

sales volume is at the heart of the financial incentive mechanism this is too specific and a variety of incentives is more appropriate.

Sec. 2 sets up the requirements for the contents of the utilities plans. This section is also too specific and more appropriately should allow latitude in development of those plans. Also within this section, the quantification and comprehensive cost accounting seems problematic without first adopting standards.

Sec. 3 very specifically sets out the public hearing process and the means by which to determine the adequacy of a utility's plan. Instead it should be less restrictive, while still requiring the K.C.C. to adopt rules and regs.

Sec. 3 (d) and (e) requiring the commission and CURB to develop their own plans is duplicative. A review and evaluation by these entities should be adequate.

Sec. 5 sets out the penalties assessed to a utility for failing to file and implement a plan by disallowing any rate increase. It seems more appropriate to reduce a utility's rate of return.

Rather than provide amendments in the form of balloons I thought that a substitute bill would be less confusing. Therefore, if this committee approves, I would be willing to introduce the substitute HB 2524 that you have been provided which incorporates modifications while keeping the general intent of the bill.

Sub. HB 2524 represents hours of work on identifying many areas that all parties involved unanimously agreed should be changed; broadening definitions; making less specific the mandate to the K.C.C and the utilities while maintaining the requirement that the intent of this act be adopted, reducing duplicative efforts; setting up better timelines; and setting out more reasonable penalties and broader incentives.

While I obviously connot speak for the other conferees (all of whom, by the way, were provided with copies of Sub. HB 2524 yesterday) I believe the committee will find that everyone is going to agree that this substitute bill is a vast improvement. It has been an effort to minimize conflict by eliminating non-problematic areas and compromising on others.

I would now like to briefly go through Sub. HB 2524 to point out the major improvements.

The broader concept of "integrated resource planning" rather than "least cost planning" was agreed upon by all parties to be better energy policy. The need to include natural gas was necessary due primarily to

KPL's situation as a "mixed" utility.

Definitions were broadened to incorporate more latitude into the "integrated" process, while hopefully including varying viewpoints.

New Sec. 2 was added since the original bill did not specifically include language which stated utilities must operate in accordance with this act.

In New Sec. 3 the timelines were set back to reflect that a year has elapsed since the original bill was introduced, and also to allow adequate time to adopt rules and regulations, since the K.C.C has only recently opened a docket.

Also within this section, the contents required within a utility's plan become less specific and a provision was added for the K.C.C. to adopt rules and regs relating to standards for calculating environmental and societal impacts. Health impacts were also added. This probably remains the most controversial point. While on one hand there is concern over how to quantify environmental, societal and health impacts, there are also concerns that these "external" costs are a vital component of this bill and must be considered. Sub. HB 2524 requires the K.C.C. to adopt rules and regs setting out standards for those calculations. It seemed the best way to balance the divergent concerns.

This section also deletes the requirement that the K.C.C. and CURB develop their own plans and instead allows them to review and evaluate the utility's plans.

New Sec. 6 adopts a more reasonable penalty and New Sec. 7 adopts a variety of financial incentives rather than only allowing one specific mechanism as in the original bill. This flexibility is better for the utilities as well as ratepayers. I believe these two new sections reflect a better balance between penalties and rewards.

New Sec. 8 was added to encourage research and development of demonstration projects in alternative energy.

Since this substitute bill allows broader discretion to the K.C.C., a provision requiring them to submit annual assessment reports to the legislature was included in New Sec. 9.

Lastly, New Sec. 10 repeals current law because the language in the new bill adopts most of the statutory language as well as incorporating the new language suggested by the K.C.C. in HB 2898. The exception to this is found in line 18, page 3 of HB 2898 where the word may was changed to shall.

In conclusion, while this is a comprehensive alteration in utility policy and appears to be complicated regulatory procedure, in actuality I contend it is a very simple concept. Utilities and consumers have a relationship that will continue. While utilities, as for profit entities, need to have their financial needs met, the needs and desires of our citizens require that new policies be adopted. This legislation proves that these need not be adversarial.

In a nutshell, we can continue to pay utilities to be wasteful and polluting or we can pay them to be energy efficient and non-polluting.

I consider this type of energy policy to be a win-win situation for everyone concerned. The utilities are provided financial incentives to adopt energy plans beneficial to them. The environment will be subject to less degredation than current policy directions. Kansas will become more energy independent by utilizing its own natural resources. And the Kansas economy could be greatly stimulated by the development of alternative technologies and applications that could potentially provide new, long-term job and industry markets.

This is truly a threshold. I urge your adoption and favorable consideration of Sub. HB 2524.

SUBSTITUTE FOR HOUSE BILL NO. 2524

By Committee on Energy and Natural Resources

AN ACT concerning certain public utilities; requiring integrated resource planning; relating to rate of return on investment; amending K.S.A. 1991 Supp. 66-117 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. As used in this act:

(a) "Citizens' utility rate board" means the board established by K.S.A. 1991 Supp. 66-1222 and amendments thereto.

(b) "Commission" means the state corporation commission.

(c) "Demand-side management" means an energy efficiency or energy management device or application which is installed as a result of a project, system, measure or program implemented by a utility to reduce customer demand for, or more efficient use of, energy by its customers.

(d) "Integrated resource planning" or "integrated resource plan" means a utility resource planning process or plan that meets projected energy demands at the least cost to consumers and maintains efficient, reliable and adequate service to existing and future customers by using demand-side and supply-side management. This shall include, but not be limited to, costs of environmental, societal and health impacts and capital costs, operation and maintenance, decommissioning and waste disposal costs.

(e) "Public utility" means a natural gas or electric public utility under the jurisdiction of the commission.

(f) "Supply-side management" means a resource option which can provide for a supply of additional electrical energy or capacity to the utility in addition to the utility's own generating facilities, including but not limited to, capacity

pooling arrangements; purchase of power from neighboring utilities, states or countries; renewable resource facilities such as solar, wind, geothermal or biomass; cogeneration and hydrogeneration; small power and independent power production; and improvements in efficiency of existing generation, transmission and other facilities.

New Sec. 2. All natural gas and electric public utilities shall operate in accordance with integrated resource planning as approved by the commission pursuant to this act.

New Sec. 3. (a) On or before January 1, 1994, and every third year thereafter, each natural gas and electric public utility shall file with the commission, for its review and approval, a 20-year integrated resource plan. On or before January 1, 1993, the commission shall adopt rules and regulations for developing plans to evaluate and set forth the optimum combination of demand-side management and supply-side resources for meeting customer energy needs using at least a 20 year planning horizon. Such rules and regulations shall include, but not be limited to:

(1) The methods for forecasting future demand; and

(2) objective standards for calculating and quantifying the environmental, societal and health impacts of each mode of generation considered in the plan.

(b) The commission shall require a nontechnical, plain language executive summary identifying an overview of the issues to accompany any integrated resource plan filed under this section.

(c) The commission shall require the natural gas or electric public utility to disclose in its filing its intent to restrict the discovery of any information supporting the plan, including a general description of the information the utility seeks to protect, the need for restricted discovery and the terms under which the restricted information will be made available.

New Sec. 4. (a) Not more than 180 days after a natural gas

or electric public utility files an integrated resource plan under section 1, the commission shall commence a public hearing on the adequacy of the plan. The commission shall adopt rules and regulations on or before January 1, 1993, to provide for procedures concerning the commission's review and the utilities' implementation of such plans, including public hearings with opportunities for the general public to comment thereon.

(b) Within 180 days after a natural gas or electric public utility files its resource plan, the commission shall issue an order:

(1) Accepting the plan as filed; or

(2) specifying any portions of the plan which the commission determines to be inadequate and requiring amendment of those portions of the plan.

(c) The citizens' utility ratepayer board shall review and evaluate all integrated resource plans filed by natural gas and electric public utilities.

(d) The commission shall assess to natural gas and electric public utilities the costs incurred by the commission and by the citizens' utility ratepayer board in developing and presenting their evaluations of integrated resource plans, and such utilities shall be allowed to recover such costs through rates charged the utilities' customers, subject to approval by the commission.

New Sec. 5. (a) All prudent and reasonable expenditures incurred by a natural gas or electric public utility to develop such utility's integrated resource plan, including environmental, engineering and other studies, may be recovered through rates charged the utility's customers, subject to approval by the commission.

(b) All prudent and reasonable costs incurred by a natural gas or electric public utility in implementing full programs for conservation and load management which have been approved by the commission as part of the utility's integrated resource plan may

be recovered through rates charged the utility's customers, subject to approval by the commission.

New Sec. 6. The commission shall reduce by not more than .1% a natural gas or electric public utility's authorized rate of return on investment in property found by the commission to be used in the utility's services to the public for failure to timely file and implement an integrated resource plan in accordance with the requirements of this act and rules and regulations of the commission.

New Sec. 7. In order to encourage energy efficiency, the commission shall allow a return on a utility's investment in projects, systems, programs or measures found by the commission to be used in implementation of the utility's integrated resource plan in an amount equal to an increment of from .5% to 2% plus an amount equal to the rate of return for the utility's other investment in property found by the commission to be used in the utility's services to the public, or shall adopt such other incentives, revenue replacement, or alternative cost recovery mechanisms to insure the cost effective investment in, or implementation of, such projects, systems, measures or programs in order to bring about the purposes of this act.

New Sec. 8. Notwithstanding any other provision of this act, the commission is authorized to approve supply-side projects not greater than 10 megawatts using renewable energy resources, including wind, solar biomass and geothermal for the purposes of research or demonstration, or both.

New Sec. 9. The commission shall submit to the legislature on January 1, 1996, and every year thereafter, a report assessing:

(1) The reduction in consumer demand for electricity and natural gas achieved by approved programs, in the aggregate, by energy sector, and by end use; and

(2) the further reductions that could have been achieved by improvements in the implementation of such plans.

Sec. 10. K.S.A. 1991 Supp. 66-117 is hereby amended to read as follows: 66-117. (a) Unless the state corporation commission otherwise orders, no common carrier or public utility over which the commission has control shall make effective any changed rate, joint rate, toll, charge or classification or schedule of charges, or any rule or regulation or practice pertaining to the service or rates of such public utility or common carrier except by filing the same with the commission at least 30 days prior to the proposed effective date. The commission, for good cause, may allow such changed rate, joint rate, toll, charge or classification or schedule of charges, or rule or regulation or practice pertaining to the service or rates of any such public utility or common carrier to become effective on less than 30 days notice. Any such proposed change shall be shown by filing with the state corporation commission a schedule showing the changes, and such changes shall be plainly indicated by proper reference marks in amendments or supplements to existing tariffs, schedules or classifications, or in new issues thereof.

(b) Whenever any common carrier or public utility governed by the provisions of this act files with the state corporation commission a schedule showing the changes desired to be made and put in force by such public utility or common carrier, the commission either upon complaint or upon its own motion, may give notice and hold a hearing upon such proposed changes. Pending such hearing, the commission may suspend the operation of such schedule and defer the effective date of such change in rate, joint rate, toll, charge or classification or schedule of charges, or any rule or regulation or practice pertaining to the service or rates of any such public utility or common carrier by delivering to such public utility or common carrier a statement in writing of its reasons for such suspension. The commission shall not delay the effective date of the proposed change in rate, joint rate, toll, charge or classification or schedule of charges, or in any rule or regulation or practice pertaining to

the service or rates of any such public utility or common carrier, more than 240 days beyond the date the public utility or common carrier filed its application requesting the proposed change. If the commission does not suspend the proposed schedule within 30 days of the date the same is filed by the public utility or common carrier, such proposed schedule shall be deemed approved by the commission and shall take effect on the proposed effective date. If the commission has not issued a final order on the proposed change in any rate, joint rate, toll, charge or classification or schedule of charges, or any rule or regulation or practice pertaining to the service or rates of any such public utility or common carrier, within 240 days after the carrier or utility files its application requesting the proposed change, then the schedule shall be deemed approved by the commission and the proposed change shall be effective immediately, except that (1) for purposes of the foregoing provisions regarding the period of time within which the commission shall act on an application, any amendment to an application for a proposed change in any rate, which increases the amount sought by the public utility or common carrier or substantially alters the facts used as a basis for such requested change of rate, shall, at the option of the commission, be deemed a new application and the 240-day period shall begin again from the date of the filing of the amendment, and (2) if hearings are in process before the commission on a proposed change requested by the public utility or common carrier on the last day of such 240-day period, such period shall be extended to the end of such hearings plus 20 days to allow the commission to prepare and issue its final order.

(c) Except as provided in subsection (b), no change shall be made in any rate, toll, charge or classification or schedule of charges, joint rates, or in any rule or regulation or practice pertaining to the service or rates of any such public utility or common carrier, without the consent of the commission, and within 30 days after such changes have been authorized by the state

corporation commission or become effective as provided in subsection (b), copies of all tariffs, schedules, and classifications, and all rules and regulations, shall be filed in every station, office or depot of every such public utility and every common carrier in this state, for public inspection.

~~(d)--Upon--a--showing--by--a--public-utility-before-the-state corporation-commission-at-a-public-hearing-and-a-finding--by--the commission--that-such-utility-has-invested-in-projects-or-systems that-can-be-reasonably-expected-(1)--to--produce--energy--from--a renewable--resource--other--than--nuclear--for--the--use--of--its customers,--(2)--to--cause-the-conservation-of-energy-used-by-its customers,-or-(3)-to-bring-about-the-more-efficient-use-of-energy by-its-customers,-the-commission--may--allow--a--return--on--such investment--equal--to--an--increment--of--from-1/2%-to-2%-plus-an amount-equal-to-the-rate-of-return-fixed-for-the-utility's--other investment--in--property--found--by--the-commission-to-be-used-or required--to--be--used--in--its--services--to--the--public.---The commission--may--also--allow--such--higher--rate--of--return---on investments-by-a-public-utility-in-experimental-projects,-such-as load-management-devices,-which-it-determines-after-public-hearing to--be-reasonably-designed-to-cause-more-efficient-utilization-of energy-and-in-energy-conservation-programs-or-measures--which--it determines--after--public--hearing-provides-a-reduction-in-energy usage-by-its-customers-in-a-cost-effective-manner.~~

~~(e)~~ (d) Except as to the time limits prescribed in subsection (b), proceedings under this section shall be conducted in accordance with the provisions of the Kansas administrative procedure act.

Sec. 11. K.S.A. 1991 Supp. 66-117 is hereby repealed.

Sec. 12. This act shall take effect and be in force from and after its publication in the statute book.

1-11

Lifeline
A Report by the Public Assistance Coalition of Kansas

P.O. Box 2815, Topeka, Kansas 66601
1(913) 354-4635

To: House Committee on Energy and Natural Resources

Re: Support of Substitute House Bill 2524

Date: February 25, 1992

From: Paul Johnson - Director
Public Assistance Coalition of Kansas

Why is this bill - Substitute HB 2524 - important ?

Kansas has an opportunity to benefit from integrated resource planning. Several states are analyzing and pursuing the benefits of conservation, alternative energy and independent power production. Overall the U.S. uses approximately twice the amount of energy per unit of industrial production as our most developed economic competitors. If the same energy service such as cooling, lighting, heating, hot water or industrial processing can be done more efficiently and at less cost by appliance replacement than Kansas benefits by keeping those dollars in the local communities and the environment wins with less pollution.

What has now changed to propel this debate ?

One reason is the dramatic improvements in energy efficient products such as compact fluorescent light bulbs, super efficient furnaces and variable speed motors. A second reason is that the Kansas economy will be at a competitive disadvantage if we don't adapt. Thirdly, if Kansas does not grapple with its summer electrical peaking demands we will have to add more capacity in the near future.

Why hasn't the Kansas Corporation Commission (KCC) investigated and considered these options ?

It is a good question. In the Powerplant Siting Act, utilities were required to file conservation plans with the KCC. The KCC did little to encourage these plans or critique the efforts that were finally presented. For the last decade, the KCC has been treading water in this arena while other states have been actively pursuing these options. The cost and efficiency of energy use is one business factor we can control by limiting our exposure to the amount of energy we have to buy. There is no free market with a regulated public utility. That is the role the KCC must play. In a real free market investments would flow to the most energy efficient decisions. If the KCC had done its homework on these issues, conservation investments would have been an integral part of the KPL/Gas Service & KG&E merger debate.

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House E+NR
Attachment 2

ll these efforts to study the issue and gathe. the necessary energy data raise my utility bill ?

It shouldn't. Kansas utilities already have an automatic research and development surcharge on every KWH or Mcf of gas sold. These surcharges amount to roughly $10 million a year. These funds now go to out of state electric and gas research institutes. A portion of these funds should be kept in Kansas to do the necessary energy end use data analysis and develop an expertise at the KCC.

Will this bill help low-income Kansans ?

It can and should. A majority of low income Kansans live in rental units where they pay the utility bill but have no control over the tightness of the dwelling or the appliance stock. The KCC now has no policy on rental weatherization. It will prove to be cheaper to insulate most dwellings and replace old furnaces & air conditioners than supply inefficiently used energy. This is especially true at peak load times.

Does this bill overtly subsidize conservation or renewable energy efforts ?

It shouldn't. This bill is about developing the data and a level playing field for energy decisions. Developing a level playing field so we can fairly compare powerplant construction which is paid out over the long term versus appliance replacement which is only priced in the short term.

Will these changes prove to be a windfall for the utilities?

Not if the KCC is competent and ready to study these issues. These changes will be more difficult to regulate and key decisions will have to be made how to compensate the utilities for these efforts but this dilemma has not stopped several other state utility commissions from tackling the challenge. The KCC will need to develop an in house expertise to gather the end use data and compare the various options. This cost should come from existing R&D dollars that are collected.

What role is there for the State Legislature ?

The State Legislature must educate themselves and offer general guidance to their creation - the KCC. Lawmakers should work with their local communities to understand the options. Osage, Iowa is one example as is Michigan and Rhode Island.

In conclusion Kansas needs to do three things;
1) collect and analyze the necessary end use energy data
2) level the playing field for energy decisions
3) help educate the public as to their energy options

I thank the committee for the opportunity to support Sub HB 2524.

2-7

How Osage, Iowa, Cuts Electric Rates And Prospers by Stressing Efficiencies

By Bill Paul
Staff Reporter of The Wall Street Journal

OSAGE, Iowa—While other Corn Belt towns have been ravaged by the farm recession, this tiny community in northeastern Iowa has prospered, thanks in large part to Wes Birdsall, townspeople say.

Mr. Birdsall is the 66-year-old general manager of Osage Municipal Utilities Inc. and the town's chief apostle of energy conservation. "Wes has put thousands of dollars in our pockets, and we in turn have put that money into the community," says Jim Hayden, a local Ford dealer.

That investment is evident throughout Osage. While the town has only 4,000 residents, it is home to five manufacturing plants, three automobile dealerships, a 44-bed hospital, 10 clothing stores, and steadily growing bank deposits.

Wes Birdsall

All told, Mr. Birdsall's efforts have helped cut power usage an average of 10% per home since 1980. Savings, though, have gone beyond that. By damping demand for electricity, city-owned Osage Municipal hasn't had to invest in expensive new plant construction or pay a hefty premium to guarantee bulk-power purchases from another utility. As bonds used to finance Osage Municipal's existing generator have matured and system improvements have reduced operating inefficiencies, the utility in the past five years has been able to cut rates five times, totaling 19%. Meanwhile, the use of electric appliances in Osage has actually grown. For example, 560 of the town's 1,600 homes have air conditioners today, up from only 375 in 1980.

Mr. Birdsall's efficiency program began in 1974 as he knocked on doors and preached the gospel of home insulation. Then in 1980, he accepted a state offer to search for poorly insulated buildings in Osage by taking infrared aerial photographs of every structure in town. The photos in hand, Mr. Birdsall circled all the dark spots—indications of heat loss—and passed the photos around.

A New Hospital Roof

"The scan showed that our roof really needed work," says Lowell Olsen, a trustee of the local hospital. He credits a recently installed new roof for saving the hospital $20,000 a year—more than 20% of its previous heating bill.

Mr. Birdsall followed up with a ground-level infrared picture of every house in town. He also now gives away energy-saving devices such as fluorescent light bulbs and insulating jackets for hot-water heaters. He even bought a huge tree-planting machine to help residents plant trees around their houses. The reasoning: the more shade, the less need for air conditioning.

"This is one of our longer-term projects, I grant you," he says.

But some store owners on Main Street grumble that Mr. Birdsall meddles in their affairs, that maybe Osage Municipal has gotten overzealous in its social program. The utility, for example, now won't hook up new customers unless they meet its minimum insulation requirements. When one homeowner learned of this policy, he fired off an angry letter to Mr. Birdsall about the tyranny of fascism and threatened to sue, though he didn't.

Wednesday Church Meetings

Others, however, sing the utility's praises. Fox River Mills Inc., a specialty sock maker in town, has raised output 30% over the past four years while spending not even 1% more for electricity. John Lessard, its president, says Mr. Birdsall and his staff have helped scrutinize his factory, looking for ways to cut Fox River's energy consumption.

All the hoopla over energy savings in Osage has some residents initiating their own programs. Carpenters in Osage, in fact, are booked through to February with insulating projects. And church groups now hold all their meetings on Wednesday night, instead of throughout the week, to keep from having to repeatedly fire up boilers.

At the local Super Valu supermarket, Everett Steele, the owner, built a wall around some basement compressors to capture waste heat. Then he put in a vent and two fans to suck the hot air out onto the main floor, where it heats the building. Mr. Steele figures the savings on his heating bill translate into lower food prices by about 5%—enough, he says, to keep people shopping locally rather than driving to big discount supermarkets in nearby Mason City.

Mr. Birdsall is already planning new energy-saving projects for Osage Municipal. With grant money from the Northeast Midwest Institute, a Washington, D.C., research organization, he plans to try to entice companies to turn in their old motors for new, high-efficiency ones. Among his other goals: a dome for the town swimming pool, rebates for efficient appliances and, of course, another cut in rates.

Wall Street 12-8-87

Estimated annual savings to Osage is now $1.2 million - equal to the payroll of the largest employer.

2-3

Michigan Electricity Options Study
215 North Walnut Street • Lansing, Michigan 48933 • (517) 371-3506

MEMORANDUM

TO: Interested Persons

FROM: Terry Black, Project Director
Michigan Electricity Options Study

SUBJECT: Michigan Electricity Options Study (MEOS) Reports

On October 22, 1987 the results of the Michigan Electricity Options Study (MEOS) were released. The Study examined the cost, contribution and other key characteristics of a wide range of options and option combinations to meet electricity needs under various future demand scenarios.

Attached for your information is a complete list of the reports prepared in conjunction with the Study. These reports are available at the cost of printing and mailing, and multiple copies can be ordered.

A Summary of the MEOS Project

Unprecedented in its broad scope and cooperative nature, the MEOS Project involved about 200 participants from more than 90 organizations--electric utility companies, commercial and industrial users, business associations, environmental organizations, universities, consumer groups and state government. All of the major stakeholders in our electricity system helped both to frame the Study and to assure that its results were credible, useful and reasonably balanced. That participants were able to agree on so much is a tribute to the strength of their commitment to producing the data and tools required to assure a least-cost, reliable power supply for Michigan's future.

Among the Study's more important contributions to future electric resource planning are the following:

- It provides for the first time a comprehensive description of Michigan's existing electricity system, current electricity usage, major supply- and demand-side options, and analyses of resource alternatives under various constraints and assumptions about the future.
- It indicates the major economic and environmental consequences of choosing different resource strategies for meeting future needs.
- It shows that the capital investments and total economic costs of different resource strategies will vary by hundreds of millions of dollars by the year 2005.

- It demonstrates that the costs of electric resource options can vary from as little as one-half cent per kilowatt-hour of electricity generated (or saved) to over ten cents per killowatt-hour, with the least expensive options being conservation and efficiency, cogeneration, refurbishment of existing plants and power purchases.

- It shows that extending the lives of current generating plants could provide over 4,400 megawatts of capacity over the next 20 years (the equivalent of 6-8 new, medium-size power plants), cogeneration and renewable fuels could provide over 800 megawatts of capacity, and conservation and load management programs could provide over 2,000 megawatts of capacity equivalency.

- It suggests that average electricity rates in the Detroit Edison/Consumers Power region could be reduced by more than 20 percent during the next two decades (in real, non-inflated dollars) under current assumptions about demand growth and future fuel prices.

- And, it provides the basic information, analyses and tools needed by electric utilities and business customers to make cost-effective electric resource decisions for the future.

A Guide to MEOS Reports

Three levels of detail are presented in the various MEOS reports. Overviews of study results are presented in the Executive Summary and Final Report. The Executive Summary covers the Study's principal conclusions and highlights of key information about the options studied and scenarios analyzed. The Final Report contains more details of the options studied, the scenario analyses, and the study's methods and tools. It also summarizes the results of the six MEOS Work Groups' analyses.

The second level of detail is presented in the six Work Group reports which cover the information gathered, analyses performed and conclusions reached by each of the Work Groups. These reports also contain the principal results of the work of the various consultants that were contracted to undertake detailed analytical studies for the Work Groups.

The third level of detail includes the contractor/consultant reports. These reports are the most detailed and technical, and they tend to be highly specific in focus.

In considering which reports may be useful, it is important to realize that some of the same information is covered at each type of report. If you are uncertain as to the level of detail in which you may be interested, it may be useful to start with the more general--the Final Report--followed by Work Group reports and then the contractor reports.

SIERRA CLUB

Kansas Chapter

Testimony to House Energy & Natural Resources

HB 2524 - Integrated Resource Planning

The Kansas Chapter of the Sierra Club strongly supports utility regulation using least-cost or integrated resources planning. Integrated Resource Planning is a process of weighing all the options of supply-side (new power generation) and demand-side management (energy efficiency and load management) to find the optimum mix to supply energy needs. We believe this bill is vital for starting that process in Kansas.

The real difference from the old approach is the Demand-side Management (DSM). Instead of utilities building new power plants to meet an ever-increasing energy demand, they supply services -- warm homes, light, lower energy costs in manufacturing. This is done by investing in programs, processes and devices that provide energy more efficiently; that conserve energy. There are many advantages to this approach. It is generally much cheaper to save energy that to build a new power plant -- ratepayers save on their bills, business and industry is more competitive by holding down costs. More jobs are produced per KwH with people substituting for capital. Environmental impacts are far less, especially compared to coal. There is less financial risk because power can be saved (or produced via gas turbines or small renewables like solar and wind) in smaller packages, rather than building a big power plant with long lead times.

Many states and utilities are going to least-cost or integrated resources planning approach. Several things are needed for this approach to work: more planning, more public participation in the process and incentives that reward utilities for Demand-Side efforts rather than just for producing and selling more power. We believe that either HB 2524 and HB 2898, or the Substitute Bill are needed to initiate the process of integrated resource planning. This is the direction our energy future must go, for the ratepayers, for jobs, for competitive business and industry and for the environment.

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Attachment 3

Outline of Substitute House Bill 2524

Integrated Resources Planning is defined including both supply-side and demand-side options and environmental costs.

Each gas and electric utility shall submit 20 year Integrated Resources Plans for review by KCC, as well as CURB review and public hearings.

The costs of planning and implementation of these programs can be recovered in the rate base subject to KCC review.

The Carrot: KCC may provide incentives including increasing the rate of return on specific Demand-Side projects and programs.

The Stick: KCC may also reduce utility rate of return for failure to submit or implement plans.

The Future: KCC may approve small (10 MW or less) supply-side research and demonstration projects for renewables such as solar, wind and biomass.

Legislative Review: KCC must report annually in 1996 and after on progress of Demand-Side management planning and implementation.

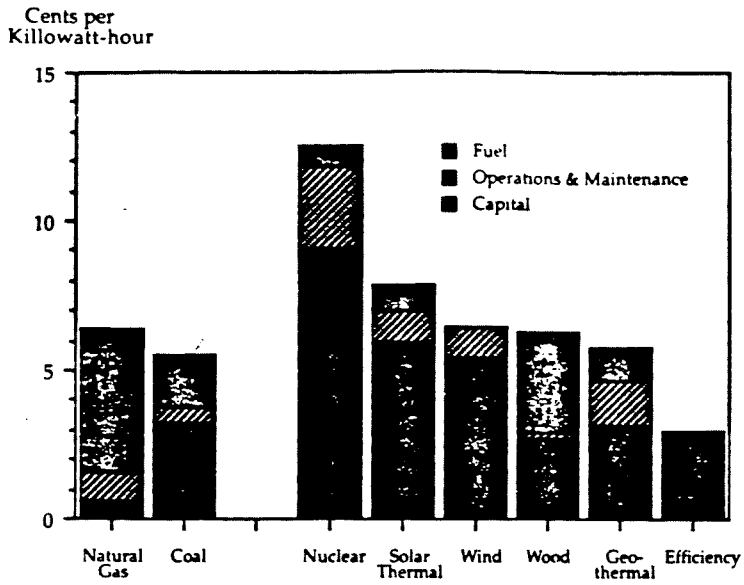
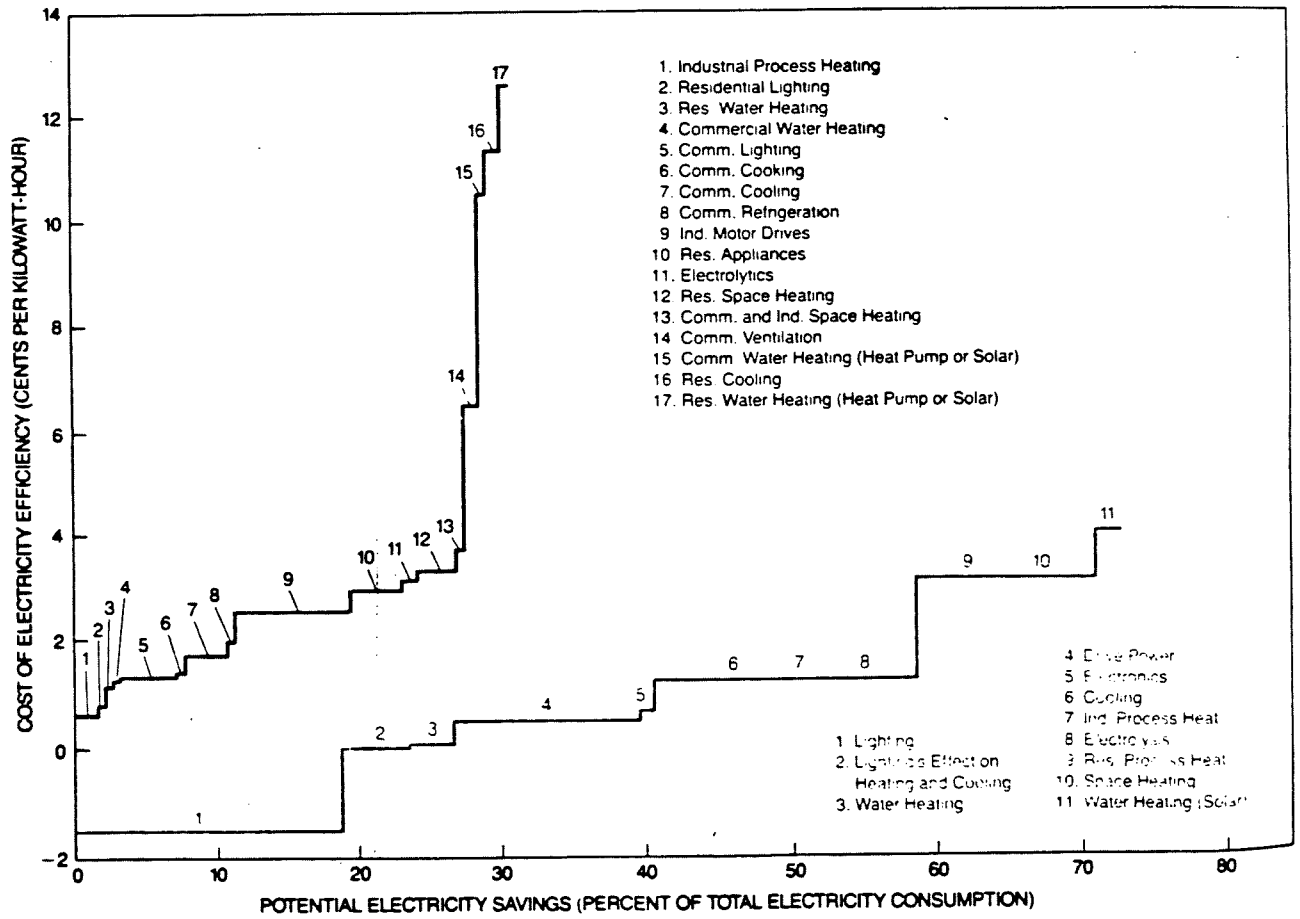


Figure 7: Cost of Generating Electricity in the United States with Current Technologies



EFFICIENT TECHNOLOGIES offer the potential to reduce long-term U.S. electricity consumption as estimated by the Electric Power Research Institute (*red line*) and by Rocky Mountain Institute (*blue line*). Estimates are given in 1990 dollars.

Bonneville Power Administration (1989) -- DSM costs

Ranged from 0.4¢/kWh for improvements in mfr. processes and conversion to low-pressure irrigation sprinklers; to 2.7¢/kWh for residential weatherization programs. Average life-cycle costs of all direct-savings programs -- 2¢/kWh.

Testimony before the
House Committee on Energy and Natural Resources

February 25, 1992

by P. Jeffrey Palermo
CSA Energy Consultants

Chairman Grotewiel and members of the Committee:
I appear on behalf of KPL Gas Service to comment on substitute HB 2524.

As an "outsider" I may bring a somewhat different perspective to the proposed bill. I am familiar with the planning practices used by many utilities throughout the nation and have specifically been involved in developing coordinated plans for the electric utilities in Kansas and western Missouri (MOKAN). My qualifications and experience are briefly described on page 2. I have several concerns about this bill:

- The first concern is that the bill might act as an obstacle to the cooperative coordination that continues to develop among the MOKAN systems. If the requirements for utility integrated resource plans (IRP) are established without enough time to be considered, they may impede coordinated planning and operation in the region. Further, since several Kansas utilities also provide service to Missouri customers, there should be at least some coordination of planning requirements to avoid needless duplication of studies by these multi-state utilities. I describe some of MOKAN's recent coordinated planning efforts beginning on page 3.
- The second concern is that comprehensive IRP studies can place an undue burden on smaller utilities. The costs of the studies, particularly the demand side management (DSM) study, can be very expensive and unnecessary for smaller utilities. They can often learn from the results of the DSM studies made and implemented by their larger neighbors and reduce the analyses they require.
- The final concern is that the bill would establish a procedure which is inflexible and difficult to improve as knowledge and experience is gained locally and nationally. Procedures, data, models, and other techniques of IRP are still evolving nationally and locally.

The MOKAN utilities have been in the forefront nationally in developing coordinated resource plans. Each of the larger systems have recently completed thorough DSM planning studies. The next logical step for these companies is to integrate their resource and DSM planning activities, i.e. develop IRPS.

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Attachment 4

I. Qualifications

CSA Energy Consultants (CSA) provides a broad range of energy consulting services specializing in electric and gas energy systems, and assisting with local, national, and international energy issues. An important strength of the company is its ability to provide an interdisciplinary approach, integrating the technical, financial, regulatory, and management-related aspects of each job. Through this approach, CSA develops efficient, cost-effective solutions to complex energy problems. CSA's clients include investor-owned, municipal, and cooperatively-owned utilities, state regulatory agencies, the Federal Energy Regulatory Commission (FERC), large industrial firms, independent power producers, and investment bankers.

The staff of CSA are drawn from utilities, industries, universities, and consultants. They are experienced in utility management, system planning and operating analyses, cost of service and rate analysis, bid evaluation procedures and contract negotiations, expert testimony in numerous regulatory matters and jurisdictions, power pooling, and intercompany contractual arrangements. They have experience working with top utility executives from all segments of the industry, regulators and legislators, bankers, and large industrial users of electricity.

P. Jeffrey Palermo, Senior Vice President, was the Project Manager for CSA's recent studies of the MOKAN Power Pool, the Illinois Unit Commitment Information Exchange (UCIX), Missouri Public Service (MPS), the Florida Electric Coordinating Group (FCG), and for a FERC-sponsored study of pooling and coordination in the Virginia-Carolinas (VACAR) region. He has also been involved in coordination studies in the states of Arizona, California, Florida, Kansas, Illinois, Missouri, Texas, and Wisconsin, and in system planning studies in Alaska, Arizona, Arkansas, California, Colorado, Florida, Kansas, Louisiana, Massachusetts, Michigan, Missouri, New York, Ohio, Oklahoma, and Pennsylvania. Internationally, Mr. Palermo has prepared planning studies for regions of Canada, the Dominican Republic, and Venezuela, and is a U.S. Expert Advisor to Cigré Study Committee 38—*Power System Analysis and Techniques* and is a member of the international Study Committee 38.03 *Power System Reliability Analysis*.

II. The MOKAN system and coordinated planning

The MOKAN member systems forecast future demand and energy requirements and develop plans to meet these requirements.[1] The resulting plans provide adequate capacity and energy resources to meet the needs of their customers reliably and economically. The plans also allow flexibility to adapt to changes due to the inherent uncertainties in forecasts, construction costs and schedules, fuel costs, technological developments, environmental requirements, and general economic conditions.

CSA has been retained by MOKAN as part of their planning process since 1984.

- In 1984-1986, CSA conducted two studies: *MOKAN Power Pool: Overall Capacity Margin Analysis* and *MOKAN Power Pool: Member Capacity Margin Study*. The goals of these two studies were to determine the proper generating capacity margin requirement for MOKAN as a reserve sharing pool and to determine the individual member requirements.
- In 1988 CSA completed the *MOKAN Long-Range Planning Study* which included two related studies. The first study developed a long-range generation expansion plan for the MOKAN Pool. The second study evaluated the potential savings from central dispatch of the Pool in 1988. CSA is now completing the *MOKAN 1992 Long-Range Planning Study*. This is an update of the 1988 Planning Study and presents a coordinated regional least-cost generation expansion plan for the combined MOKAN systems.

The MOKAN combined peak load forecasted for 1992 is about 10,340. The three largest systems—KCPL, KGE and KPL represent about two thirds of the total. While not as large as several other power pools, this is large enough to achieve considerable savings from sharing reserves and economic unit sizes. MOKAN also provides the means to achieve operating savings through various energy exchange arrangements.

The MOKAN system is part of the interconnected utility network that serves the eastern half of the country. The MOKAN area is bordered by three major utility groups: the remaining utilities of the Southwest Power Pool (SPP); the Mid-America Interpool Network (MAIN); and the Mid-Continent Area Power Pool (MAPP). These groups are quite large, having a combined generating capability of 135,000 MW, more than 10 times the size of MOKAN. The MOKAN systems conduct a wide range of coordinating activities with these neighboring systems, including various types of capacity and energy purchases and sales.

1. The MOKAN Power Pool was organized in 1962. It is a multi-contractual arrangement among 12 electric utility systems operating in Kansas and western Missouri. These systems coordinate planning, share capacity margin requirements, and interchange electricity to enhance reliability of service and economy of operations. There are also nearly forty non-member systems with generating capacity inside the MOKAN geographic area.

MOKAN includes about 12,000 MW of generating capacity in more than 100 individual units. In addition, some MOKAN members purchase varying amounts of generating capacity from systems external to MOKAN. The 25 units above 100 MW have a combined capacity of just under 9,000 MW, or over 70% of the total. The seven largest MOKAN generating units are jointly owned and total over 5,000 MW, about 40% of the total capacity. The MOKAN system has a large amount of capacity which provides low-cost energy. There is about 7,900 MW of capacity with incremental operating costs below $20/MWh. There are few regions of the country that have such a large portion of their generation available at such low cost. This low-cost capacity exceeds MOKAN load for most months.

The MOKAN systems are in an excellent geographic location to take advantage of domestic fuel sources. They are close to major natural gas regions in Kansas, Oklahoma, Texas, and Louisiana. Even more important, they are located close to both eastern and western coal sources. At some sites several railroads are available for coal delivery ensuring that competition will keep transportation costs reasonable. This means they have fairly large competitive supplies of fuel with some of the lowest costs in the nation.

III. 1992 MOKAN planning study

During the past year I led the CSA team that performed a least-cost resource planning study for MOKAN. This study updated 1988 Planning Study commissioned by the MOKAN systems. The 1992 study presents a coordinated regional least-cost generation expansion plan for the combined MOKAN systems. Individual alternatives can be studied and specific plans developed within the framework of this MOKAN long-range plan. Individual utility plans may be different based on their specific needs and costs. The purpose of this long-range plan is to provide a standard for comparison in making future specific decisions by the MOKAN systems. It can be used to assess future capacity purchases from external systems, the economics of demand-side and supply-side alternatives, and strategies for meeting Federal emission standards.

The 1992 study involved eleven members of CSA staff and over 3,000 hours of labor. The total cost for the project will be $250,000-$300,000. Utility cooperation is essential in conducting this type of study and complete cooperation was obtained. There were also many hundreds of hours of effort made by the staffs of the MOKAN systems in collecting data and reviewing the results of the various computer simulations. The MOKAN systems are to be commended for their willingness to quickly provide data and other information.

The collection and verification of data is a major effort in these kinds of studies. The data collected for the study fills three drawers of a file cabinet in our office. (An IRP would require double this amount of data as it would require both supply-side and demand-side data.)

The purpose of this long-range plan was to provide a standard for comparison in making future specific decisions by the MOKAN systems. The two basic study objectives were:

1. determine the most reasonable specific plans for expansion of the MOKAN generation system based on the data available; and
2. provide a standard for comparison in making future specific decisions regarding:
   - potential specific capacity additions as the key assumptions and costs used change in the future;
   - future capacity purchases or sales;
   - future demand-side alternatives;
   - the impact of future environmental requirements; and
   - the impact of the 1990 amendments to the U. S. Clean Air Act.

The MOKAN member systems provide service to customers in both Kansas and Missouri. The Kansas and Missouri Commissions had representatives attend many of the meetings and presentations regarding the conduct and conclusions of the Study. The questions they raised at these meetings were an important contribution to the entire planning study process. This cooperative atmosphere and the study of combined power pool resource plans is unique in the nation and reflects a very constructive attitude by both the utilities and the Commissions.

The study was very comprehensive and evaluated various resource plans and considered the basic planing requirements, the impact of additional DSM, the effect of the 1990 amendments to the Federal Clean Air Act on plans, the effect of age of existing units on plans, and the impact of all plans on natural gas use.

- Basic results included: The target mix of base-load, intermediate, and peaking capacity for reasonable variations in fuel prices and the construction costs of new units; break-even costs comparing coal and combined cycle/combustion turbine units; the adequacy of the existing capacity; comparisons of costs and other factors between plans; and the effect of the value of emission allowances.
- Impact of demand-side management included: a review of the current DSM plans of each of the MOKAN utilities; and the supply-side benefit if the expected DSM doubled.
- Impact of the 1990 amendments to the Federal Clean Air Act included: total SO_2 emissions; the impact of an emission dispatch on emissions and costs; comparison of emissions with expected allowances; and the potential impact of additional emission reduction steps.

- Operation of older generating units was examined and the impact of life-extension plans was evaluated.
- The use of natural gas was also evaluated, including: total MOKAN gas use compared to recent years and past years of heavy usage; and the effect of adding only gas units in the future.

As the MOKAN systems develop their specific plans, uncertainties must also be considered. The greatest uncertainties faced by the MOKAN systems include uncertainty of:

- costs and performance of existing generation as it becomes more than 40-50 years old;
- capital costs for new generating units;
- future fuel prices;
- new supply-side technologies;
- gas availability in the future;
- load and energy projections;
- costs and benefits of DSM programs;
- amount and value of SO_2 emission allowances;
- further amendments to the Clean Air Act;[1]
- additional environmental requirements, particularly regarding CO_2 and NO_x emissions;
- potential developments in new technology affecting emissions, particularly various clean-coal technologies under development;
- potential impact of independent power producers (IPPs);
- open transmission access and its effects;
- rate increases required by new unit additions and the ability to finance these new unit additions; and
- the potential impact of new technologies on customer load, particularly photo-voltaics and electric vehicles.

Because of the uncertainties involved, continual monitoring of these risks by the MOKAN systems is essential.

1. The Clean Air Act of 1963 has been amended in 1965, 1967, 1970, 1977, and 1990. It is a reasonable possibility that there will be further changes to this Act.

TESTIMONY BEFORE THE

HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE

February 25, 1992
Jim Ludwig, KPL Gas Service

Chairman Grotewiel and Members of the Committee:

KPL Gas Service acknowledges the need for long range planning. We have annually prepared twenty-year electric resource plans for over ten years. Since 1988, our plans have included provisions for demand-side management (DSM). Our annual plan is distinct from the MOKAN plans Mr. Palermo has discussed.

We welcome regulatory changes providing incentives to implement DSM programs. The Kansas Corporation Commission clearly has statutory authority to proceed without any legislative action. The Corporation Commission recently opened a docket and requested that a bill be introduced regarding rate incentives for integrated resource planning. The Commission docket and bill (HB 2898) address integrated resource planning for electric and natural gas utilities. We are convinced the Commission will proceed to hold hearings and ultimately issue rules and regulations on integrated resource planning.

Regardless what KPL is convinced the Commission will do, we concede some legislators want to make integrated resource planning a statutory requirement. Although we are not unalterably opposed to such legislation, we urge you to proceed with caution. Interested legislators, utility employees, environmentalists, and Commission staff have informally discussed several bill drafts the past few days. I received the bill before us today, Substitute for HB 2524, yesterday morning. Our legal counsel and personnel involved in long range planning have not yet responded completely to all its provisions. Many objections to the original HB 2524 have been addressed, but several new sections have been added, which we are still evaluating.

We urge the Committee to consider several issues before voting on Substitute HB 2524.

- The Commission should be given more discretion to account for environmental, health, economic, and social impacts of various modes of electric generation. It is appropriate for the Commission to consider these "externalities," but it is difficult, perhaps impossible, to objectively quantify them.

- We caution the Legislature to beware of setting state energy policy on a collision course with emerging federal energy policy.

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This session, Congress will likely reform the Public Utility Holding Company Act (PUHCA) to open the electric generation market to non-utility, independent power producers (IPPs). Substitute HB 2524 only requires electric and natural gas utilities under the jurisdiction of the Commission to submit long range plans. The bill should include all sources of electric generation if we hope to effect an integrated, consistent electric energy policy for Kansas.

The U.S. Senate recently passed the National Energy Security Act, which includes provisions on integrated resource planning. The House will debate and vote on incorporating amendments concerning integrated resource planning in its companion bill.

- The Commission needs broader discretion to establish rate incentives. We support Commission efforts to expand its authority to allow alternative rate policies; Commission recommendations are found in HB 2898. Substitute HB 2524 repeals KSA 66-117(d), the same statute HB 2898 amends. The Commission already has authority to penalize utilities that fail to comply with orders; penalties applied to a utility's rate of return are unnecessary and disproportionate to any proposed incentives.

- We caution the Legislature against specifying criteria for the adequacy of plans. The energy market will change dramatically in the next decade, and the Commission should have the discretion to appropriately regulate resource planning. Natural gas and electric utilities should also have the flexibility to aggressively manage and implement the plans. Forecasting methodologies and rate formulas should be addressed within the regulatory context, not fixed in statute.

Testimony of Chris B. Giles
Director, Marketing Programs
Kansas City Power & Light Company
On Revised House Bill No. 2524

Section 1 (e) requires IRP to include "costs of environmental, societal and health impacts."

Section 3(b)2 requires a utility and/or commission rule to provide "objective standards" for calculating and quantifying the environmental, societal and health impacts.

We recommend that both of these provisions be eliminated, or at least be changed to only require that these items be considered. We are also concerned that requiring environmental effects to be somehow quantified and taken into account in the planning process will result in increased utility rates as utilities reduce their emissions below the levels already established by law. The Federal Congress and this Legislature already set pollution limits based upon a variety of factors, including health effects. We don't think it is proper or necessary to reduce these limits through the guise of accounting for environmental externalities in the utility planning process.

Section 3(b)7 This section is also unclear as to whether the methods used to generate the forecast are to be set by the KCC, or just be included in the utility plan. In order to maintain flexibility we recommend that a detail such as this not be established by legislation, but rather each utility describe its methodology.

Section 1(f) seems to preclude a utility from adding conventional generation (be it coal, oil or gas), since it itemizes the additional generation that can be added to "the utility's own generating facilities." This subsection must be rewritten to allow conventional generation additions.

Section 5(b) allows recovery of costs associated with "full" programs. What is a "full" program?

Section 6 puts a floor on the rate of return penalty for failure to file or implement IRP. I'd suggest that it be changed to read that the penalty will be the lesser of 10 basis points or the lower end of the range of reasonable returns.

Section 7 and Section 8 should be revised to include "pilot" or experimental DSM programs. Determination of the level of participation by utility customers in DSM programs is a key component of any DSM program and "pilot" or experimental DSM programs are often necessary to obtain this type of data.

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Comments on HOUSE BILL 2524
February 25, 1992 before
House Energy & Natural Resources Committee

Mr. Chairman, members of the committee, I am Louis Stroup, Jr., executive director of Kansas Municipal Utilities, Inc., a statewide organization of cities that operate municipal electric, gas and water systems.

Our membership is opposed to this bill for a number of reasons:

(1) The bill is premature:

a) Integrated resource planning requirements for municipal systems are contained in national energy legislation which passed the U.S. Senate last week. We anticipate a similar bill will be passed by the House and that national legislation will be enacted this session.

b) The Kansas Corporation Commission has just opened a docket to investigate IRPs for utilities in Kansas.

c) We have been working for more than two years on the development of a practicable IRP for municipal utilities who purchase hydro power in Kansas from two federal power marketing agencies. The Western Area Power Administration provides hydro power to 39 Kansas municipal electric systems and serves 17 states (see attached map) and the Southwestern Power Administration which provides hydro power to 27 cities in Kansas and serves the 6 states of Kansas, Missouri, Oklahoma, Texas, Arkansas and Louisiana. We have nearly completed development of an IRP program with SPA for our upcoming contract renewals and the WAPA IRP program is expected to be completed sometime this year.

As you can see, even without this bill, we face a mix of possible state and federal IRP requirements that would lead to a very confusing and unworkable situation for our municipalities.

(2) The bill impedes on the authority of locally-elected city officials to perform functions for which they were elected and are responsible for. Each municipality is unique -- what works and is cost effective in one community is not necessarily cost effective in the next. Just as the traditional supply side and generation additions were utility specific, so are the demand side capacity additions. IRPs must be tailored for each community and local officials are in the best position to make those judgements and decisions.

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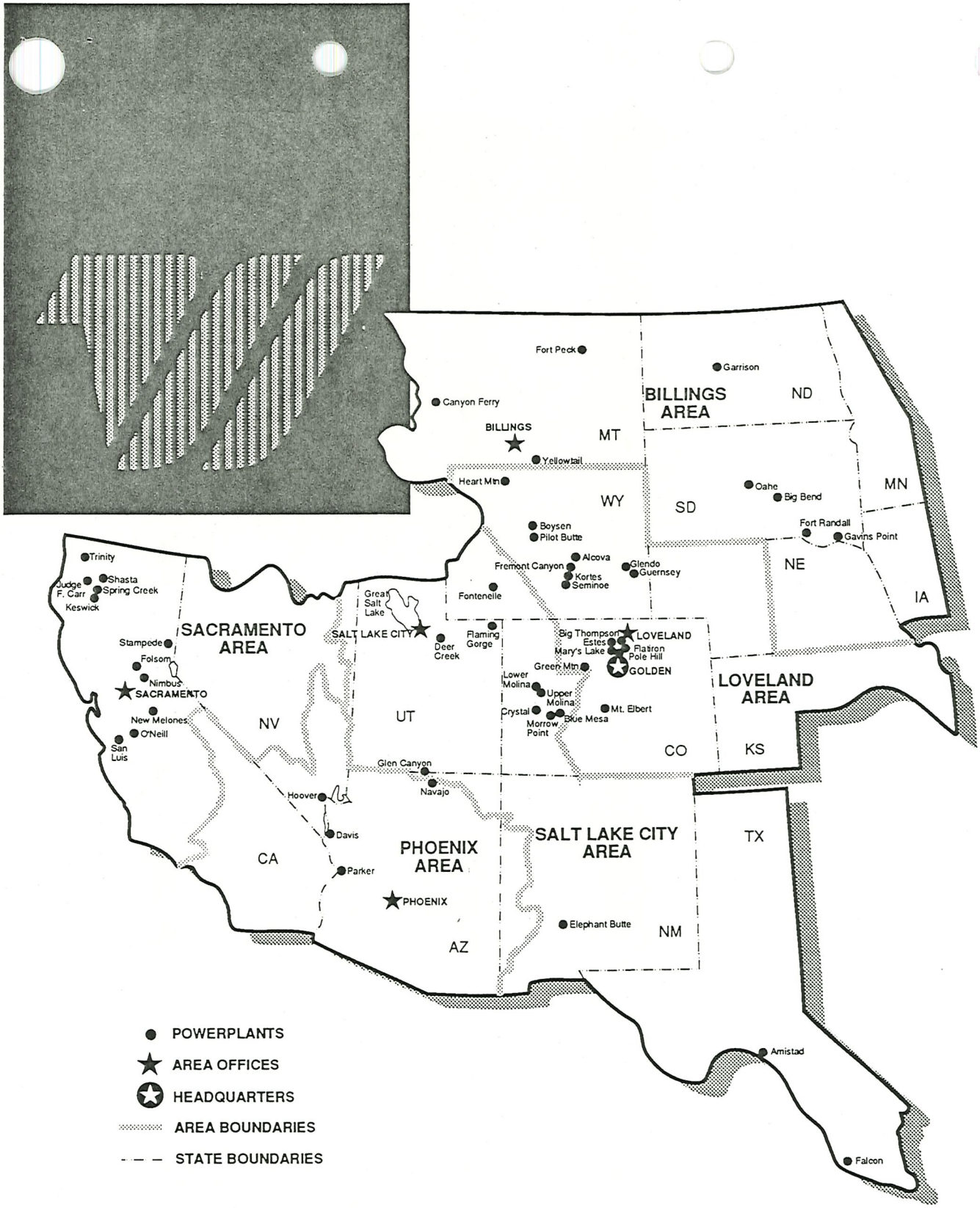
(3) The bill would simply add another layer of bureaucracy on our cities and is an example of over regulation from both federal and state levels -- over regulation and the ensuing costs that are stifling our smaller communities.



MARKETING AREA AND POWERPLANTS

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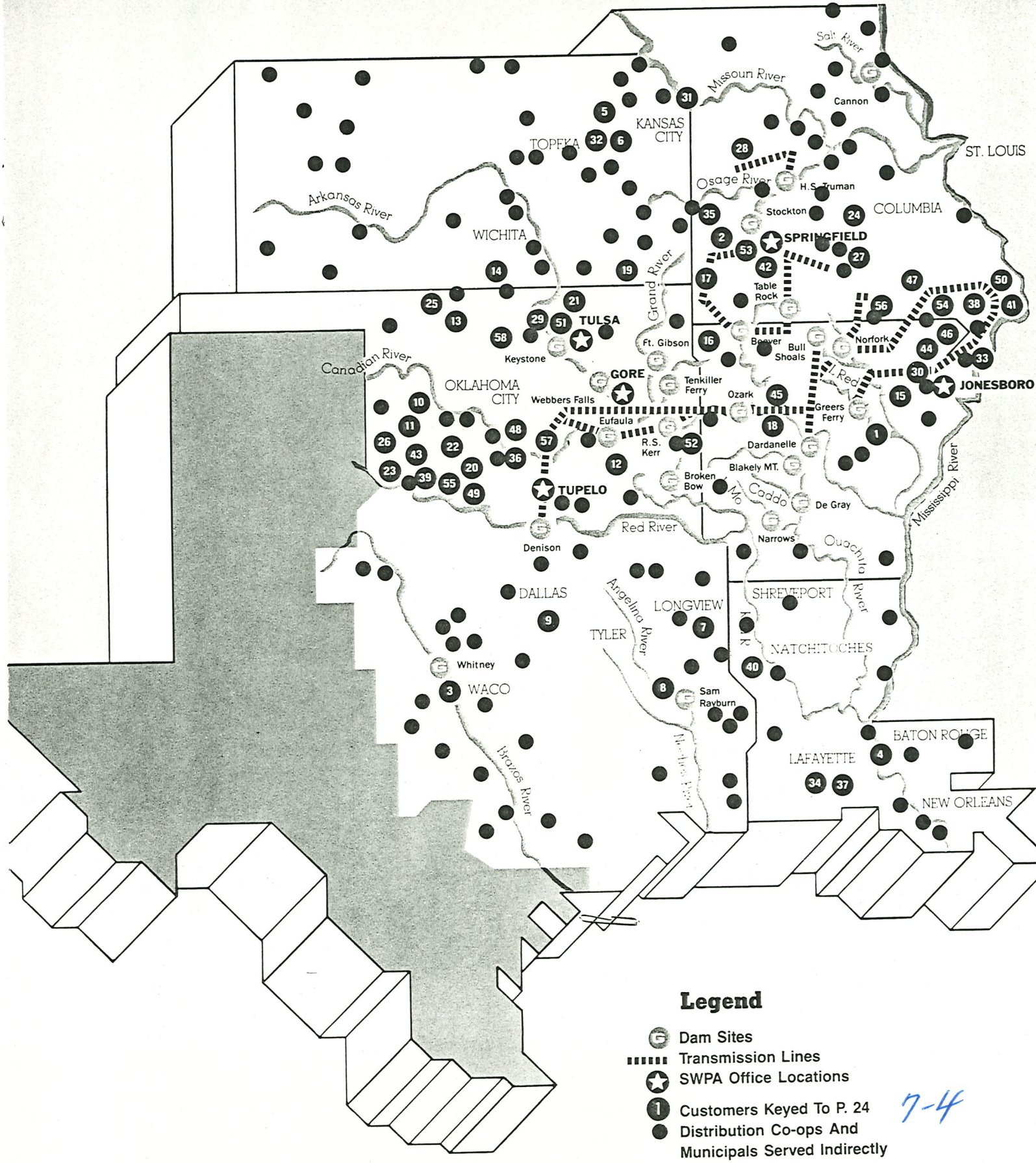
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KANSAS CITY
TOPEKA
Osage River
H.S. Truman
Stockton
COLUMBIA
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WICHITA
SPRINGFIELD
Table Rock
Grand River
TULSA
Keystone
Ft. Gibson
Beaver
Bull Shoals
Norfork
JONESBORO
Canadian River
OKLAHOMA CITY
GORE
Webbers Falls
Tenkiller Ferry
Ozark
L. Red
Greers Ferry
Eufaula
R.S. Kerr
Dardanelle
Blakely Mt.
Broken Bow
Caddo
De Gray
TUPELO
Red River
Narrows
Ouachita River
Mississippi River
Denison
DALLAS
Angelina River
LONGVIEW
SHREVEPORT
TYLER
K.B.K.
NATCHITOCHES
Whitney
WACO
Sam Rayburn
Brazos River
BATON ROUGE
LAFAYETTE
NEW ORLEANS
Legend
Dam Sites
Transmission Lines
SWPA Office Locations
Customers Keyed To P. 24
Distribution Co-ops And Municipals Served Indirectly

7-4

PRESENTATION BEFORE
THE HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE
ON INTEGRATED RESOURCE PLANNING

BY THE CORPORATION COMMISSION
DON LOW - DIRECTOR, UTILITIES DIVISION
FEBRUARY 25, 1992

THE COMMISSION HAS REQUESTED AMENDMENTS TO K.S.A. 66-117 IN ORDER TO CLARIFY KCC AUTHORITY IN THE CONTEXT OF INTEGRATED RESOURCE PLANNING FOR GAS AND ELECTRIC UTILITIES. ON JANUARY 29TH OF THIS YEAR THE KCC INITIATED A PROCEEDING TO ADOPT RULES AND REGULATIONS CONCERNING INTEGRATED RESOURCE PLANNING OR "IRP" FOR GAS AND ELECTRIC UTILITIES. AS THE COMMITTEE KNOWS FROM PRIOR PRESENTATIONS, INTEGRATED RESOURCE PLANNING, SOMETIMES REFERRED TO AS LEAST COST PLANNING, IS A PROCESS BY WHICH UTILITIES PLAN TO MEET CUSTOMERS' ENERGY NEEDS NOT ONLY BY ADDING NEW CAPACITY BUT ALSO BY HELPING CUSTOMERS USE ENERGY MORE EFFICIENTLY. THIS INTEGRATION OF "SUPPLY-SIDE" AND "DEMAND-SIDE" RESOURCES IS BENEFICIAL IN HELPING TO ENSURE THAT UTILITY INVESTMENT IN NEW FACILITIES IS EFFICIENT AND NECESSARY.

THE KCC HOPES TO ADOPT IRP RULES AND REGULATIONS BY THE END OF THE YEAR, AT LEAST WITH REGARD TO ELECTRIC UTILITIES. HOWEVER, THERE ARE TWO ASPECTS OF COMMISSION AUTHORITY WHICH SHOULD BE CLARIFIED PRIOR TO ADOPTION OF SUCH RULES.

THE FIRST IS WITH RESPECT TO THE KIND OF INCENTIVE MECHANISMS WHICH CAN BE GIVEN TO UTILITIES TO PROMOTE EFFICIENT ENERGY USAGE. ONE OF THE MOST CRITICAL ASPECTS OF THE CURRENT KCC PROCEEDING WILL INVOLVE THE COSTS OF VARIOUS EFFICIENCY AND CONSERVATION MEASURES IMPLEMENTED BY THE UTILITIES. OTHER STATES WHICH HAVE EXAMINED THE MATTER HAVE ADOPTED VARIOUS INCENTIVE MECHANISMS FALLING GENERALLY INTO THREE CATEGORIES - RATEBASE TREATMENT OF THE CONSERVATION OR LOAD MANAGEMENT PROGRAMS, REVENUE ADJUSTMENT MECHANISMS, AND SHARED SAVINGS PROGRAMS - OR SOME COMBINATION OF THE THREE. CURRENTLY, K.S.A. 66-117(d) EXPLICITLY AUTHORIZES THE KCC TO UTILIZE A FORM OF THE FIRST MECHANISM - AN INCREMENTAL INCREASE IN THE RATE OF RETURN FOR CONSERVATION INVESTMENTS. SINCE

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THE KCC WILL WANT TO CONSIDER USE OF THE OTHER TWO TYPES OF MECHANISMS, AMENDMENTS ARE DESIRABLE TO ENSURE THAT AUTHORITY.

SECONDLY, THE PROPOSED LEGISLATION WOULD ALSO EXPLICITLY GIVE THE COMMISSION AUTHORITY TO CONSIDER AVOIDED ENVIRONMENTAL IMPACTS AND COSTS WHEN LOOKING AT THE COST EFFICIENCY OF DEMAND SIDE MANAGEMENT MEASURES. ENVIRONMENTAL CONSEQUENCES OF GENERATING PLANTS ARE OBVIOUSLY OF CONCERN TO THE PUBLIC AND ARGUABLY WOULD NOT BE WITHIN THE COMMISSION'S JURISDICTION TO CONSIDER WITHOUT LEGISLATION.

IN PROPOSING HB 2898, WE HAVE TRIED TO KEEP THE PROPOSED LEGISLATION SIMPLE TO ONLY ENSURE THAT THE KCC HAS EXPLICIT AUTHORITY TO DEAL WITH THE ISSUES INVOLVED IN INTEGRATED RESOURCE PLANNING. WE DO NOT FAVOR DETAILED LEGISLATION MANDATING SPECIFIC PROCEDURES OR POLICIES. THE KCC HAS JUST BEGUN ITS PROCEEDING AND WILL BE SETTING UP WORKSHOPS FOR INPUT FROM ALL INTERESTED PARTIES REGARDING THE RULES AND REGULATIONS TO BE ADOPTED. WE ALSO EXPECT TO LEARN FROM THE SUCCESSES AND MISTAKES THAT OTHER STATES HAVE MADE IN DEALING WITH THIS AREA. BUT WE ALSO BELIEVE THAT FLEXIBILITY IS NECESSARY SO THE PROCEDURES AND POLICIES CAN BE ADAPTED AS THIS AREA EVOLVES.

IN PARTICULAR, I AM CONCERNED ABOUT LEGISLATION WHICH WOULD MANDATE THE ADOPTION OF STANDARDS OR METHODS FOR QUANTIFYING ENVIRONMENTAL, SOCIETAL, HEALTH OR OTHER INDIRECT COSTS - WHICH ARE REFERRED TO AS "EXTERNALITIES." I AM CERTAIN THAT THE COMMISSION WILL CONSIDER SUCH COSTS IN THE IRP PROCEEDINGS. HOWEVER, MEASUREMENT AND QUANTIFICATION OF SUCH COSTS IS VERY PROBLEMATIC AND WOULD REQUIRE A GREAT DEAL OF ADDITIONAL TIME AND RESOURCES IN BOTH THE PROMULGATION OF REGULATIONS AND THE REVIEW OF INDIVIDUAL IRP PLANS. FURTHERMORE, I WOULD NOTE THAT THERE IS GREAT DEBATE WHETHER IT IS APPROPRIATE AND ECONOMICALLY EFFICIENT TO RAISE UTILITY RATES TO REFLECT SUCH EXTERNALITIES.

IN CONCLUSION, I HOPE THAT THE COMMITTEE WILL ENDORSE LEGISLATION WHICH WILL ENABLE THE KCC TO FULLY ADDRESS INTEGRATED RESOURCE PLANNING WITHOUT RESTRICTING ITS FLEXIBILITY.

8-2

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TESTIMONY IN SUPPORT OF HB 2524 AND HB 2958

I am writing in support of HB 2524 and HB 2958.

HB 2524: "Least-cost planning:" Many states now require what is commonly called "least-cost planning" on the part of utility companies; such a plan would be very advantageous for Kansas. HB 2524 would require electric utilities to file a 20-year plan with the Kansas Corporation Commission (KCC) to forecast electric usage and plan provision of electric power in the most cost-effective way.

I have just read the booklet "Staff Assessment of Electric Utility Plans" by the Wisconsin Public Service Commission. Wisconsin has for some years required utility company least-cost planning. As stated in the booklet, "Wisconsin looks ahead to make sure that we have adequate energy services at minimum cost and environmental impact."

Electric utilities on both the east and west coasts have found that the cheapest way to provide electric power is to conserve it. They are helping their customers use high-efficiency light bulbs and appliances, including efficient electric motors for industry. Other ways to conserve energy are by pooling power usage, purchasing power, using renewables (such as wind, thermal, biomass, hydro, etc.), cogeneration and buying from small power producers. Conserving energy will reduce air pollution, acid rain, radioactive waste, the greenhouse effect, etc.

It is important that we have an energy plan which will reduce the use of coal-, oil- and gas-fired generating plants. HB 2524 will help get us on this path.

HB 2958: "Inspection of solid waste before processing or disposal:" The implementation of this bill will help us control the disposal of solid waste. At the present time, we have little idea what is being dumped into our landfills. There is little doubt but what hazardous materials, such as used motor oil, paint, pesticides, solvents, etc. , are being dumped with other household waste into our landfills. These materials will contaminate our groundwater and soil. Here in Sedgwick county we finally have a hazardous materials drop-off station open one Saturday a month south of town. It is unreasonable to assume that all residents are disposing of their hazardous waste in this responsible manner. It was only a year or two ago that the County Health Department here in Sedgwick county had no plan for taking care of household hazardous waste and looked the other way when residents put these materials into their household trash.

We had the news just a few days ago that radioactive waste was "accidentally" dumped and burned in the hazardous waste incinerator in Coffeyville. What has happened to the ash from that operation?

Also, we need importers of solid waste to post bond. Last fall, the out-of-state trash company using the McPherson county landfill brought many truck loads of out-of-state trash there, adding to the already unsatisfactory condition of that landfill. Now that company has disappeared and cannot be found to take care of the clean-up.

House E+NR
Margaret J. Miller 2/25/92
Attachment 9