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## **Bill Gipson, guest columnist: No one likes utility rate increases**

*By Bill Gipson*

**Special to The Globe**

WASHINGTON — I know that no one likes an increase in utility rates. But, I believe customers do expect a reliable, environmentally responsible supply of energy.

That is why at Empire, we're always looking to the future and planning to ensure we can provide the energy customers need, when they need it.

### **Charting future energy course**

In 2004, we began to map out the next five years and decades beyond. Working with the staff of the Missouri Public Service Commission (MPSC), the Office of Public Counsel (Missouri's consumer advocate), the Missouri Department of Natural Resources, and a couple of industrial customers, we developed a blueprint to meet customers' future needs for electric power service. This included a replacement for a long-term energy purchase from another utility that was ending in 2010, new resources to meet customer growth and environmental retrofits to make our coal plants cleaner.

In August 2005, we filed, and the MPSC approved, a five-year plan that stressed a balanced mix of least-cost resources. The plan included the construction of a unit at our Riverton Plant, a jointly-owned coal-fired plant, Iatan 2, and upgrades to two existing coal-fired facilities, Iatan 1 and Asbury Power Station, to meet new environmental regulations.

Earlier in 2005, we had announced the Riverton 12 addition, a 155-megawatt, gas-fired combustion turbine. Construction began in 2005 and the unit went into service in 2007, at a cost of about \$39.5 million.

### **Rounding out resource mix**

Between 2004 and 2007, we secured two long-term contracts with wind generation developers. The first purchases the output at the 150-megawatt Elk River Windfarm, and the second for the output of 105 megawatts of the Meridian Way Wind Farm. These projects provide price stability, reduce exposure to more cost-volatile natural gas, and provide diversity to our generation resource mix. We began our entry into the wind generation arena before any renewable mandates were enacted — it was the smart, economical choice.

### **Building to meet customer needs**

The building projects included in the plan I mentioned before and projections of future customer needs still found us short of base-load generation. To fill that void, in March 2006, we entered into an agreement with other utilities to construct a jointly-owned 665-megawatt, state-of-the-art coal-fired facility, Plum Point Generating Station. We own 50 megawatts and also secured a 50-megawatt purchased power agreement from Plum Point that can be converted into an ownership position in 2015. Plum Point completed all in-service criteria in August, and was put into commercial operation on Sept. 1, 2010. Empire's share of the construction costs is about \$88 million.

As provided for in the plan, we entered an agreement to be a co-owner in Iatan 2, a high efficiency, coal-fired power plant. To capitalize on efficiencies from an existing site, the plant is adjacent to Iatan 1 of which we own 12 percent.

Our 12 percent share of Iatan 2 will provide Empire customers approximately 100 megawatts of capacity. KCP&L announced that Iatan 2 completed its in-service criteria on Aug. 26, 2010. We expect our cost for Iatan 2 to be about \$229 million to \$239 million.

An important part of our plan is to ensure that our existing facilities continue to provide economical energy while meeting all environmental standards. This required the completion of upgrades at both the Asbury Power Station and Iatan 1. At Asbury, we installed a \$31 million Selective Catalytic Reduction (SCR) system to reduce nitrous oxides. In 2009, a \$54 million upgrade that included an SCR, flue gas desulphurization (controlling sulfur dioxides) and bag house (dust filtration system) was completed at Iatan 1.

### **Financing the improvements**

To finance these projects, we completed new common stock issuances of \$66.8 million in 2006, \$69 million in 2007 and \$120 million from January 2009 through June 2010. We also issued bonds in the amount of \$80 million in 2007, \$90 million in 2008 and \$75 million in 2009.

It is not until these facilities are constructed and providing service that we are allowed to begin recovering their costs. In Missouri, we began this with the rate case completed in July 2008, which started recovery of costs associated with Riverton 12 and the Asbury environmental upgrade. On Sept. 10, rates took effect to begin recovery of costs associated with the Iatan 1 environmental upgrades and Plum Point.

New rates to recover the costs of these construction projects are in place or proposed for customers in Kansas, Oklahoma and Arkansas.

We are preparing the final rate case associated with this plan to be filed later this month requesting recovery of costs associated with the Iatan 2 addition. As is customary with Missouri rate filings, it could take up to 11 months before the rates become effective.

### **Reducing usage through efficiency**

To help temper the impact of the rate cases, we have introduced a number of initiatives to help customers manage their usage. These include rebates for high efficiency air conditioners, a low-income weatherization program and other rebate programs and services to help residential, commercial and industrial customers in Missouri. Similar programs are available in other states served by Empire and can be accessed on our website at [www.empiredistrict.com](http://www.empiredistrict.com), or by calling 800-206-2300.

We also have introduced energy calculators on our website for evaluating various efficiency improvements.

### **Ensuring reliable energy future**

To say that this has been the largest construction cycle in our 100-year history is an understatement; our plant investment has grown from about \$860 million in 2004 to a projected \$1.5 billion by the end of 2010. I am confident that we have charted and completed a course providing customers with reliable, environmentally responsible, cost-effective energy for many decades.

As I stated in the beginning, I know no one wants utility rates to increase, yet they expect reliable power from environmentally responsible energy sources.

The steps we have taken in the past five years will ensure these expectations are met. The rates that have been implemented or requested will allow us to provide our shareholders a fair return on their investment and allow Empire to remain a financially secure utility ready to meet the needs of our customers.

Bill Gipson is the president and chief executive officer of Empire District Electric Co.