

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of)
Kansas City Power & Light Company’s) File No. ER-2014-0370
Request for Authority to Implement)
a General Rate Increase for Electric Service)

SIERRA CLUB POST-HEARING REPLY BRIEF

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I. Introduction.

Sierra Club, by and through counsel, hereby submits its post-hearing reply brief. For the reasons explained in its opening brief and below, Sierra Club respectfully requests that the Commission issue an order regarding Kansas City Power & Light Company's ("KCP&L" or the "Company") rate case application that is consistent with Sierra Club's positions on Issues VII (La Cygne Environmental Retrofit Project), XVIII(A) (Clean Charge Network), XXV(B)(d)(1) (Rate design – Residential – Customer Charge), and XXXVIII (Decoupling), as set forth below and in Sierra Club's opening brief in this case.

II. Argument.

A. KCP&L Acted Imprudently in Retrofitting the La Cygne Units.

The evidence presented by Sierra Club in its opening brief documents significant defects in KCP&L's retrofit analysis that demonstrate that the Company's decision to proceed with the \$1.23 billion retrofit of the La Cygne Units was imprudent. Most significantly, KCP&L failed to timely re-evaluate the retrofits in response to falling natural gas price forecasts even though the Company knew that (a) the outcome of its analysis of whether to retrofit or retire the La Cygne Units was heavily dependent on natural gas projections, and (b) retrofitting the Units was not the least-cost option under low gas price scenarios. KCP&L also failed to correct several deficiencies in its retrofit analysis, such as failing to consider adequate levels of energy efficiency and renewable energy, which improperly skewed the outcome of the analysis in favor of the retrofits. Both the decline in natural gas price forecasts and the deficiencies in the Company's initial analysis should have been apparent to KCP&L in 2011, and timely action to re-evaluate the retrofits would have allowed KCP&L to reverse course and take action to retire the La Cygne Units before spending any money on the retrofits. KCP&L's 2012-2015 Integrated Resource Plan ("IRP") analyses cannot and do not compensate for the Company's failure to

reevaluate the retrofit decision in mid- to late 2011, before moving forward with the retrofits. KCP&L's attempts to defend its actions in its opening brief fall short, lending further support to the conclusion that the Company's decision to retrofit La Cygne was imprudent.

First, KCP&L argues that Sierra Club has failed to raise a "serious doubt" as to the prudence of the La Cygne retrofits, claiming that Ms. Wilson's use of the terms "likely", "may", and "could" at certain points in her testimony indicates the "tentative and speculative nature of the Sierra Club's opinions."¹ This is not a fair characterization of Ms. Wilson's testimony. Rather, as Ms. Wilson clarified at the hearing, she chose her words carefully to reflect the fact that she did not have access to the Company's MIDAS model and had no way to verify that it would produce the same exact result as the proxy method that she used to assess the effect of falling natural gas prices on the economics of KCP&L's retrofit decision.² However, Ms. Wilson's conclusion based on her own analysis is unequivocal:

KCP&L *should have* revisited that analysis as early as April 2011 with the release of new gas price forecast information contained in AEO 2011. If the Company had updated its NPVRR analysis with a new natural gas forecast at that time, it *would have* found that the environmental retrofits at La Cygne Units 1 and 2 were no longer the least-cost plan.³

KCP&L's further criticism that Ms. Wilson's testimony "simply suggests that KCP&L 'likely' would have changed its plans had it chosen to re-evaluate its decision" is not well-reasoned.⁴

There is no way to know with certainty what the Company *would* have done, even in response to incontrovertible data showing that retrofitting the La Cygne Units was not the least cost option.

What Ms. Wilson's testimony does, however, is describe the prudent actions that the Company *should* have taken – but did not take – to re-evaluate the economics of the decision to retrofit La

¹ KCP&L Initial Post-Hearing Br. at 80-83.

² Tr. at 807:3-8, 810:9-18.

³ Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 11:8-13 (emphases added).

⁴ KCP&L Initial Post-Hearing Br. at 81; *see also id.* at 82 (citing Ex. 402, Direct Testimony of Rachel S. Wilson at 35:25-27).

Cygne in mid- to late 2011 in the face of falling natural gas price projections.⁵ This testimony easily surpasses the threshold for creating a “serious doubt” as to the imprudence of KCP&L’s actions.⁶ Moreover, the Company has not offered any evidence contradicting Ms. Wilson’s further testimony that if the Company had acted prudently to re-evaluate the retrofit decision in mid- to late 2011 using up-to-date natural gas price projections, it would have found that retrofitting the La Cygne plant was more costly than retiring it.⁷

Next, KCP&L appears to misunderstand Sierra Club’s arguments regarding the use of up-to-date natural gas price forecasting. Sierra Club is not suggesting, as the Company appears to believe, that KCP&L should have relied solely on EIA’s Annual Energy Outlook (“AEO”) forecasts, but rather that KCP&L should have relied on up-to-date forecasts that reflected the best available projections at the time.⁸ As Ms. Wilson has stated, “[t]he averaging of forecasts, while a perfectly acceptable methodology in theory, only works in practice if the forecasts that are being averaged were developed during a similar time period and thus reflect similar expectations about the future.”⁹ KCP&L’s reliance in its composite on outdated forecasts reflecting outdated assumptions prevented the composite from forecasting natural gas prices using then-present conditions and then-available information.

As KCP&L’s predetermination petition was pending in 2011, and as KCP&L was well aware, the U.S. natural gas market underwent significant structural changes due to the development of hydraulic fracturing (i.e., “fracking”) technologies, causing a significant drop in

⁵ See, e.g., Ex. 402, Direct Testimony of Rachel S. Wilson at 15:9-21; Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 2:16-18, 10:13-23, 11:8-10.

⁶ See Sierra Club Initial Post-Hearing Br. at 7-9.

⁷ See *id.* at 9-12; Ex. 402, Direct Testimony of Rachel S. Wilson at 20:4 – 21:18; Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 11:10-13.

⁸ Tr. at 829:3-15 (noting that KCP&L should have relied on an updated composite reflecting any new releases issued by its forecasters, including any update to the equally outdated April 2010 PIRA forecast).

⁹ Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 2:5-8.

natural gas price forecasts during 2011 and 2012.¹⁰ By relying on outdated natural gas price forecasts, KCP&L failed to account for this substantial change in circumstances. Ms. Wilson’s analysis of the impact that using an up-to-date natural gas price forecast in 2011 would have had on the Company’s evaluation of the economics of retrofitting the La Cygne plant relied on EIA’s AEO forecasts because they are the only forecasts utilized by the Company that are publicly available.¹¹ Sierra Club does not contend that KCP&L should have only relied on the AEO forecast in deciding in 2011 whether to retrofit or retire La Cygne, but rather that the Company should have based its decision on forecasts that took into account the fracking boom that was causing major changes in the industry at that time.

KCP&L’s attack on the AEO forecast for failing to consider the Clean Power Plan and any speculative future regulation of fracking also misses the mark.¹² The Commission’s prudence standard looks at “whether the utility’s conduct was reasonable at the time, under all of the circumstances.”¹³ The relevant time period for purposes of this prudence review is mid- to late 2011, the time period following KCP&L’s original retrofit analysis and leading up to the point at which KCP&L began to spend money on the retrofits. The Clean Power Plan had not yet been contemplated in 2011 and is therefore irrelevant to the prudence of KCP&L’s actions at that time.¹⁴ The Company’s speculation as to the possibility of future fracking regulations is

¹⁰ Ex. 402, Direct Testimony of Rachel S. Wilson at 14:20-22, 21:10 – 22:6; Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 2:8-12.

¹¹ Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 6:7-11. The other natural gas price forecasts relied on by the Company require a prohibitively expensive one-time purchase or subscription service to obtain, and thus they were not available to Ms. Wilson for her analysis. *Id.*

¹² See KCP&L Initial Post-Hearing Br. at 86.

¹³ *State ex rel. GS Technologies Operating Co. v. Pub. Serv. Comm’n of Mo.*, 116 S.W.3d 680, 694 (Mo. App. W.D. 2003).

¹⁴ Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 6:12 – 7:3.

even less relevant, as no such regulations along the lines envisioned by the Company have even been proposed, much less finalized, by any agency.¹⁵

Contrary to KCP&L's characterization of its La Cygne retrofit analyses, the Company did not re-evaluate its decision "continuously" or "throughout" mid- to late 2011 and into the future.¹⁶ KCP&L's original retrofit analysis was undertaken in 2010¹⁷ and submitted to the Kansas Corporation Commission ("KCC") on February 23, 2011.¹⁸ As KCP&L itself concedes, the Company re-evaluated the retrofits on only four occasions—"from 2012 through 2015 as part of the Commission's Integrated Resource Planning ('IRP') Process"¹⁹—and not once before KCP&L began to spend money on the retrofits.²⁰ There therefore exists a critical gap in KCP&L's analysis because the Company did not re-evaluate the economics of the retrofit project between the date it filed the original analysis with the KCC and the issuance of the 2012 IRP. Specifically, the Company did not re-evaluate the retrofit's economics during mid- to late 2011 before it began to spend money on the retrofits. The 2012-2015 IRP analyses are simply too little too late to stand in for a timely and prudent re-evaluation of retrofits. In addition, the 2012 IRP analysis was also based on outdated natural gas price projections and shared some of the other flaws of the Company's original analysis, as detailed in Sierra Club's opening brief.²¹

¹⁵ See Tr. at 817:13-18, 830:2-6 ("Q: And is the potential regulation of fracking relevant in any way to the analysis you did in this case? A: No. Fracking was unregulated as of 2011, as it is now. And this case relies on what the Company should have known back in April of 2011.").

¹⁶ KCP&L Initial Post-Hearing Br. at 85.

¹⁷ Ex. 109, Direct Testimony of Burton L. Crawford at 20:2-3.

¹⁸ Tr. at 772:8-20.

¹⁹ KCP&L Initial Post-Hearing Br. at 85.

²⁰ Tr. at 775:4-25, 784:11 – 785:21.

²¹ See Sierra Club Initial Post-Hearing Br. at 10-11. KCP&L makes much of the fact that the 2012 IRP analysis incorporates the April 2011 AEO referenced in Ms. Wilson's testimony. See KCP&L Initial Post-Hearing Br. at 86. However, that forecast was a year old at the time of the IRP's release and had been combined with forecasts as much as 17 months old to form a profoundly outdated composite that was not an adequate substitute for the analysis that KCP&L should have done based on updated natural gas prices as of mid- to late 2011. Ex. 402, Direct Testimony of Rachel S. Wilson at 14:18 – 15:2. The oldest of these underlying forecasts dated to December 2010 and thus predated the significant decline in natural gas price forecasts due to the fracking boom. *Id.* at 14:22 – 15:1. The inclusion of such outdated forecasts in the composite effectively masked the true extent to which natural gas price

Finally, KCP&L argues that Sierra Club failed to 1) analyze contract cancellation costs, liquidated damages, and other penalties resulting from a decision to cancel the retrofits, or 2) account for the cost of replacement generation in the event the La Cygne Units were retired.²² The first category of costs is irrelevant to the prudence of KCP&L's decision to proceed with retrofitting La Cygne Units 1 & 2 in **_____**. Had KCP&L taken timely action to re-evaluate the retrofit decision in mid- to late 2011 before committing to contracts and before beginning to spend money on the retrofits it could have avoided these costs entirely.²³ Second, the costs of replacement generation were accounted for in each of the alternative resource plans from KCP&L's initial retrofit analysis that contemplate the retirement of either or both of the La Cygne Units.²⁴ Thus, when Ms. Wilson's analysis shows that the drop in natural gas prices reflected in EIA's AEO 2011 forecast brought prices below the breakeven point at which it became more cost-effective to retire La Cygne Units 1 & 2 rather than retrofit them, that analysis is inclusive of the cost of replacement generation.²⁵ KCP&L in its opening brief misrepresents the testimony of its own witness in suggesting otherwise. The cited portion of Mr. Crawford's testimony was narrowly directed to a single table, Table 2, in Ms. Wilson's direct testimony,

forecasts had decreased in response to the fracking boom and thus kept the composite from forecasting gas prices based on the best available information about then-present conditions.

²² KCP&L Initial Post-Hearing Br. at 86-87.

²³ KCP&L should have known to re-evaluate its retrofit determination starting in April 2011, with the release of EIA's AEO 2011 forecast. Ex. 402, Direct Testimony of Rachel S. Wilson at 24:12 – 25:8; Ex. 403, Surrebuttal Testimony of Rachel S. Wilson at 10:13-23. KCP&L did not award La Cygne Environmental Partners (the Company's engineer-procure-construction contractor for the retrofits) final notice to proceed until August 29, 2011, Ex. 102, Direct Testimony of Robert N. Bell at 15:6-11, and did not begin to spend money on the retrofits until **_____** Ex. 402, Direct Testimony of Rachel S. Wilson at 27:22-26. *See generally* Sierra Club Initial Post-Hearing Br. at 7-10.

²⁴ *See* Ex. 109, Direct Testimony of Burton L. Crawford at Sch. BLC-21 (describing alternative resource plans, including whether they contemplate replacement generation from either natural gas combustion turbine ("CT") units, natural gas combined cycle ("CC") units, or new coal units).

²⁵ *See* Sierra Club Initial Post-Hearing Br. at 7-8; Ex. 402, Direct Testimony of Rachel S. Wilson at 19-21. Ms. Wilson's breakeven analysis compared "the resource plan in which **_____

**." Ex. 402, Direct Testimony of Rachel S. Wilson at 19:16-21, 20:6-8.

which detailed spending on the retrofits as of certain decision points and also noted the corresponding portion of the retrofit project that had not yet been spent as the potential “cost avoided.”²⁶ Contrary to how the Company portrays it in its opening brief,²⁷ this critique does not address Ms. Wilson’s testimony generally, and in particular it does not have any bearing on the findings at the heart of Ms. Wilson’s testimony concerning the harm to ratepayers from the Company’s failure to re-evaluate its retrofit decision in 2011 using up-to-date natural gas prices.

Presented with ample evidence creating a serious doubt as to the prudence of the La Cygne retrofits, KCP&L has in turn failed to meet its countervailing burden to prove the prudence of its expenditures on the La Cygne retrofits.²⁸ As demonstrated by Sierra Club, KCP&L’s initial analysis of the La Cygne retrofit decision and its subsequent failure to timely re-evaluate that decision in light of falling natural gas price forecasts—and before beginning to spend money on the retrofits—was imprudent. Because KCP&L acted imprudently, the Commission should at minimum deny rate recovery for the difference between the cost of the retrofits and the lesser cost resource plan accounting for the retirement of La Cygne Units 1 & 2, a value of \$68 million in present-value terms.²⁹

B. Properly Structured EV-Charging Programs Can Provide Benefits to All Customers, and the PSC Should Consider the CCN Program in a Separate Proceeding to Ensure that the Program Delivers and Maximizes These Benefits.

As detailed in Sierra Club’s opening brief, electric utility EV-charging programs can improve welfare for all customers, justifying utility rate recovery for the cost of the infrastructure. EV charging can reduce electricity rates, strengthen grid reliability, facilitate the installation and integration of renewable energy, cut pollution, and reduce our dependence on oil.

²⁶ See Ex. 402, Direct Testimony of Rachel S. Wilson at 29:1.

²⁷ See KCP&L Initial Post-Hearing Br. at 86-87 (citing Ex. 110, Rebuttal Testimony of Burton L. Crawford at 10-11).

²⁸ See *Office of Pub. Counsel v. Mo. Pub. Serv. Comm’n*, 409 S.W.3d 371, 376, 379 (Mo. 2013).

²⁹ Tr. at 824:13-21.

Sierra Club welcomes KCP&L’s interest in vehicle electrification and looks forward to supporting PSC approval for an appropriately structured EV-charging program in the future. Indeed, KCP&L’s proposed Clean Charge Network (“CCN”), if it adopts certain design principles, could provide extensive benefits to all customers. However, based on the current docket, it is unclear whether KCP&L’s CCN proposal is so designed. A full airing of the issues in a separate docket would provide the Commission with a more robust record upon which to render a decision.

1. Properly Structured EV-Charging Programs Can Improve the Grid, Provide Downward Pressure on Rates, and Deliver Environmental and Other Benefits—But It is Unclear on This Record Whether the CCN Program is Structured to Deliver and Maximize These Benefits.

As a number of parties to this docket have noted, an EV-charging program—and the new electricity demand created by EV charging—can provide important grid benefits for all utility customers.³⁰ However, to realize these benefits, EV programs should incentivize off-peak charging,³¹ incorporate managed charging,³² and include the technology and infrastructure needed to transform the market.³³ By thus utilizing existing assets and minimizing the need for new power plants, utilities can maximize grid benefits.³⁴ Programmatic mechanisms such as time-variant pricing and managed charging can be crucial to incentivizing off-peak charging.³⁵ Likewise, siting stations at locations that allow for long dwell times, such as multi-unit dwellings or workplaces, is a crucial step towards greater EV penetration and maximized use of EV

³⁰ KCP&L Initial Post-Hearing Br. at 125-126; Brightergy Initial Post-Hearing Br. at 2; Missouri Division of Energy Initial Post-Hearing Br. at 5.

³¹ Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-2 at 38; *see also* Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-3 at 19-20.

³² Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-3 at 19.

³³ Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-3 at 75.

³⁴ Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-2 at 3; Exhibit 121, Surrebuttal Testimony of Darrin R. Ives at Schedule DRI-11.

³⁵ Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-3 at 19; *see also id.* at 45.

charging assets.³⁶ So too is public outreach and education,³⁷ which build the demand for EVs and fuller utilization of EV-charging assets and services.

While KCP&L articulates many of these benefits as objectives of the CCN plan (e.g., downward pressure on rates and future consideration for greater solar energy integration), the record in this docket fails to ensure that the CCN program can, or will, secure such benefits. For example, the CCN does not appear to incorporate either of the two key drivers of off-peak charging and its attendant benefits: time-variant pricing and managed charging. Under the current design, the CCN provides EV charging at no cost to EV drivers,³⁸ while site hosts pay for electricity at KCP&L's standard tariff rates,³⁹ leaving neither party a price incentive to plug-in at off-peak hours. Likewise, while KCP&L has stated that CCN charging stations will be demand-response capable, the utility does not provide details on the demand-response program or its timeline.⁴⁰

Similarly, several parties, including KCP&L, have recognized that EVs can provide many environmental benefits—through reduced emissions⁴¹ and the potential to facilitate the installation and integration of renewable energy⁴²—and have noted that an EV program can decrease the need to import oil.⁴³ Again, however, a properly structured program is key to maximizing these benefits. KCP&L, for example, has asserted that it plans to develop time-of-use rates and study solar integration. However, KCP&L does not provide details about these

³⁶ Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-2 at 46; *see also id.* at 47.

³⁷ Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-2 at 49; *see also id.* at 59.

³⁸ Exhibit 120, Rebuttal Testimony of Darrin Ives at 41:5-7; *see also id.* at 45:12-14.

³⁹ Exhibit 120, Rebuttal Testimony of Darrin Ives at 41:10-15.

⁴⁰ Exhibit 120, Rebuttal Testimony of Darrin Ives at 44:20-21.

⁴¹ KCP&L Initial Post-Hearing Br. at 118, 123; *see also* Missouri Division of Energy Initial Post-Hearing Br. at 5.

⁴² KCP&L Initial Post-Hearing Br. at 126.

⁴³ Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-2 at 2, 20; *see also* Exhibit 119, Supplemental Direct Testimony of Darrin R. Ives, Schedule DRI-3 at 75.

initiatives or a timeframe for implementing them.⁴⁴ Here too, a more robust record will allow the Commission to evaluate whether KCP&L's CCN program maximizes these benefits.

2. A Successful EV-Charging Program Should Foster a Competitive EV Supply Equipment Market, But the Record in This Case Suggests KCP&L's Program May Hinder Third-Party Participation.

In numerous areas of the economy, robust market competition generally helps to reduce costs, increase innovation, and expand a market. KCP&L's request that the Commission conclude that EV-charging services are a public utility and its position that the third-party sale of EV charging might be banned⁴⁵ raise important legal questions that implicate market competition issues. Other options and market structures—for example, PSC staff have argued that there may be benefits to structuring the EV-Charging Services industry more like the compressed natural gas industry⁴⁶—should be carefully considered. The Commission would benefit from a fuller hearing on these issues.

In short, this docket raises foundational issues about an emerging industry that have significant economic and environmental ramifications. Sierra Club agrees with the PSC Staff, the Consumers Council of Missouri, and the Office of the Public Counsel in so far as they have urged the Commission to consider the program in a separate proceeding.⁴⁷

C. There are Compelling Reasons to Reject the Company's Proposal to Increase Its Residential Fixed Customer Charge, As Advocated by All Parties Other Than KCP&L Who Have Taken a Position on the Issue.

KCP&L asserts that “the simple fact is that no record evidence justifies retaining KCP&L's current residential customer charge of \$9/month.”⁴⁸ Sierra Club respectfully disagrees

⁴⁴ Exhibit 120, Rebuttal Testimony of Darrin Ives at 43:19-22; *see also* KCP&L Initial Post-Hearing Br. at 126.

⁴⁵ KCP&L Initial Post-Hearing Br. at 118, 122.

⁴⁶ Tr. 740; *see also* Exhibit 200, Staff Report at 208.

⁴⁷ Staff Initial Post-Hearing Br. at 124; Consumers Council Initial Post-Hearing Br. at 4; OPC Initial Post-Hearing Br. at 64.

⁴⁸ KCP&L Initial Post-Hearing Br. at 138:¶ 389.

and supports the June 16, 2015 Non-Unanimous Stipulation seeking a rejection of the Company's proposed fixed customer charge increase.⁴⁹ As set forth in Sierra Club's opening brief, there are three primary reasons—all based in evidence—why the Commission should deny the Company's request to nearly triple its fixed residential customer charge. First, increasing the fixed customer charge would reduce the incentive for customers to consume energy efficiently. Second, the Company's proposal disregards the well-established rate design principles of maintaining customer equity and promoting rate stability. Third, increasing the fixed customer charge would reduce the state of Missouri's ability to utilize energy efficiency to comply with the Clean Power Plan. Thus, the Commission should instruct KCP&L to maintain its residential customer charge at the current level. However, if the Commission decides that an increase in the residential customer charge is warranted, the increase should be limited to the percentage increase applied to other residential rate elements.

The Company's opening brief does not attempt to address Sierra Club's arguments concerning customer equity and rate stability or the Clean Power Plan. With respect to energy efficiency, the Company believes that, regardless of the nearly tripling of the fixed customer charge, customers would have ample incentive to use electricity efficiently because eighty percent of the typical residential general use customer's annual bill would still be recovered by per kWh rates.⁵⁰ Although the Company concedes that Sierra Club's and others' efficiency arguments are "correct to an extent," it argues that efficiency arguments should be dismissed because, taken to the logical extreme, such arguments would support a fixed customer charge of \$0.⁵¹ This is a red herring, however, as no party in this case has argued that the fixed customer charge should be decreased at all, much less decreased to \$0. In fact, when asked directly by

⁴⁹ See Dkt. No. 293, Non-Unanimous Stipulation and Agreement on Certain Issues.

⁵⁰ KCP&L *Initial Post-Hearing Brief* at 139:¶ 391.

⁵¹ KCP&L *Initial Post-Hearing Brief* at 139:¶ 391.

Commissioner Hall whether the fixed customer charge should be zero, the Office of the Public Counsel answered no.⁵² Because residential customers must pay the fixed customer charge no matter how much electricity is consumed, increasing their fixed charge signals to residential customers that actions to reduce their electric bills will be less effective, giving them less control over their future bills.⁵³ Even the Company does not deny that increasing the customer charge reduces a customer's ability to realize savings from energy efficiency.⁵⁴ Accordingly, KCP&L's support for energy efficiency⁵⁵ is directly at odds with its proposal to increase its residential fixed customer charge.

Further, KCP&L's proposal is short-sighted because it focuses on short-term fixed costs to the detriment of long-term fixed costs. Although raising the fixed customer charge may very well address the Company's short-term fixed costs, long-term fixed costs are more relevant from a customer's perspective because energy efficiency investments often involve savings that occur over the long term.⁵⁶ As argued in more detail in Sierra Club's opening brief, a company seeking to promote energy efficiency would rationally send a price signal that encourages its customers to avoid long-term fixed costs.⁵⁷ The Company's rate design proposal in this case fails to send accurate long-term price signals and thus should be rejected. Fortunately, there is a better way to align the Company's stated support for energy efficiency with its rate design proposals while also addressing the Company's revenue sufficiency and volatility concerns—revenue decoupling, which the Commission has now begun to investigate in Docket No. AW-2015-0282. Through this new docket, we encourage the Commission to adopt revenue decoupling in a

⁵² Tr. at 348:22-349:23.

⁵³ See Exhibit 400, Direct Testimony of Tim Woolf at 19:13-20:2.

⁵⁴ Tr. at 374:23-375:1.

⁵⁵ Tr. at 403:19-23.

⁵⁶ See Tr. at 427:1-13.

⁵⁷ See Tr. at 427:17-22; see also Sierra Club Initial Post-Hearing Br. at 31-32.

manner that regulates utility revenues while protecting customer interests and incentivizing energy efficiency.

III. Conclusion.

For the reasons stated above, and in Sierra Club's opening brief, Sierra Club reiterates its request that the Commission adopt its positions on Issues VII (La Cygne Environmental Retrofit project), XVIII(A) (Clean Charge Network), and XXV(B)(d)(1) (Residential customer charge).

Sierra Club thanks the Commission for its decision to open a Working Case on decoupling, consistent with Issue XXXVIII (decoupling).

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct PDF version of the foregoing was filed on EFIS and electronically mailed to all counsel of record on this 3rd day of August, 2015.

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