

MINUTES OF THE HOUSE ENERGY AND UTILITIES COMMITTEE

The meeting was called to order by Chairman Carl Holmes at 9:15 A.M. on January 29, 2008 in Room 783 of the Docking State Office Building.

All members were present except:

Dan Johnson- excused

Committee staff present:

Carol Tolland, Revisors Office

Renae Hansen, Committee Administrative Assistant

Conferees appearing before the committee:

Westar-Jim Ludwig

KCPL-Mike Duggendorf, Vice President

Nancy Jackson, Executive Director, Climate and Energy Project of the Land Institute

Tom Thompson, Sierra Club

Jody Craig Mid America Regional Council

Janet Buchanon, KCC

Dave Springe, CURB

Others attending:

Forty including the attached list.

Hearing on:

HB 2632-Energy Efficiency, conservation and demand management programs at the Kansas Corporation Commission

Proponents:

Westar, Jim Ludwig, (Attachment 1), presented testimony in favor of **HB 2632** noting that this bill allows investments and expenditures for KCC-approved energy efficiency, conservation and demand response programs to be recovered over time with a return that is to be capitalized. Examples of two things they are trying to get their customers to use are: programable thermostats and compact florescent light bulbs.

Questions were asked and comments made by Representatives: Vaughn Flora, Forrest Knox, Tom Hawk, Vern Swanson,

KCPL, Mike Duggendorf, Vice President, (Attachments 2) presented testimony in favor of **HB 2632**. Additinally, he had a handout (Attachment 3) with charts showing how energy efficiency and renewables will contribute to the increased demand for energy. The concept of the energy efficiency is that a dollar invested in energy efficiency is equal to a dollar invested in long term rate based assets.

Nancy Jackson, Executive Director, Climate and Energy Project of the Land Institute, (Attachment 4), spoke in favor of **HB 2632**, noting the number of energy efficiency meetings that were held last week across the state with participation by both Westar and KCPL.

Tom Thompson, Sierra Club, (Attachment 5), offered testimony in support of **HB 2632** and believes it is time for Utility Companies to be in the business to help customers meet their energy needs by conservation promotion, and not just selling them energy.

Jody Ladd Craig, Mid America Regional Council, (Attachment 6), spoke in support of **HB 2632**, noted that this bill will require organizations to make a public commitment to sustainability.

CONTINUATION SHEET

MINUTES OF THE House Energy and Utilities Committee at 9:15 A.M. on January 29, 2008 in Room 783 of the Docking State Office Building.

Written:

Greater KC Chamber of Commerce (Attachment 7), offered written testimony in support of **HB 2632**.

Olathe Schools, (Attachment 8), presented testimony in writing supporting **HB 2632**.

Opponents:

Janet Buchanon, KCC, (Attachment 9), spoke in opposition to **HB 2632**, noting that the bill would mandate ratebase treatment of utility expenditures for energy efficiency programs. She noted that one drawback is that the incentive is not tied to the actual program performance.

Dave Springe, CURB, (Attachment 10), offered testimony in opposition of **HB2632**, believing that this bill is the most expensive way for consumers to participate in energy conservation measures. CURB offered several suggestions that they believe are better ways of providing the energy conservation services.

Written:

AARP, (Attachment 11), presented written testimony in opposition to **HB 2632**.

Questions were asked and comments made by Representatives: Oletha Faust-Goudeau, Tom Hawk, Cindy Neighbor, Tom Sloan, Tom Moxley, Vaughn Flora, Don Myers, Josh Svaty, Forrest Knox, and Carl Holmes.

It was noticed that one of the best ways as a society to get the most participation in energy efficiency, and the fastest is to get the utilities on board with the programs. It was further noted that the regulation before the committee changes a regulatory accounting structure. Additionally, it was noted that if this bill passes, then the KCC's docket proceedings on this matter would not be needed.

Jeff McClanahan from the KCC also helped answer questions on the retroactive rate making application process.

The hearing was closed on **HB 2632**.

Committee Discussion on:

SB 49- Kansas universal service fund, VoIP providers.

Chairman Holmes noted that he would entertain a motion to take **SB 49** off the floor.

Representative Tom Sloan moved to remove **SB 49** off the table for the purpose of debating it as expeditiously as possible, seconded by Representative Cindy Neighbor. Motion carried.

The amended **SB 49** was (Attachment 12) presented to the committee.

Representative Tom Sloan moved passage of **SB 49** as amended to the full body of the House, seconded by Representative Annie Kuether. Motion Carried.

Representative Tom Sloan will carry **SB 49** on the floor of the House.

Representative Tom Sloan moved to introduce three pieces of legislation that 1. Prohibit use of eminent domain by public wholesale water systems; 2. Defines voting rights and procedures in rural water districts; 3. Addresses payment of rural water district debts by third parties, seconded by Representative Judy Morrison. Motion carried.

The next meeting is scheduled for January 30, 2008.

Meeting adjourned at 10:30 a.m.

HOUSE ENERGY AND UTILITIES COMMITTEE GUEST LIST

DATE: January 29, 2008

NAME	REPRESENTING
JANET BUCHANAN	KCC
MIKE SCOTT	AT&T
DAN JACOBSEN	AT&T
CYNDI GALLAGHER	AT&T
JEFF LEWIS	AT&T
ANDREW CATLIN	AT&T
PHIL WAGES	KCP&L
Mark Schreiber	Westar
Jim Ludwig	Westar
Steve Johnson	ONEOK, Inc.
TOM DAY	KCC
Dave Springle	Curb
Mick Urban	Kansas Gas Service
LARRY BERG	MIDWEST ENERGY
Mike Murray	Embarq
Tom Thompson	Sierra Club
Kimberly Scheu Fraty	ITC Great Plains
Paul Snider	KCP&L
Mike Degeerdoy	KCP&L

HOUSE ENERGY AND UTILITIES COMMITTEE GUEST LIST

DATE: January 29, 2008

NAME	REPRESENTING
Kurt May	LITTLE GARDEN RELATIONS
Justin Hayden	Hawlow Firm
Tom Bartner	AT&T

Testimony of James Ludwig
Executive Vice-President Public Affairs and Consumer Services
Westar Energy
Before House Energy and Utilities Committee
January 29, 2008

Good morning Chairman Holmes and members of the committee. Thank you for the opportunity to testify in support of HB 2632.

This bill allows investments and expenditures for KCC-approved energy efficiency, conservation and demand response programs to be recovered over time with a return, that is, to be capitalized. Capitalizing energy efficiency expenses is innovative, but the idea is not unprecedented. In the case of energy efficiency, it provides a means for utilities to make energy efficiency a sustainable business with benefits for both customers and investors.

Energy efficiency programs are a key part of our energy strategy. These programs reduce or delay the need to build new generation. Energy efficiency can be the most cost-effective way to meet consumers' electricity needs with the least harm to the environment. Last year we created a separate internal organization devoted to energy efficiency programs for our residential, commercial and industrial customers.

Let me discuss just one example among several of an energy efficiency expenditure that works like an investment. Technology allows us to install programmable thermostats with internal communication devices, which the utility can control during peak times. There are other types of demand response equipment that can save money for our customers, but in our example here, we'll stick with thermostats. Although most of us would intuitively consider this type of equipment an investment, financial accounting rules require us to record them as expenses. But they are like an investment – equipment that we purchase and install in order to provide efficient, reliable electric service to customers over many years. When enough thermostats are installed, they become an economically dispatchable resource, very similar to a power plant. We can send a signal from a central dispatch to the thermostats to adjust them when we are approaching peak customer usage, just as we can centrally dispatch a power plant to come on line to meet peak load. Both function as an investment to meet customers' electricity needs.

Because of financial accounting rules, however, most "investments" we would make on the customers' side of the meter will have to be recorded as expenses for financial reporting. But as I said, it is not unprecedented for the KCC to treat some expenses as a "regulatory asset" that the utility recovers over time, plus its cost of capital – in other words, recovery as an investment with a return.

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What happens if we cannot capitalize expenditures for thermostats and must, for ratemaking, apply financial accounting and treat them as expenses? Assume an electric utility installs \$10 million worth of thermostats in 2008 and \$10 million more in 2009. Then, in the middle of 2010, the utility files a rate case. The utility also spends \$10 million on thermostats in 2010. Rate case expenses are based on an historic test year – in this case, 2009 is the test year. The expenses during that test year are examined and are assumed to be, within reason, representative of future expenses. As an expense, if the KCC were convinced the utility would continue to install \$10 million worth of thermostats each year going forward, it would allow recovery of \$10 million prospectively when new rates went in effect because the utility spent that much in the test year of 2009. New rates would go in effect around the beginning of 2011. The \$10 million spent in 2008, the \$10 million spent in 2009, and the \$10 million spent in 2010 during the rate case year **would never be recovered**. Hence the utility would have spent \$30 million that it would never recover for thermostats that would help its customers use less electricity and thereby also reduce its profits. That obviously is not a sustainable business model. It would not be a rational business decision to choose to install such thermostats.

Westar will implement various aspects of our energy efficiency program this year and will continue to in years ahead. For example, if we install thousands of thermostats in our customers' homes next year, we may not recover that "expense". Yet installing the thermostats can be cheaper and more effective for customers even as an investment with a return if it delays the need to add more peaking power plants. Thus we believe it is appropriate to consider these thermostats and other energy efficiency expenditures as an investment, just like a generation asset, so we can recover our costs with a return.

Energy efficiency is a key part of our strategy. Other utilities are also making it a part of their plans. To make energy efficiency succeed it has to be done in a way that makes good sense for both consumers and for business. The interim Energy, Natural Resources and Environment committee specifically examined how the state can take a leadership role in this area. Westar is committed to be a part of this effort. HB 2632 encourages utilities to continue investments and expenditures in energy efficiency. We support HB 2632.

Thank you again for the opportunity to testify this morning. I will stand for questions at the appropriate time.

**Testimony of Mike Deggendorf
Before the House Energy and Utilities Committee
In Support of House Bill 2632
January 29, 2008**

Investments in energy efficiency are good for customers, businesses, the community and the environment. Kansas City Power & Light has been a leader in energy efficiency and, with a supportive regulatory environment, is poised to grow its focus on energy efficiency.

A few years ago, KCP&L worked with policy leaders, our customers and communities, regulators, environmental advocates and others to craft a comprehensive energy plan to help the company meet the energy needs of our customers through 2010. Investments in energy efficiency are a cornerstone of that plan.

Today, KCP&L has a dozen energy efficiency programs approved in Kansas and more on the way. These programs target residential, business and industrial customers. There is an additional focus on affordability and weatherization programs for lower-income customers.

After just a couple of years working with these programs, we've realized the tremendous potential energy efficiency holds. This potential is amplified when environmental concerns about climate change are considered.

These programs are working. Over the latter part of the summer when this region endured excessive heat, most expected us to surpass our record system peak. We didn't. By working with customers and realizing the full benefit of our load reduction programs, we avoided setting a record.

Our goal is to meet a substantial portion of our new load growth through aggressive deployment of energy efficiency and renewable energy. KCP&L views energy efficiency as a bridge to the future, specifically to about the year 2020, when technologies are available to provide baseload power with minimal environmental impact.

What we know now is that energy efficiency is the most affordable and simplest way to mitigate greenhouse gas emissions while simultaneously addressing the growing demand for electric energy. The challenge is a regulatory framework that incentivizes utilities to make investments in traditional generation but does not grant the same level of certainty and recovery to investments made at reducing energy usage where prudent and cost-effective as a mechanism to address growing demand.

Recognizing this challenge, we convened a series of public forums to both educate the community and gain their input and opinions on energy efficiency. The forums were a great

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success. The first one last September drew about 500 people from Kansas and Missouri. The feedback from the forums prompted us to pursue this legislation.

House Bill 2632 seeks to update regulatory policy. The concept is simple: *A dollar invested in energy efficiency should be treated like a dollar invested in a traditional generation plant.*

One of the concerns you'll hear is that the KCC is actively pursuing dockets on energy efficiency. We understand that concern and in a perfect world, we would defer to their schedule. However, like any business, we're seeking regulatory certainty before considering large investments.

Another concern deals with capitalizing labor and advertising costs related to the efficiency programs. Our view is that both are critical to the success of the programs. We view the effects of energy efficiency and the avoided demand as competitive with other baseload and dispatchable supply. As is the case with other supply, there is a cost to acquire and "build" this supply. Without an investment of capital into acquiring the customers into the program and implementing these measures (through education and advertising), the programs are bound to have marginal benefits. In many cases, the actual investment in the technology necessary to enable energy efficiency is only a small part of the expenditure and the investment made in educating people on how to be energy efficient, properly utilize installed technology, build awareness of efficiency programs and ensure that the programs are successfully deployed make up the more significant portion of the associated costs.

Energy efficiency is uniquely able to simultaneously benefit:

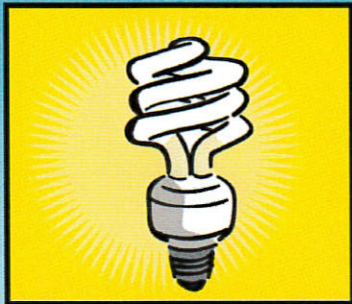
- Customers
 - Both residential and business, can decide which programs work for them, allowing them the ability to customize their energy use in a manner that best fits their lifestyle and budget
 - Reduce the amount of energy they use and thereby reduce their cost of doing business (making them more competitive) or spending less income on household energy costs
 - When layering cost-effective energy efficiency into the generation portfolio, overall rates increase at a slower rate than they otherwise would
- Communities
 - Investments in energy efficiency are localized, such as working with local HVAC dealers to install efficient equipment
 - Local investments will spur greater local economic development translating into more local jobs
- Environment
 - Investment in energy efficiency is an investment in clean energy. Each megawatt of power that is supplied through energy efficiency is a megawatt that doesn't need to be produced through burning a carbon-based fuel
 - By coupling energy efficiency and demand management programs with renewable energy such as wind energy, renewable energy becomes a more dependable and effective energy source
- Energy Independence

These benefits can be realized while meeting the demand for energy in a low-cost manner.

With regulatory changes, Kansas can become a leader in investment in energy efficiency, benefiting our customers, communities and environment. The results are real; the potential is real, and the time is now. KCP&L urges your support of HB 2632.

Mike Deggendorf
Vice-President, Public Affairs
816-556-2104

Focus on energy efficiency



Energy Efficiency → Products or systems using less energy to do the same or better job than conventional products or systems



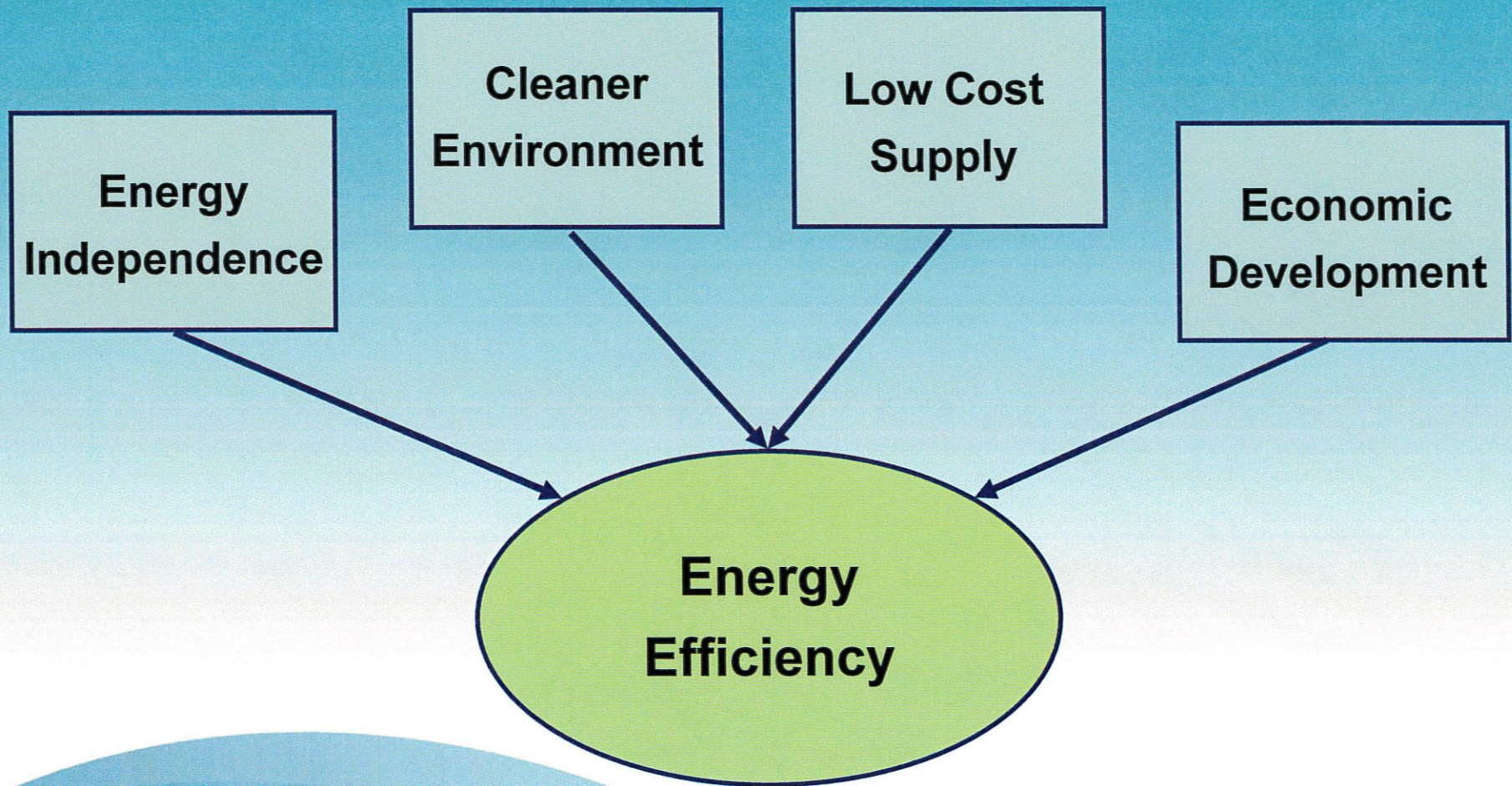
Demand response → Programs help with reducing demand for electricity at a specific time

KCP&L Energy Efficiency - 2008

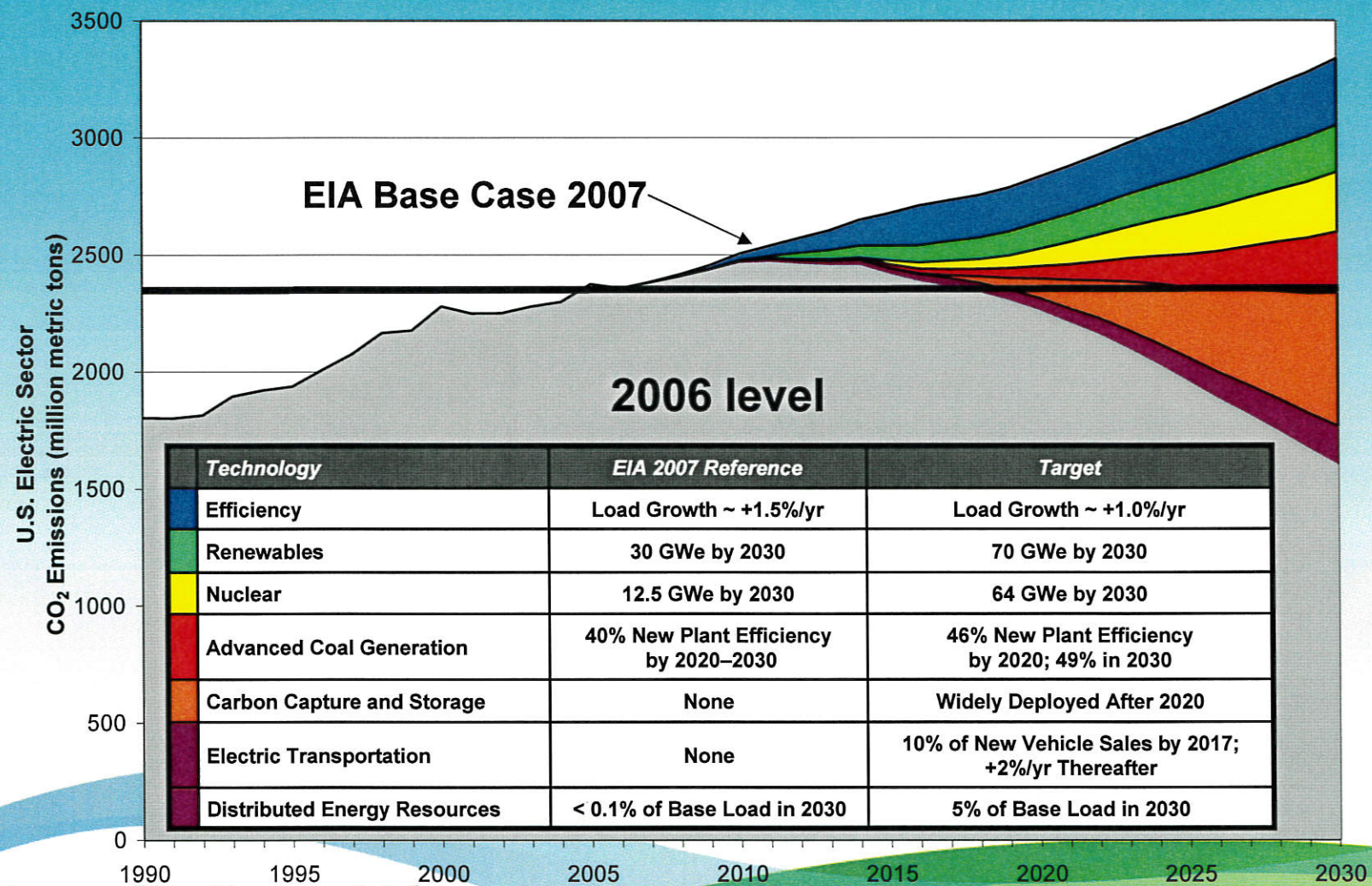
3-2

Program	Type	Aff	Res	Sm Com	Med C&I	Large C&I
Affordability						
· Affordable New Homes	Dir Imp	✓				
· Low Income Weatherization	Dir Imp	✓				
Energy Efficiency						
· Online Analysis	Educ		✓			
· Home Performance-Training	Educ		✓			
· Change a Light, Change the World	Dir Imp		✓			
· Cool Homes Program	Dir Imp		✓			
· Energy Star Homes	Dir Imp		✓			
· PAYS-type program	Dir Imp		✓			
· Online Analysis	Educ			✓	✓	✓
· C&I Audits	Educ			✓	✓	✓
· C&I Custom Rebates-Retrofit	Dir Imp			✓	✓	✓
· C&I Custom Rebates-New Const	Dir Imp			✓	✓	✓
· Bldg Operator Certification	Dir Imp				✓	✓
· Research	Research					
Demand Response						
· Energy Optimizer A/C Cycling	Dmd Rsp		✓	✓		
· The Alliance, an Energy Partnership	Dmd Rsp				✓	✓

The Solution for Four Important Issues: Energy Efficiency



U.S. Potential of CO₂ Reductions



<i>Technology</i>	<i>EIA 2007 Reference</i>	<i>Target</i>
Efficiency	Load Growth ~ +1.5%/yr	Load Growth ~ +1.0%/yr
Renewables	30 GWe by 2030	70 GWe by 2030
Nuclear	12.5 GWe by 2030	64 GWe by 2030
Advanced Coal Generation	40% New Plant Efficiency by 2020–2030	46% New Plant Efficiency by 2020; 49% in 2030
Carbon Capture and Storage	None	Widely Deployed After 2020
Electric Transportation	None	10% of New Vehicle Sales by 2017; +2%/yr Thereafter
Distributed Energy Resources	< 0.1% of Base Load in 2030	5% of Base Load in 2030

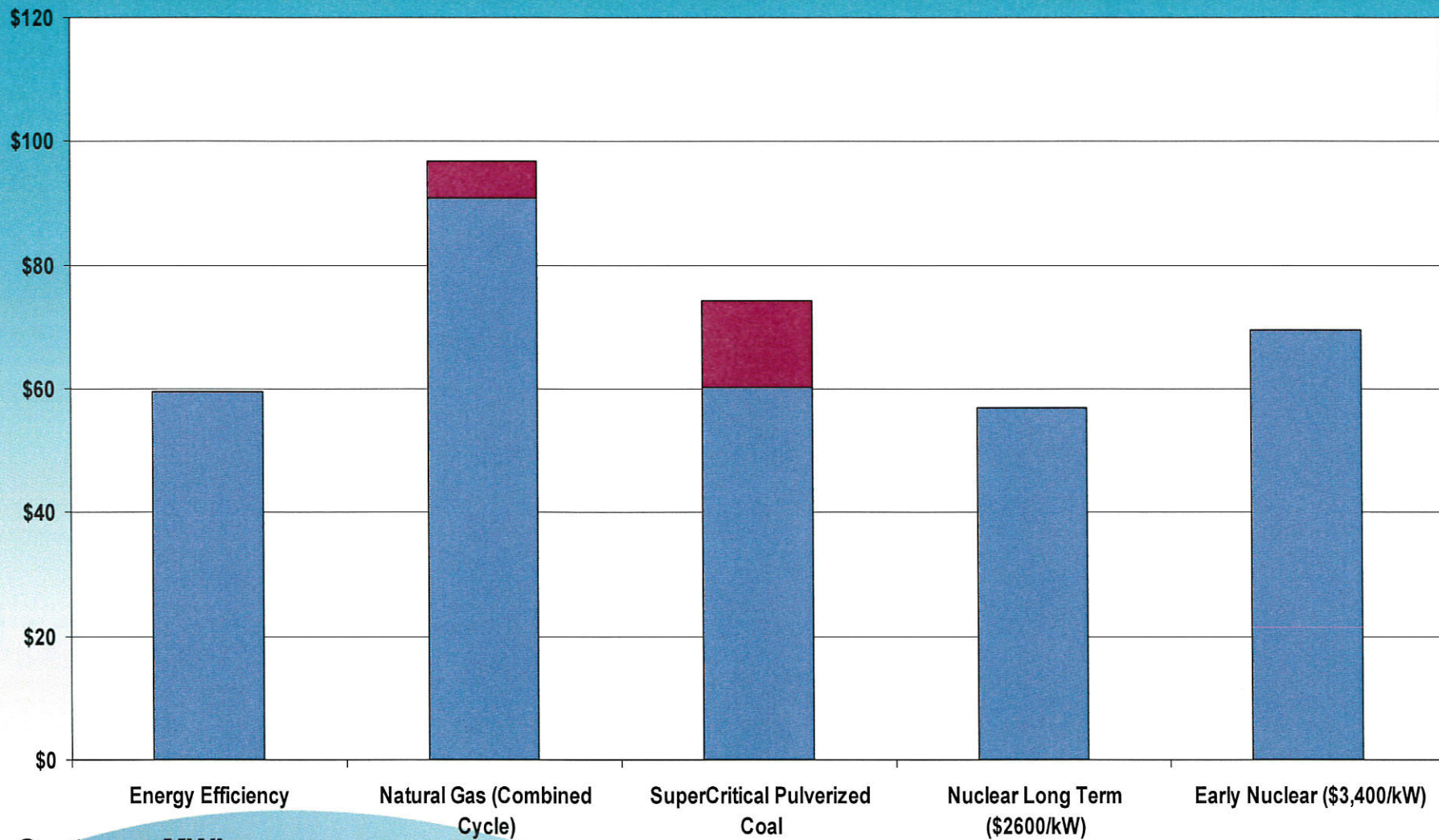
What can be accomplished in 12 months?

20 Megawatts saved and 117,000 tons of reduced emissions!

Scenario	Megawatts Saved	CO2 reduction
Every customer changes just 1 incandescent light bulb and replaces with 1 CFL	10	77,000 tons
3% of KCP&L customers retire old-style (SEER 7) A/Cs and upgrade to efficient (SEER 14) units	8	34,000 tons
15,000 KCP&L customers upgrade to the latest Energy Star refrigerators	2	6,000 tons

Comparing Costs: Energy Efficiency

3-6



Costs per MWhr

■ Busbar Cost Without CO2 Costs ■ Busbar Costs With CO2 at \$15/ton



Testimony before
House Energy & Utilities Committee
Regarding KS HB 2632
29 January 2008

Thank you for the opportunity to address you this morning, and for the fine work this committee and its members do for the state of Kansas.

I am Nancy Jackson, Executive Director of the Climate & Energy Project of The Land Institute, based in Salina, Kansas. I speak today on behalf of Kansas House Bill 2632, which CEP heartily supports.

Last week, 400 Kansans came out on bitterly cold evenings to take part in our community energy forums in Salina, Topeka and Overland Park. Given the lively and extended question-and-answer sessions, I can certainly attest to the keen interest that citizens are taking in the crucial issues before this committee.

Both Westar and KCPL were good enough to participate in those forums, and they fielded numerous questions about energy efficiency. Citizens appear to be eager indeed to enroll in utility programs. Better yet, given Westar and KCPL's answers to questions, 800 MW of energy efficiency to meet new demand in Kansas appears to be a reasonable and achievable goal.

Like so many others today, we view energy efficiency as the first fuel – the least-cost, most immediately available, lowest-impact resource to meet new demand.

As such we support all cost-effective efficiency measures – that is, all energy efficiency that costs less than alternative new generation, including supply, fuel, and distribution.

Such a strategy maximizes existing generation while spurring local economies. Dollars spent on improvements to existing building stock – such as insulation, windows, lighting, HVAC, and updated appliances – tend to stay close to home with local contractors and suppliers and have the advantage of reducing demand permanently.

Indeed, the EPA recently announced that it expects energy efficiency could save Americans \$500 billion in energy costs over 25 years and reduce annual greenhouse gas emissions equivalent to those from 90 million vehicles.

We know some harbor a concern about capitalizing advertising costs. While certainly a legitimate issue, we trust that the KCC will carefully consider such details when considering specific rate cases. Energy efficiency programs do require marketing, just as transmission lines require tree-trimming. If the overall costs of those programs, including marketing, remain cost-effective – that is, less than new generation – and demand reduction is real and permanent, then we view those investments as valid and would hope they would be deemed recoverable.

Ultimately, of course, the implementation of energy efficiency will be worked out at the KCC, where a docket is pending. We hope that our state regulators will identify aggressive targets – a minimum reduction of 1% of kilowatt/hour sales per year, for example – and that utilities will be held accountable, with penalties for not achieving targets and incentives for meeting or exceeding them.

There seems ample room here for the legislature to speak, setting a long-term policy framework to shape utilities' expectations, and for the KCC to exercise its discretion in implementation.

No Kansan wants to leave money on the table. With our strong agricultural base, and a cultural memory of harder times, few Kansans wish to waste energy. We appreciate all that our legislators and regulators can do to help us make the most of our energy dollars and be the best possible stewards of our valuable resources.

Again, thank you for the opportunity to be heard today, and for acting on behalf of all Kansans.

Nancy Jackson
Executive Director
Climate & Energy Project
The Land Institute
785.331.8743
jackson@climateandenergy.org
www.climateandenergy.org

Energy Efficiency: Do more. Use less.

Energy efficiency means using less energy to do more.

It is using the best available technology to get the most from the energy we produce.

We can still have the energy services we want—comfortable homes, safe transportation, and profitable businesses—with reasonable utility bills and lower costs to our environment.

Energy Efficiency:

- 1. Saves consumers money.** Energy efficiency costs *less than half* of new electricity generation. Also, many states offer tax credits for homeowners who use energy efficiency measures in their homes.
- 2. Protects the environment.** Energy efficiency doesn't emit greenhouse gases because it doesn't require burning additional fossil fuels to generate energy. It also doesn't produce the air pollution associated with coal-fired power generation.
- 3. Enhances the economy.** Energy prices can fluctuate rapidly due to changes in fuel prices (coal, oil, natural gas). Energy efficiency protects utilities from fuel price fluctuations. Also, investment in energy efficiency creates jobs and spurs local economies.
- 4. Promotes national security.** Energy efficiency reduces U.S. per capita energy consumption. Using less energy decreases the amount of fuel transported across the U.S., therefore decreasing the vulnerability of our fuel supply to natural disasters or terrorist acts.

Our homes, schools, and communities can all benefit from energy efficiency!

See reverse side for examples of energy efficiency measures you can start today.

Sources:

<http://www.eere.energy.gov/buildings/energysmartschools/index.html>

http://www.energystar.gov/ia/business/small_business/congregations.pdf

www.kcpl.com

<http://www.epa.gov/cleanenergy/pdf/vision.pdf>

<http://www.energystar.gov/>

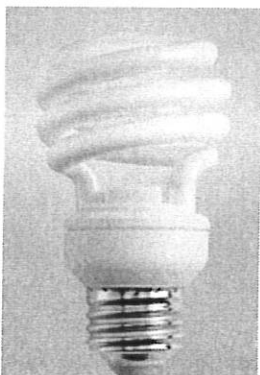
The Benefits of Energy Efficiency

In your home:

- Using a compact fluorescent light bulb (CFL) uses up to 75% less electricity, produces 75% less heat and lasts up to 10 times longer than standard light bulbs.
- Installing an ENERGY STAR appliance such as a washer, dryer, or dishwasher uses 10-30% less energy than standard models.
- Using a programmable thermostat to control the temperature of your home allows you to use less heat or air conditioning at times when you're not at home or sleeping. When used properly, you can save \$150/year!
- Choosing a central air conditioner with a high SEER (Seasonal Energy Efficiency Ratio) can also lower your energy costs. Look for a SEER rating of 13 or higher.

All of our homes and buildings can be made much more efficient by controlling seasonal heat gain or loss.

- Insulating your home is one of the smartest investments you can make. Exterior walls should be insulated to a rating of R-19 to R-25, and ceilings should be insulated from R-20 to R-38.
- Poorly sealed windows and doors are drafty and waste energy. Seal these leaks with easy-to-install caulking and weatherstripping.



In your school:

Nationwide, schools spend \$8 billion on energy costs. This can be reduced by 20% without major initial investments.

- Installing occupancy sensors on classrooms allow the lights to turn off when students aren't in the room. This can save schools between 8% and 20% of lighting costs.
- Proper maintenance of boilers can lead to 10%-20% energy savings.
- ENERGY STAR copiers can achieve savings of 40% compared to standard models.

With your congregation:

- Installing LED lights in the exit signs uses just 5 percent of the energy used by incandescent exit signs, and can also last 10-20 times longer.
- Using ENERGY STAR copiers, printers and fax machines in your church's office can reduce energy use up to 50%.
- Talking with church members about energy efficiency can open up conversations about the importance of stewardship—both of the environment and of church funds.

When energy efficiency is combined with smart energy practices — like turning off lights, TVs, computers, and electronics that you're not using — all of the benefits above are compounded.

**Testimony before the House Energy and Utilities Committee
January 29, 2008
Supporting H.B. 2632**

Chairperson Holmes and Honorable Members of the Committee:

My name is Tom Thompson and I represent the Kansas Chapter of the Sierra Club. I have come today to speak in support of H.B. 2632.

HB 2632 allows a utility a return on their investment for energy conservation or efficiency programs if these programs are approved by the KCC.

Utilities have primarily been in the business of generating electricity and selling it to their customers. Today, building new capacity is very expensive and often results in adverse effects on the health of people and the environment.

There is another way to help energy customers meet their energy needs. Energy conservation and efficiency helps both utilities and individuals save money in the long run. The building of new generation is avoided and base load is expanded. As a result, fewer greenhouse gasses are produced and the advance of climate change is decreased for years to come. It is time to encourage utilities to be part of solving the issue of climate change instead of adding to it.

Utilities that take the lead by developing conservation and efficiency programs should be applauded. More programs are needed. The incentive for businesses is to get a return on their investment whether what is being done is more or less expensive.

The Sierra Club supports HB 2632 and believes it is time for utilities to be more in the business of helping its customers meet their energy needs and not just selling them energy.

Thank you for this opportunity and your time.

Sincerely

Tom Thompson
Sierra Club



Mid-America Regional Council

Testimony before the House Energy and Utilities Committee

Regarding House Bill 2632

January 29, 2008

Good morning. My name is Jody Ladd Craig and I serve as the Public Affairs Director for the Mid-America Regional Council. Mid-America Regional Council, or MARC, is the transportation and environmental planning agency and voluntary council of governments for the Kansas City region, including Johnson, Leavenworth, Miami and Wyandotte counties.

I am here this morning to report to you that the MARC Board of Directors — all elected officials from the cities and counties in the Kansas City region — is solidly behind the proposal before you for a number of reasons.

First, MARC and its member governments are working hard to create ways for businesses and residents to participate in more effective conservation measures in partnership with our local utility providers.

Second, local governments are actively investing in significant conservation programs to make their operations cleaner and more energy efficient allowing them to save taxpayer dollars.

Third, MARC is actively working with many other businesses, governments and institutions to develop a regional strategy for conservation and sustainability which you will be hearing much more about in the next few weeks. This strategy will ask organizations to make a public commitment to sustainability; coordinate progress by undertaking comprehensive research, benchmarking, and evaluation of programs and efforts in the KC region; communicate about these efforts in order to increase awareness of and engagement in sustainability; conserve the region's natural resources by reducing consumption wherever possible; and create new regional systems and other capacities for sustainability.

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MARC

Mid-America Regional Council

The work that KCP & L proposes to do if this legislation is approved is a major element of this strategy. We believe our local utility companies need to be able to invest in conservation measures to a much greater degree than they ever have in the past. This proposal will reorient the entire market, allowing utilities to reward efficiency on the part of businesses and residents, which will save resources and reduce costs, making our region more sustainable and competitive. MARC and its members are fully supportive of this proposal.

Thank you for your attention.

Jody Ladd Craig
Public Affairs Director
Mid-America Regional Council
jladd@mrc.org
913/449-5127



THE CHAMBER

Greater Kansas City Chamber of Commerce

Testimony to House Energy and Utilities Committee Provided by the Greater Kansas City Chamber of Commerce

January 29, 2008

The Greater Kansas City Chamber of Commerce supports House Bill 2632 as a way to increase adoption of energy efficiency in Kansas and specifically the Greater Kansas City metropolitan area.

The past few years have brought significant attention to energy. The Chamber has been active in participating in and facilitating discussions on energy issues as we seek to help address climate change issues in a way that doesn't harm our vibrant business community and economic development efforts.

To help Chamber members and business leaders become knowledgeable and involved in progressive energy initiatives, in 2006, the Chamber started its Energy Policy Task Force, which is comprised of leaders of Kansas City's impressive list of energy and energy-related companies. The Chamber was a co-sponsor of KCP&L's Energy Efficiency forums. The Chamber also held its own community energy discussion at a November Energy Policy and Climate Protection Symposium. At this forum, Lt. Governor Mark Parkinson and House Energy and Utilities Chairman Carl Holmes educated over 130 business and community leaders on Kansas energy issues and opportunities.

The Chamber recently launched the Greater Kansas City Climate Protection Partnership and have received a terrific response from the region's business community. The Partnership calls on organizations to take an inventory of their actions related to climate issues and work toward goals to reduce emissions from their own organizations. We currently have over 125 companies and organizations signed on as partners, including the state of Kansas. A copy of the partnership agreement and the member organizations is attached.

Through our many interactions on energy issues The Chamber believes a greater emphasis on energy efficiency is the quickest and most affordable way to impact climate change and create a secure energy future. For this reason, The Greater Kansas City Chamber of Commerce encourages passage of HB 2632.

The Chamber. It Works. In Kansas and Missouri

Greater Kansas City Chamber of Commerce | 2600 Commerce Tower • 911 Main Street • 1
816/221-2424 • Fax 816/221-7440 • www.kc

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THE GREATER KANSAS CITY
CHAMBER OF COMMERCE

Partners

360 Architecture
Adams Gabbert & Assoc.
AMC Entertainment Inc.
American Academy of Family Physicians
American Century Investments
American Micro Co.
Avila University
Bank of Blue Valley
Bayer Health Care, LLC
Bentley Prince Street
Best Harvest Bakeries
Black & Veatch
Blue Cross and Blue Shield of Kansas City
Blue Valley Unified School District No. 229
BNIM Architects, Inc.
Bridging the Gap, Inc.
Burns & McDonnell
Cass County, Missouri
City of Kansas City, Missouri
City of Mission, Kansas
City of Riverside, Missouri
Civic Council of Greater Kansas City
Commerce Bank of Kansas City
Community Blood Center
Copaken, White & Blitt
Corporate Express
CVR Energy
Deloitte
DST Systems Inc.
ECCO Select Corporation
Ecology and Environment, Inc.
Economic Development Corporation of Kansas City, MO
EFL and Associates
Embarq
Enterprise Rent-A-Car of Kansas City
Ewing Marion Kauffman Foundation
FilterPro
Fleishman-Hillard, Inc.
Full Employment Council
Gamble Hospitality
Gastinger Walker Harden Architects
Germinder & Associates

Governor Matt Blunt-Missouri
Greater Kansas City Chamber of Commerce
GT Enterprises, Inc.
Habitat Restore-Kansas City
Hallmark Cards, Inc.
Hangers Cleaners
HNTB
Hofer Wysocki Architects, LLC
HOK Sport Venue Event
InkCycle, Inc.
InterfaceFLOR
International Motor Coach Group, Inc.
JE Dunn Construction Company
Johnson County Community College
Johnson County Government
Kansas City Area Development Council
Kansas City Area Transportation Authority
Kansas City Board of Public Utilities
Kansas City Power and Light
Kansas City SmartPort, Inc.
Kansas City Star
Kansas City University of Medicine and Biosciences
Kansas State University
King Hershey, PC
KPMG LLP
Kuhn & Wittenborn Advertising
Lafarge North America Inc.-Sugar Creek Cement Plant
Lathrop & Gage L.C.
Leawood Chamber of Commerce
Marks Nelson Vohland Campbell Radtke, LLC
Mazuma Credit Union
McCormick Distilling Co., Inc.
McCownGordon Construction
Metropolitan Community College
Metropolitan Energy Center
MidAmerica Minority Business Development Council
Mid-America Regional Council
Midwest Mechanical Contractors, Inc.
Midwest Research Institute
Missouri Bank
Missouri Gas Energy
Morningstar Communications
National Board for Respiratory Care, Inc. (NBRC)
National Fiber Supply Company
National Institute for Strategic Technology Acquisition and Commercialization
North Kansas City Schools
Optimum Electrical Services
Park University
Parris Communications, Inc.
Performance Roof Systems, Inc.
Rainy Day Books, Inc.
Realty Trust Group
Research Medical Center

Saint Luke's Health System
Schutte Lumber
Shook, Hardy & Bacon L.L.P
Shughart, Thomson & Kilroy, P.C.
Small Planet Partners
Sound Products, Inc.
Spencer Fane Britt & Browne, LLP
Sprint Nextel
State of Kansas
Stinson Morrison Hecker LLP
Swope Community Enterprises
Tetra Tech, Inc.
TetraTech EM Inc.
The Forrester Group
Top Innovations, Inc.
Trabon Printing
Trigen-Kansas City Energy Corporation
Trozzolo Communications Group
Truman Medical Center
U.S. Representative Emanuel Cleaver, II
UMB Bank
United Way of Greater Kansas City
University of Kansas
University of Missouri Kansas City
Urban League of Greater Kansas City
URS Corporation
US Bank
Walton Construction Company, LLC
Wonderscope Children's Museum
YRC



THE CHAMBER
Greater Kansas City Chamber of Commerce



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THE GREATER KANSAS CITY
CHAMBER OF COMMERCE

**Greater Kansas City Climate Protection Partnership:
Greater Kansas City Chamber of Commerce Coalition of Area Employers Working Together
To Reduce Greenhouse Gas Emissions and Improve Quality of Life**

Partnership Agreement

Preamble

The Greater Kansas City Climate Protection Partnership, coordinated by the Greater Kansas City Chamber of Commerce, offers businesses and organizations the opportunity to lead the community toward the complementary goals of reduced regional greenhouse gas emissions and increased economic competitiveness.

Greater Kansas City area employers are in a unique position to contribute to solutions to address climate change. Innovation, creativity, and entrepreneurial talent—all in abundant supply in the Kansas City area business community—are essential to success. The relationships employers enjoy with their customers, partners, and employees are crucial to communicating the changes needed to effect positive change.

Members of the Greater Kansas City Climate Protection Partnership enjoy benefits that include technical assistance in assessing and reducing their climate change impacts in ways that may reduce costs and open new market opportunities. Other benefits include lessons shared by fellow members and recognition as leaders in responsible management.

Ultimately, businesses and institutions join the collaboration to reduce greenhouse gas emissions because they have a shared interest in making economic investments that can potentially improve the environment. The risks associated with carbon emissions—both environmental and regulatory have increased and the economic opportunities presented by technologies that can help shape the solution to climate disruption are creating opportunities to make changes today. Membership in the Greater Kansas City Climate Protection Partnership simply makes good business sense.

It is with these thoughts in mind that members of the Greater Kansas City Climate Protection Partnership agree to make the following commitments.

The Partnership was established by the Greater Kansas City Chamber of Commerce to focus the business community on voluntary climate solutions in the metropolitan Kansas City region.

Our Commitments

As members of the Greater Kansas City Climate Protection Partnership, we commit to take the following four actions:

- 1. We will assess the potential impacts of climate change on the long-term economic value and vitality of our organization, and we will use that assessment to inform strategic decisions to minimize the business risk associated with greenhouse gas emissions and maximize the economic opportunities afforded by reducing emissions.**
- 2. We will reduce our own organization's greenhouse gas emissions by taking actions in our own operations that may include, but are not limited to, the following:**

- Participate in actions to conduct an inventory of direct greenhouse gas emissions, emissions from purchased electricity, heat, or steam and, where feasible, indirect emissions from activities such as commuter transportation, business travel, or other outsourced activities; set clear reduction goals that maximize economic opportunity and minimize business and regulatory risk; develop an action plan to achieve the goal(s); and document and share progress towards meeting the goal(s).
- Reduce facilities-related greenhouse gas emissions and support the development and use of renewable energy by taking actions such as:
 - participate in a green power program where available to increase the use of renewable energy;
 - ensure that new and renovated facilities are designed and built to be energy efficient;
 - purchase Energy Star computers, printers, and appliances.
 - encourage employees, vendors, and customers to use energy efficiently; and
 - consult with utilities and conduct audits of facilities and operations to learn what financial incentives are available for energy and water efficiency improvements.
- Reduce greenhouse gas emissions from vehicle fleets and off-road equipment by taking actions such as:
 - increase the average fuel efficiency of our fleet;
 - reduce the number of vehicle miles traveled by our fleet;
 - increase the use of clean fuels and clean vehicles in our fleet; and
 - encourage contractors and vendors to “green” their fleets.
- Reduce greenhouse gas emissions from other operational activities by taking actions such as:
 - promote waste reduction and recycling;

- purchase and use climate-friendly materials in construction (e.g. slag cement, locally produced products);
 - promote use of green building practices and standards (e.g. LEED) when building new facilities or renovating old buildings.
- Train employees on reducing greenhouse gas emissions.
 - Establish an organizational education program to encourage all employees, contractors, vendors, and customers to reduce their greenhouse gas emissions.
- 3. We will collaborate with other members of the Greater Kansas City Climate Protection Partnership and take actions, jointly and individually, to help the community support sound policies and legislation that apply to GHG emissions and energy use.**
- 4. We will help grow and strengthen the Greater Kansas City Climate Protection Partnership by taking actions such as the following:**
- Help develop and implement a recruitment strategy to increase participation in the Partnership.
 - Help develop, implement, and continuously improve the Partnership services, including the technical assistance program.
 - Participate in Partnership events, including networking meetings and technical assistance workshops.
 - Share progress and lessons learned with Partnership members.



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CHAMBER OF COMMERCE

Greater Kansas City Climate Protection Partnership Participation Form

Our business or organization agrees to become a member of the Greater Kansas City Climate Protection Partnership of the Greater Kansas City Chamber of Commerce and implement the Greater Kansas City Climate Protection Partnership Agreement, with the understanding that the agreement does not create legal rights in favor of any signatory or any other person or entity or require a member to act in ways it considers contrary to an important business interest.

Date: _____

Name of Organization: _____

Name of CEO: _____

Signature of CEO: _____

Address: _____

City: _____ State: _____ Zip: _____

Staff Contact Name: _____

Staff Contact Title: _____

Staff Phone: _____

Staff Email: _____

Please add my comments in support of the Greater Kansas City Climate Protection Partnership Agreement. These comments will be added to The Chamber's Climate Protection Web site.

Please return completed form at your earliest convenience to:

**Greater Kansas City Climate Protection
Partnership Agreement**

Kristi Smith Wyatt
Greater Kansas City Chamber of Commerce
911 Main St. Ste. 2600
Kansas City, MO 64105

By Email: wyatt@kccchamber.com

By Fax: 816-274-6447



THE CHAMBER

Greater Kansas City Chamber of Commerce

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7-9

COMMITTEE ON ENERGY AND UTILITIES

January 29, 2008
Kansas State House
Topeka, Kansas

I am Bob Courtney, Energy Manager for the Olathe School District. Today, I am writing on behalf of HB 2632. The Olathe School District began an Energy Management Program in the Summer of 1992. The primary charge of this program is to identify and reduce unnecessary energy consumption resulting in dollars saved and positive environmental impacts. This is accomplished through the efforts of building administrators, staff, and students combined with comprehensive energy audits of school facilities.

The Olathe School District is a rapidly growing district. During the last 15 years, the square footage of the district has increased **97%** (from 2,285,000 in 1992 to 4,489,000 in 2007 due to 20 new buildings and additions district-wide). At the same time, the district's consumption of electricity has only increased **45%** and natural gas consumption has increased only **2%**. Our district's operating cost per square foot for energy was **\$0.86** when compared to the national average of **\$1.22** as reported by the Energy Information Administration (EIA) in their 2003 Commercial Building Energy Consumption Survey.

ENERGY AND HOUSE UTILITIES
DATE: 1/29/2008
ATTACHMENT 8-1

The district's buildings are audited on an ongoing basis and information about building performance is shared with building administrators regularly. The Energy Department exchanges information and ideas with the district's Construction Manager so our new buildings and additions are designed and constructed for energy efficiency. We currently have 6 buildings that have received the **Energy Star Award** from EPA with 2 more pending. Our newest building under construction and scheduled to open in the summer of 2008 was designed to receive **LEED Certification** from the U.S. Green Building Council.

Energy efficiency has been the subject of several energy symposiums in the Greater Kansas City area. Kansas City Power and Light has been the sponsor of many of these sessions. I have attended and spoken at several of these conferences. The incentive programs being presented by this utility offer great opportunities for many entities to reduce their energy consumption and carbon footprint. Legislation that can further enhance the ability to be more energy efficient and conservation minded will benefit all of Kansas.

I applaud your efforts to move forward on a statewide energy conservation plan and explore possible federal revenue sources.

Robert Courtney
Energy Manager
Olathe School District #233
913.780.7011

Before the House Energy and Utilities Committee
Regarding HB 2632
January 29, 2008

Summary of Testimony
of
Janet Buchanan
Kansas Corporation Commission

HB 2632 would mandate ratebase treatment of utility expenditures for energy efficiency programs if the utility company wished such treatment. The Commission supports energy efficiency efforts but opposes this bill because it is both premature to decide what incentives for such programs are appropriate and imprudent to mandate any one incentive by statute. The Commission agrees the issue raised by this Bill is extremely important and is devoting considerable effort within two dockets to evaluate all options before reaching final policy decisions that will affect both utilities and rate payers. The Commission is examining these issues on an expedited basis, and will be conducting informal workshops in both dockets with a goal of concluding one docket in late spring and the other during the summer. It will take discussion, study and deliberation to reasonably determine weigh all the pros and cons of various incentive mechanisms. That is why we suggest that it is premature to decide on a single method of providing cost recovery and incentives for energy efficiency programs. Any conclusions should only follow careful consideration of the complicated issues surrounding these controversial topics.

Before the House Energy and Utilities Committee
Regarding HB 2632
January 29, 2008

Testimony of
Janet Buchanan
Kansas Corporation Commission

Thank you, Chairman and members of the Committee. I am Janet Buchanan and I appreciate the opportunity to be here today to testify for the Commission on HB 2632. The bill would mandate ratebase treatment of utility expenditures for energy efficiency programs if the utility company wished such treatment. The Commission supports energy efficiency (EE) efforts but opposes this bill because it is both premature to decide what incentives for such programs are appropriate and imprudent to mandate any one incentive by statute.

The Commission currently has underway two dockets regarding energy efficiency. In one, Docket No. 08-GIMX-442-GIV, the Commission is considering what benefit-cost tests should be applied to potential EE programs. The primary subjects of the other case, Docket No. 08-GIMX-441-GIV, are cost recovery, incentives, and margin recovery associated with EE programs, both Demand Side Management (DSM) and Demand Response (DR). The Order that opened the latter docket posed numerous questions for comment, with initial comments due January 25th and reply comments February 15th. The Commission is examining these issues on an expedited basis, and will be conducting informal workshops in both dockets with a goal of concluding the matters in late spring and summer, respectively.

Recently, the National Action Plan for Energy Efficiency (NAP), which is facilitated by the U.S. Department of Energy and Environmental Protection Agency, released a report, "Aligning Utility Incentives with Investment in Energy Efficiency,"¹ which explores various

¹ www.epa.gov/eeactionplan

ways to provide for cost recovery of EE programs, to provide financial incentives for implementation of such programs and to address the lost margins that result when such programs lower energy consumption. Consequently, the report provides a good summary of most of the issues that the Commission will be exploring in detail. However, the Commission will also be examining the threshold question of whether financial incentives are necessary before utilities will promote EE programs, which the report does not explore in detail.

Attached to this testimony are tables from the report that summarize the pros and cons of the various performance incentive alternatives and also the considerations to apply to cost recovery and incentive decision making. (Attachment A) As you can see from those tables, it will take discussion, study and deliberation to reasonably determine how to weigh all the various considerations. That is why we suggest that it is premature to decide on a single method of providing cost recovery and incentives for EE programs. Any conclusions should only follow careful consideration of the complicated issues surrounding these controversial topics. We suggest that the Commission's proceeding will allow all interested parties with varying perspectives to have an adequate opportunity to weigh in on these issues.

Furthermore, there shouldn't be any significant detriment to KCPL from awaiting the conclusion of the Commission proceeding. As a result of a compromise in the last KCPL rate case, which was the second of four annual rate cases, KCPL was allowed an annual rider for recovery of EE program expenses. This provides them with expedited recovery of such costs until the Commission makes a determination in the general EE docket.

We also suggest that it would be unwise to mandate a single cost recovery-incentive mechanism in Kansas statutes because it may remove Commission flexibility to provide for other mechanisms. The NAP Report, drawing on the experience of states that have had significant efficiency investment and cost recovery policies in place for a number of years, noted that flexibility to modify policies has proved to be essential. Under current statutes, K.S.A. 66-117(e), the Commission has the discretion to allow an additional ½ to 2% rate of return on EE programs. Because that statute is discretionary, the Commission believes that it does not

foreclose other means of providing incentives. However, some have argued in a current court appeal that a statutory mandate for a specific treatment of utility costs forecloses any other Commission treatment. If that argument prevails, this bill would require all utility EE expenses and costs to be afforded rate base treatment.

Table 3 in Attachment A, sets forth the pros and cons associated with a “ratebase” or “capitalization” treatment as included in the NAP report. One drawback is that the incentive is not tied to actual program performance. In other words, even though the EE program may not result in the projected cost savings, the goal of energy efficiency programs, the utility will still get return of and on the expenses. One other big problem associated with this incentive method is that the regulatory asset created by treating expenses as a capital item can grow substantially over time, especially in comparison to traditional treatment. Attached are illustrative examples of this. (Attachment B) For a hypothetical EE program with a one time \$200,000 upfront capital investment and annual expenses of \$1million, and with a 10 year amortization and carrying costs on deferred expenses between rate cases, over 17 years there is a cumulative difference of \$4 million between traditional ratemaking and the capitalization of all expenses. This is approximately an 80% increase in revenue requirement which leads to higher end user rates. The exact results would vary with the specific details of how HB 2632 would be implemented but there is no question that the nontraditional “ratebase” would grow significantly. As noted in the NAP report, this phenomenon has caused some states that once allowed this approach to now abandon it.

I am not suggesting that the Commission will find that the ratebase option is not desirable or inappropriate after it considers all the pluses and minuses of the alternatives. It is too early make any conclusions. But I would suggest that, even if the Commission were to conclude this year that ratebasing is appropriate, it may conclude that other alternatives or mix of alternatives is also appropriate and it may conclude in the future that conditions have changed and ratebasing of expenses is no longer desirable or necessary. Passage of this Bill may unwisely limit the

Commission's flexibility to provide for alternatives or to change those alternatives with changes in policies, industry structure and other considerations.

In summary, the Commission agrees the issue raised by this Bill is extremely important and we are devoting considerable effort to evaluate all options before reaching final policy decisions that will affect both utilities and rate payers. However, we believe the Bill is premature and it would be imprudent to mandate one incentive mechanism by statute. For these reasons we oppose HB 2632. Thank you for your consideration.

Table 1: Cost Recovery and Incentive Design Considerations

Variable	Implication
Related to Industry Structure	
Differences between gas and electric utility policy and operating environments	Wide variety of embedded implications. Gas utility cost structures create greater sensitivity to sales variability and recovery of fixed costs. In addition, as an industry, gas utilities face declining demand per customer.
Differences between investor-, publicly, and cooperatively owned utilities	Significant differences in financing structures. Municipal and cooperative ownership structures might provide greater ratemaking flexibility. Shareholder incentives are not relevant to publicly and cooperatively owned utilities, although management incentives might be.
Differences between bundled and unbundled utilities	Unbundled electric utilities have cost structures with some similarities to gas utilities; may be more susceptible to sales variability and fixed-cost recovery.
Presence of organized wholesale markets	Organized markets may provide an opportunity for utilities to resell "saved" megawatt-hours and megawatts to offset under-recovery of fixed costs.
Related to Regulatory Structure and Process	
Utility cost recovery and ratemaking statutes and rules	Determines permissible types of mechanisms. Prohibitions on single-issue ratemaking could preclude approval of recovery outside of general rate cases. Accounting rules could affect use of balancing and deferred/escrow accounts. Use of deferred accounts creates regulatory assets that are disfavored by Wall Street.
Related legislative mandates such as DSM program funding levels or inclusion of DSM in portfolio standards	Can eliminate decisional prudence issues/reduce utility program cost recovery risk. Does not address fixed-cost recovery or performance incentive issues.

National Action Plan for Energy Efficiency (2007). *Aligning Utility Incentives with Investment in Energy Efficiency*. Prepared by Val R. Jensen, ICF International. Table3-1.

www.epa.gov/eeactionplan (Continued on next page)

Table 1: Cost Recovery and Incentive Design Considerations (continued)

Variable	Implication
Related to Regulatory Structure and Process (continued)	
Frequency of rate cases and the presence of automatic rate adjustment mechanisms	Frequent rate cases reduce the need for specific fixed-cost recovery mechanism, but do not address utility incentives to promote sales growth or disincentives to promote customer energy efficiency. Utility and regulator costs increase with frequency.
Type of test year	Type of test year (historic or future) is relevant mostly in cases in which energy efficiency cost recovery takes place exclusively within a rate case. Test year costs typically must be known, which can pose a problem for energy efficiency programs that are expected to ramp-up significantly. This applies particularly to the initiation or significant ramp-up of energy efficiency programs combined with a historic test year.
Performance-based ratemaking elements	Initiating an energy efficiency investment program within the context of an existing performance-based ratemaking (PBR) structure can be complicated, requiring both adjustments in so-called "Z factors" ⁴ and performance metrics. However, revenue-cap PBR can be consistent with decoupling.
Rate structure	The larger the share of fixed costs allocated to fixed charges, the lower the sensitivity of fixed-cost recovery to sales reductions. Price cap systems pose particular issues, since costs incurred for programs implemented subsequent to the cap but prior to its expiration must be carried as regulatory assets with all of the associated implications for the financial evaluation of the utility and the ultimate change in prices once the cap is lifted.

Table 1: Cost Recovery and Incentive Design Considerations (continued)

Variable	Implication
Related to Regulatory Structure and Process (continued)	
Regulatory commission/governing board resources	Resource-constrained commissions/governing boards may prefer simpler, self-adjusting mechanisms.
Related to the Operating Environment	
Sales/peak growth and urgency of projected reserve margin shortfalls	Rapid growth may imply growing capacity needs, which will boost avoided costs. Higher avoided costs create a larger potential net benefit for efficiency programs and higher potential utility performance incentive. Growth rate does not affect fixed-cost recovery if the rate has been factored into the calculation of prices.
Volatility in load growth	Unexpected acceleration or slowing of load growth can have a major impact on fixed-cost recovery, an impact that can vary by type of utility. Higher than expected growth can lessen the impact of energy efficiency on fixed cost recovery, while slower growth exacerbates it. On the other hand, if the cost to add a new customer exceeds the embedded cost, higher than expected growth can adversely impact utility finances.
Utility cost structure	Utilities with higher fixed/variable cost structures are more susceptible to the fixed-cost recovery problem.
Structure of the DSM portfolio	Portfolios more heavily weighted toward electric demand response will result in less significant lost margin recovery issues, thus reducing the need for a specific mechanism to address. Moreover, a portfolio weighted toward demand response typically will not offer the same environmental benefits.

Table 2: Pros and Cons of Utility Performance Incentive Mechanisms**Pros**

- Provide positive incentives for utility investment in energy efficiency programs.
- Policy-makers can influence the types of program investments and the manner in which they are implemented through the design of specific performance features.

Cons

- Typically requires post-implementation evaluation, which entails the same issues as cited with respect to fixed-cost recovery mechanisms.
- Mechanisms without performance targets can reward utilities simply for spending, as opposed to realizing savings.
- Mechanisms without penalty provisions send mixed signals regarding the importance of performance.
- Incentives will raise the total program costs borne by customers and reduce the net benefit that they otherwise would capture.

National Action Plan for Energy Efficiency (2007). *Aligning Utility Incentives with Investment in Energy Efficiency*. Prepared by Val R. Jensen, ICF International. Table 6-7.
www.epa.gov/eeactionplan

Table 3: Pros and Cons of Capitalization and Amortization**Pros**

- Places energy efficiency investments on more of an equal footing with supply-side investment with respect to cost recovery.
- Capitalization can help make up for the decline in utility generation and transmission and distribution assets expected to occur, as energy efficiency defers the need for new supply-side investment.
- As part of this equalization, enables the utility to earn a financial return on efficiency investments.
- Smooths the rate impacts of large swings in annual energy efficiency spending.

Cons

- Treats what is arguably an expense as a capital item.
- Creates a regulatory asset that can grow substantially over time; because this asset is not tangible or owned by utility, it tends to be viewed as more risky by the financial community.
- Delays full recovery and boosts recovery risk.
- To the extent that the return on the energy efficiency program investment is intended to provide a financial incentive for the utility, this incentive is not tied to program performance.
- Raises the total dollar cost of the efficiency programs.

National Action Plan for Energy Efficiency (2007). *Aligning Utility Incentives with Investment in Energy Efficiency*. Prepared by Val R. Jensen, ICF International. Table 4-4.
www.epa.gov/eeactionplan

Table 4: Pros and Cons of Expensing Program Costs**Pros**

- Expensing treatment is generally consistent with standard utility cost accounting and recovery rules.
- Avoids the creation of potentially large regulatory assets and associated carrying costs.
- Provides more-or-less immediate recovery of costs and reduces recovery risk.
- The use of balancing mechanisms outside of a general rate case ensures more timely recovery when efficiency program costs are variable and prevents significant over- or under-recovery from being carried forward to the next rate case.

Cons

- A combination of infrequent rate cases and escalating expenditures can lead to under-recovery absent a balancing mechanism.
- Can be viewed as single-issue ratemaking.
- If annual energy efficiency expenditures are large, lump sum recovery can have a measurable short-term impact on rates.
- Some have argued that expensing creates unequal treatment between the supply-side investments (which are rate-based) and the efficiency investments that are intended to substitute for new supply.

National Action Plan for Energy Efficiency (2007). *Aligning Utility Incentives with Investment in Energy Efficiency*. Prepared by Val R. Jensen, ICF International. Table 4-1.
www.epa.gov/eeactionplan

Table 5: Pros and Cons of Revenue Decoupling**Pros**

- Revenue decoupling weakens the link between sales and margin recovery of a utility, reducing utility reluctance to promote energy efficiency, including building codes, appliance standards, and other efficiency policies.
- Through decoupling, the utility's revenues are stabilized and shielded from fluctuations in sales. Some have argued that this, in turn, might lower its cost of capital.⁵ (For a discussion of this issue, see Hansen, 2007, and Delaware PSC, 2007). The degree of stabilization is a function of adjustments made for weather, economic growth, and other factors (some mechanisms do not adjust revenues for weather or economic growth-induced changes in sales).
- Decoupling does not require an energy efficiency program measurement and evaluation process to determine the level of under-recovery of fixed costs.
- Decoupling has a low administrative cost relative to specific lost revenue recovery mechanisms.
- Decoupling reduces the need for frequent rate cases and corresponding regulatory costs.

Cons

- Rates (and in the case of gas utilities, non-gas customer rates) can be more volatile between rate cases, although annual caps can be instituted.
- Where carrying charges are applied to balancing accounts, the accruals can grow quickly.
- The need for frequent balancing or true-up requires regulatory resources; may be a lesser commitment than required for frequent rate cases.

National Action Plan for Energy Efficiency (2007). *Aligning Utility Incentives with Investment in Energy Efficiency*. Prepared by Val R. Jensen, ICF International. Table 5-3. (Footnotes omitted) www.epa.gov/eeactionplan

Table 6: Pros and Cons of Lost Revenue Recovery Mechanisms**Pros**

- Removes disincentive to energy efficiency investment in approved programs caused by under-recovery of allowed revenues.
- May be more acceptable to parties uncomfortable with decoupling.

Cons

- Does not remove the throughput incentive to increase sales.
- Does not remove the disincentive to support other energy saving policies.
- Can be complex to implement given the need for precise evaluation, and will increase regulatory costs if it is closely monitored.
- Proper recovery (no over- or under-recovery) depends on precise evaluation of program savings.

National Action Plan for Energy Efficiency (2007). *Aligning Utility Incentives with Investment in Energy Efficiency*. Prepared by Val R. Jensen, ICF International. Table 5-5.
www.epa.gov/eeactionplan

Table 7: Pros and Cons of Alternative Rate Structures**Pros**

- Removes the utility's incentive to promote increased sales.
- May align better with principles of cost-causation.

Cons

- May not align with cost causation principles for integrated utilities, especially in the long run.
- Can create issues of income equity.
- Movement to a SFV design can significantly reduce customer incentives to reduce consumption by lowering variable charges (applies more to electric than gas utilities).

National Action Plan for Energy Efficiency (2007). *Aligning Utility Incentives with Investment in Energy Efficiency*. Prepared by Val R. Jensen, ICF International. Table 5-7.
www.epa.gov/eeactionplan

Hypothetical Example of Difference between Traditional Ratemaking and Capitalization of Investments and Expenditures for Energy Efficiency

Scenario:

1. 5 year EE Program
2. \$200,000 one-time capital investment
3. \$1,000,000 per year program expense
4. 10 year amortization period for program
5. Assumes carrying costs allowed for program expenses during period between rate cases
6. 4 year rate case cycle with first rate case in year 1
7. Pre-tax cost of capital of 11.3% (50/50 capital structure with 6% cost of debt and 10% cost of equity)
8. Traditional Revenue Requirement calculation normalizes \$1M program expense to \$250,000 in year 5 rate case
9. Revenue Requirement calculations are before tax

Result:

Capitalization per HB 2632:	\$9,419,290
Traditional Ratemaking:	<u>\$5,295,618</u>
Increased Cost of HB 2632:	\$4,123,672

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Traditional Treatment

	Rate Case Year 1	Year 2	Year 3	Year 4	Rate Case Year 5	Year 6	Year 7	Year 8	Rate Case Year 9	Year 10
Plant in Service	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Accumulated Depreciation	20,000	40,000	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000
Net Plant	180,000	160,000	140,000	120,000	100,000	80,000	60,000	40,000	20,000	0
Pre-tax Rate of Return	11.30%				11.30%				11.30%	
Return on Investment	20,345				11,300				2,260	
Depreciation Expense	20,000				20,000				20,000	
Operating Expense	1,000,000				250,000					
Revenue Requirement	1,020,345	1,020,345	1,020,345	1,020,345	281,300	281,300	281,300	281,300	22,260	22,260

	Year 11	Year 12	Rate Case Year 13	Year 14	Year 15	Year 16	Rate Case Year 17	Cumulative
Plant in Service	200,000	200,000	200,000	200,000	200,000	200,000	200,000	
Accumulated Depreciation	200,000	200,000	200,000	200,000	200,000	200,000	200,000	
Net Plant	0	0	0	0	0	0	0	
Pre-tax Rate of Return			11.30%					
Return on Investment			0					
Depreciation Expense								
Operating Expense								
Revenue Requirement	22,260	22,260	0	0	0	0	0	5,295,618

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Capitalization of Expense Per HB 2632

	Rate Case Year 1	Year 2	Year 3	Year 4	Rate Case Year 5	Year 6	Year 7	Year 8	Rate Case Year 9	Year 10
Plant in Service	1,200,000	1,200,000	1,200,000	1,200,000	5,710,834	5,710,834	5,710,834	5,710,834	5,710,834	5,710,834
Accumulated Depreciation	120,000	240,000	360,000	480,000	1,051,083	1,517,058	1,983,033	2,449,008	2,914,983	3,380,958
Net Plant	1,080,000	960,000	840,000	720,000	4,659,751	4,193,776	3,727,801	3,261,826	2,795,851	2,329,876
Pre-tax Rate of Return	11.30%				11.30%				11.30%	11.30%
Return on Investment	122,067			0	526,552		0		315,931	263,335
Amortization Expense	120,000				465,975				465,975	
Operating Expense	0			0						
Revenue Requirement	242,067	242,067	242,067	242,067	992,527	992,527	992,527	992,527	781,906	781,906

	Year 11	Year 12	Rate Case Year 13	Year 14	Year 15	Year 16	Rate Case Year 17	Cumulative
Plant in Service	5,710,834	5,710,834	5,710,834	5,710,834	5,710,834	5,710,834	5,710,834	
Accumulated Depreciation	3,846,933	4,312,908	4,778,883	5,011,871	5,244,859	5,477,847	5,710,835	
Net Plant	1,863,901	1,397,926	931,951	698,963	465,975	232,987	(3)	
Pre-tax Rate of Return			11.30%					
Return on Investment			105,334	0				
Amortization Expense	0	0	232,988					
Operating Expense				0				
Revenue Requirement	781,906	781,906	338,322	338,322	338,322	338,322		9,419,290

Citizens' Utility Ratepayer Board

Board Members:
Gene Merry, Chair
Randy Brown, Vice-Chair
Carol I. Faucher, Member
Laura L. McClure, Member
A.W. Dirks, Member



State of Kansas
Kathleen Sebelius, Governor

David Springe, Consumer Counsel
1500 S.W. Arrowhead Road
Topeka, Kansas 66604-4027
Phone: (785) 271-3200
Fax: (785) 271-3116
<http://curb.kansas.gov>

HOUSE UTILITIES COMMITTEE H.B. 2632

Testimony on Behalf of the Citizens' Utility Ratepayer Board
By David Springe, Consumer Counsel
January 29, 2008

Chairman Holmes and members of the committee:

Thank you for this opportunity to offer testimony on H.B. 2632. The Citizens' Utility Ratepayer Board is opposed to this bill for the following reasons:

Currently the Kansas Corporation Commission (KCC) has a docket open on this very issue. Comments were filed this past week by interested parties with reply comments due February 15, 2008. This bill is simply and end-run around the KCC process. The Committee should not act on this bill at this time. Rather the KCC process should be allowed to finish.

While CURB supports increasing the availability of energy conservation and energy efficiency resources, this bill as drafted is bad for consumers. By dictating that "investments in and expenditure for" energy conservation programs shall, at the option of the utility, be included in rate base, this bill eliminates KCC discretion to evaluate the specific facts of an individual case and sets an unprecedented accounting standard. Only long-term capital investments (generation plants, poles, meters, transmission lines) are included in rate base, depreciated over their respective useful lives and allowed a return for shareholders. With few exceptions, day-to-day expenses (advertising, labor) that are not long term capital investments are simply expensed annually as incurred. Expenses are not placed in ratebase and shareholders do not earn a return on expenses.

The majority of expenditures in energy conservation programs are short lived expenses rather than long lived assets. By legislating that these short lived expenditures be given rate base treatment, this bill will have the effect of increasing the long term cost to consumers for utility sponsored energy conservation programs. CURB is at a loss as to why we would encourage this expensive accounting treatment when we can achieve the same level of energy conservation for less cost to consumers with traditional accounting methods.

It might be suggested that this type of accounting treatment is necessary as an incentive for the utility to put energy conservation investments and expenditures on the same footing as investments in traditional generation facilities. More simply, why would a utility that makes its profit by selling energy want to invest money to not sell energy. If the Committee believes that this type of accounting legislation is necessary to put energy conservation investments and

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expenditures on the same footing with traditional generation facilities, then CURB has two suggestions.

First, if the utilities have an incentive problem then perhaps the utilities are not the right entity to be providing energy conservation and energy efficiency. The Committee should investigate whether there are other more effective and less expensive methods to deliver energy conservation to Kansas consumers. For example, Colorado uses a non-profit entity, Energy Outreach Colorado, to provide both low income energy assistance and energy conservation programs. Utility customers still provide the funding, but the non-profit has only one objective; to provide energy conservation, and so does not have the incentive problem that the utilities claim to have. Also, since the non-profit does not have to pay profits to shareholders, all of the consumer money provided, less some administration expense, goes to providing energy conservation to consumers. The non-profit is also not constrained by pre-set territories like the utilities. Cost effective programs can be offered across different utility territories.

While this model may, or may not work in Kansas, this current legislation by default deems the utilities be the provider of energy conservation in Kansas and creates accounting that will reward shareholders at the consumer's expense. Kansas consumers deserve to know whether there are other ways to provide this service at a lower cost, or that may reach a broader range of customers in a more cost effective manner.

Second, the legislature should also require Integrated Resource Planning (IRP) by utilities. IRP puts energy conservation on the same footing as energy supply option and requires that the utility provide the least cost resource to meet future needs. IRP was considered in Kansas in the early 1990's, but no rules were ever adopted. Without a robust IRP process, we won't truly know whether the energy conservation resources at issue are cost effective, or whether any generation resources are being avoided. Without the IRP process, this bill merely provides an incentive to the utilities spend money on energy conservation and energy efficiency as a new profit center. Results are not guaranteed.

At the end of the day, consumers are interested in having service, whether supply side or energy conservation provided at the lowest reasonable cost. This bill serves only to increase the cost to consumers of providing energy conservation and energy efficiency. CURB does not believe that Kansas consumers want policymakers to pick an approach, as in this bill, that encourages energy conservation in the most expensive way possible. CURB urges the Committee to not pass this bill.

One final note, Kansas City Power and Light is in the middle of a five year \$2.5 billion resource expansion plan. KCPL's rates have increased more than 20% in the last two years and two more rate cases are planned in the next two years. Westar Energy reports that it will spend \$2.3 billion in capital expenditures alone during 2007-2009. Shareholders will have plenty of long term capital to put in rate base. Consumer rates will most certainly increase substantially to pay for that long term capital as well as to pay for increases in operations, maintenance, administrative and fuel expenses. Energy conservation can help consumers. However, this bill will result in additional unnecessary rate increases.



AARP Kansas
555 S. Kansas Avenue
Suite 201
Topeka, KS 66603

T 1-866-448-3619
F 785-232-8259
TTY 1-877-434-7598
www.aarp.org/ks

January 29, 2008

Representative Carl Holmes, Chair
House Utilities Committee

Reference HB 2632

Good morning Chairman Holmes and Members of the House Utilities Committee. My name is Ernest Kutzley and I am the Advocacy Director for AARP Kansas. AARP is a nonprofit, nonpartisan membership organization dedicated to making life better for people aged 50 and over. We provide information and resources and engage in legislative, regulatory and legal advocacy.

AARP Kansas represents the views of more than 369,000 AARP members in the state of Kansas. AARP has been active, in Kansas and other states, in advocating on behalf of our members who are concerned about rising energy and telecommunications bills. Thank you for this opportunity to provide written comments in opposition to HB 2632, which would allow utilities to place expenditures for energy efficiency, conservation, and demand management into the rate base and earn profits on those expenditures.

HB 2632 would allow utilities to treat expenditures for energy efficiency, conservation and demand management programs in the same manner that they currently treat investments in power plants. That is, these expenses would be placed into the rate base and utilities would earn a profit on them. This practice would be contrary to sound ratemaking principles, where only large scale investments in plants and equipment with a long-term useful life are put into the rate base, allowing utilities to profit and to return the investment of the utility's shareholders, who initially finance the investment.

Energy efficiency is different. If done properly, energy efficiency can help to offset the need for new power plants. However, it does not represent a tangible capital investment, as do power plants. Energy efficiency expenses should be recovered as other utility expenses are recovered. Cost recovery should be considered in a rate case and costs

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recovered in rate as a cost of service. Departure from traditional regulation is neither necessary nor desirable to encourage utilities to engage in energy efficiency programs. It is fairer to consumers to include program costs in rates as with other expenses. In this way, the costs of energy efficiency programs are considered along with any other cost changes occurring within the utility's overall operations. Thus, the regulator can see the entire picture, and consumers are protected from overpaying.

AARP is currently involved in two proceedings before the Corporation Commission regarding cost recovery for energy efficiency, conservation and demand management. Several different proposals for cost recovery and utility incentives are under consideration in those proceedings. Should the Legislature approve this bill it should also prohibit any other forms of cost recovery for the same expenses - if a utility is permitted to seek rate base recovery of energy efficiency expenses, the utility should not be permitted to also seek recovery through riders, surcharges and/or "lost revenue" adjustments, such as "decoupling". Further, if such expenses are included in rate base, the utility deserves no additional incentive or bonus on top of the authorized rate of return.

Thank you for allowing us to offer our comments and opposition to HB 2632.

SENATE BILL No. 49

By Committee on Utilities

1-10

9 AN ACT concerning telecommunications; relating to the Kansas univer-
10 sal service fund; amending K.S.A. 2006 Supp. 66-2008 and repealing
11 the existing section.
12

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

14 Section 1. K.S.A. 2006 Supp. 66-2008 is hereby amended to read as
15 follows: 66-2008. On or before January 1, 1997, the commission shall
16 establish the Kansas universal service fund, hereinafter referred to as the
17 KUSF.

18 (a) The commission shall require every telecommunications carrier,
19 telecommunications public utility and wireless telecommunications serv-
20 ice provider that provides intrastate telecommunications services and
21 ~~every VoIP provider as defined by K.S.A. 2006 Supp. 19-5353, and~~
22 ~~amendments thereto,~~ to contribute to the KUSF on an equitable and
23 nondiscriminatory basis. Any telecommunications carrier, telecommuni-
24 cations public utility ~~or,~~ wireless telecommunications service provider ~~or~~
25 ~~VoIP provider~~ which contributes to the KUSF may collect from custom-
26 ers an amount equal to such carrier's, utility's or provider's contribution,
27 but such carrier, provider or utility may collect a lesser amount from its
28 customer.

29 Any contributions in excess of distributions collected in any reporting
30 year shall be applied to reduce the estimated contribution that would
31 otherwise be necessary for the following year.

32 (b) Pursuant to the federal act, distributions from the KUSF shall be
33 made in a competitively neutral manner to qualified telecommunications
34 public utilities, telecommunications carriers and wireless telecommuni-
35 cations providers, that are deemed eligible both under subsection (e)(1)
36 of section 214 of the federal act and by the commission.

37 (c) The commission shall periodically review the KUSF to determine
38 if the costs of qualified telecommunications public utilities, telecommuni-
39 cations carriers and wireless telecommunications service providers to
40 provide local service justify modification of the KUSF. If the commission
41 determines that any changes are needed, the commission shall modify
42 the KUSF accordingly.

43 (d) Any qualified telecommunications carrier, telecommunications

not prohibited

, to the extent ~~permitted~~ by federal law, every provider of interconnected
VoIP service, as defined by 47 C.F.R. 9.3,

provider of interconnected VoIP service

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1 public utility or wireless telecommunications service provider may re-
2 quest supplemental funding from the KUSF based upon a percentage
3 increase in access lines over the 12-month period prior to the request.
4 The supplemental funding shall be incurred for the purpose of providing
5 services to and within the service area of the qualified telecommunica-
6 tions carrier, telecommunications public utility or wireless telecommu-
7 nications service provider. Supplemental funding from the KUSF shall
8 be used for infrastructure expenditures necessary to serve additional cus-
9 tomers within the service area of such qualifying utility, provider or car-
10 rier. All affected parties shall be allowed to review and verify a request
11 of such a qualified utility, carrier or provider for supplemental funding
12 from the KUSF, and to intervene in any commission proceeding regard-
13 ing such request. The commission shall issue an order on the request
14 within 120 days of filing. Additional funding also may be requested for:
15 The recovery of shortfalls due to additional rebalancing of rates to con-
16 tinue maintenance of parity with interstate access rates; shortfalls due to
17 changes to access revenue requirements resulting from changes in federal
18 rules; additional investment required to provide universal service and en-
19 hanced universal service, deployed subject to subsection (a) of K.S.A. 66-
20 2005, and amendments thereto; and for infrastructure expenditures in
21 response to facility or service requirements established by any legislative,
22 regulatory or judicial authority. Such requests shall be subject to simpli-
23 fied filing procedures and the expedited review procedures, as outlined
24 in the stipulation attached to the order of November 19, 1990 in docket
25 no. 127,140-U (Phase IV).

26 (e) For each local exchange carrier electing pursuant to subsection
27 (b) of K.S.A. 66-2005, and amendments thereto, to operate under tradi-
28 tional rate of return regulation, all KUSF support, including any adjust-
29 ment thereto pursuant to this section shall be based on such carrier's
30 embedded costs, revenue requirements, investments and expenses.

31 (f) Additional supplemental funding from the KUSF, other than as
32 provided in subsection (d), may be authorized at the discretion of the
33 commission. However, the commission may require approval of such
34 funding to be based upon a general rate case filing. With respect to any
35 request for additional supplemental funding from the KUSF, the com-
36 mission shall act expeditiously, but shall not be subject to the 120 day
37 deadline set forth in subsection (d).

38 Sec. 2. K.S.A. 2006 Supp. 66-2008 is hereby repealed.

39 Sec. 3. This act shall take effect and be in force from and after its
40 publication in the statute book.

18-2