

MEMORANDUM

TO: Dale Johansen

FROM: Mark Oligschlaeger *MLC*

RE: Accounting Department Recommendation in Case Nos. HM-90-4/HA-90-5 -
Kansas City Power and Light/Trigen-Kansas City District Energy
Corporation

DATE: December 8, 1989

This memorandum will address two aspects of Kansas City Power & Light's (KCPL) proposed sale of its downtown Kansas City steam heating system to Trigen-Kansas City District Energy Corporation (Trigen): (1) the proposed level of rates to be charged by Trigen if the sale of the steam heating system is approved; (2) the proposed transfer of certain "banked" pollution control credits associated with Grand Avenue Station from KCPL to Trigen.

PROPOSED RATES

Trigen has proposed to increase the level of steam heating rates currently in effect for KCPL concurrent with acquisition of the system. Trigen estimates its new rates would generate an additional \$569,880 over the level generated by the current KCPL tariffs, a 7.5% increase. (This increase would be partially offset by the revenue impact of the decrease of Kansas City's gross receipt tax from 10% to 4%, effective January 1, 1990.) On a unit basis, Trigen's rates would generate \$12.69 per Mlb, compared to \$11.92 per Mlb under the current KCPL rates.

It has been the policy in the past not to allow increased rates to go into effect associated with utility acquisitions, primarily because no actual cost data exists to base new rates for the purchasing entity. Purchasing entities have assumed the existing level of rates authorized by the Commission at the time of purchase. In this case, Trigen's proposed rates are based on their estimates of future revenues and expenses. No opportunity exists for Staff to examine the reasonableness of the proposed rates in light of actual operating experience of the downtown steam system by Trigen. KCPL's current rates were set in 1982, and the revenue requirement calculation sponsored by Staff in Case No. HO-86-139 showed these rates to be deficient at that time (1987) to cover the costs and return associated with KCPL's steam heating system. However, the Commission in that case made a policy decision to not grant any rate increase to KCPL so as to keep the system financially viable for a possible future purchase. It should be kept in mind that Trigen's costs to run the downtown Kansas City steam system are likely to be different from KCPL's costs, and Trigen should be able to incur significantly less cost to run the system than KCPL has in the past. In light of these facts, the Accounting Department does not recommend granting Trigen a rate increase concurrent with its acquisition of KCPL's steam heating system (if approved), as the basis for those rates are not subject to audit and verification through

Date 12-19-89 Case No. HM-90-4
Reporter gms HA-90-5

examination of actual costs. The Accounting Department would recommend that Trigen follow the traditional practice of assuming KCPL's current level of rates upon purchase of the steam system, and filing a rate increase request if the current level of rates are not considered adequate.

If the Commission finds that Trigen's proposed level of rates are reasonable and should be put in effect upon acquisition of the system, the Accounting department would recommend that a rate investigation of Trigen be ordered on a flexible schedule once sufficient operating data was available (12-24 months), so that the reasonableness of Trigen's rates at that time could be subject to audit and examination.

BANKED POLLUTION CREDITS

As part of its agreement to sell the downtown steam heating system, KCPL has agreed to transfer certain "banked" pollution credits associated with the Grand Avenue generating station to Trigen. These credits came about when KCPL switched from coal to gas as the primary fuel at the Grand Avenue station after retirement of the stations electrical generation facilities in 1984. These "banked" credits have a potential future value to KCPL, as the Company might be able to use these credits to meet future emissions limits that might be applicable to existing or future generating units. Trigen has indicated to Staff that purchase of KCPL's steam system is not economically feasible without transfer of these credits. KCPL has asked the Commission to find that transfer of the credits is reasonable and specifically approve such transfer if Trigen's purchase of the steam system is authorized.

Staff's investigation of KCPL's pollution control credits has indicated that these credits have a highly uncertain future value to KCPL, primarily dependant upon future emissions limits that may or may not be enacted by governmental agencies. These credits do not have an ascertainable value at this time, as no market exists for them. In light of these facts, the Accounting Department recommends that the Commission find that transfer of the "banked" pollution control credits associated with Grand Avenue generating station is reasonable and should be approved, if the Commission finds that Trigen's proposed acquisition of KCPL's downtown Kansas City steam heating system is in the public interest.

MO/msb

cc: Mary Ann Young
Mike Straub
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