

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of a Proposed Experimental Regulatory) Case No. EO-2005-0329
Plan of Kansas City Power & Light Company)

**KANAS CITY POWER & LIGHT COMPANY'S RESPONSE
TO CONCERNED CITIZENS OF PLATTE COUNTY AND SIERRA CLUB'S
OBJECTIONS TO STIPULATION**

COMES NOW Kansas City Power & Light Company ("KCPL") and, pursuant to 4 CSR 240-2.080, hereby files its response to the Objections To Stipulation filed by the Concerned Citizens Of Platte County And Sierra Club on April 7, 2005. In support thereof, KCPL states as follows:

1. On March 28, 2005, a Stipulation and Agreement ("the Stipulation") was filed with the Commission to recommend resolution of the complex issues associated with KCPL's future supply and pricing of electricity, and its related Experimental Regulatory Plan. The Stipulation has been signed, to date, by the following parties: Kansas City Power & Light Company, the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("Public Counsel"), the Missouri Department of Natural Resources ("MDNR"), Praxair, Inc., Ford Motor Company, and the Missouri Industrial Energy Consumers ("MIEC"), Missouri Joint Municipal Electric Utility Commission ("MJMEUC"), The Empire District Electric Company ("Empire"), and Aquila, Inc. ("Aquila").

2. The Stipulation includes a comprehensive plan designed to meet the growing demand for additional electricity in KCPL's service area while delivering significant economic and environmental benefits to the Kansas City area. From KCPL's perspective, the key benefits of the Stipulation and the Experimental Regulatory Plan include:

- **A long-term plan for affordable electricity** — avoiding increased reliance on high-cost, volatile fuels for generation by adding new high-efficiency coal-fired and wind-powered capacity. KCP&L anticipates owning approximately 500 megawatts of a new, high-efficiency 800-900 megawatt coal plant on the existing Iatan plant site in Missouri. The agreement includes 100 megawatts of new wind generation planned in Kansas, with the potential to add an additional 100 megawatts at a future date after additional study of Missouri potential sites. This regulated generation will serve KCP&L customers in both Missouri and Kansas;
- **Investment in the local economy** — adding jobs in the region. During the four years it will take to build the new coal plant, up to 1,000 jobs will be created at the peak of the construction activity, plus 50 to 100 permanent positions once the plant is finished. That translates into approximately \$300 million in direct payroll over the four-year period for the Kansas City region, as well as significant tax revenues;
- **Improved air quality in the Kansas City area** — investing approximately \$280 million in technologies to substantially reduce certain air emissions at existing power plants, ensuring KCP&L meets or exceeds existing and anticipated federal air quality standards. Even with the addition of a new coal unit, on a system-wide basis under the plan, NO_x emissions are projected to decline by 54%, SO₂ by 29%, particulate matter by 31% and mercury by 26% by 2011. The environmental initiatives outlined in the agreement are included in the regional air quality plan developed by the Mid-America Regional Council, which is taking a leadership role in keeping Kansas City's air clean and in compliance with anticipated tougher air quality standards;

- **Top tier reliability** — constructing, replacing and/or upgrading existing transmission and distribution facilities to accommodate new generation, and incorporating new technologies for faster diagnosis and repair of service interruptions;
- **Partnerships with customers to save energy and money** — implementing proposed efficiency and demand response programs that leverage new technologies to help customers more effectively use electricity. In addition, affordability programs will assist customers in managing their energy costs; and
- **Regulatory authority** — providing a roadmap for future rate cases, approving regulatory policies that are intended to maintain key credit financial ratios at levels consistent with investment grade ratings, and establishing other regulatory policies that will better match revenue with the cost of fuel and purchased power.

3. On April 11, 2005, KCPL filed the Direct Testimony of Chris B. Giles, Michael W. Cline, John R. Grimwade, Susan K. Nathan, William P. Herdegen, William Edward Blunk, and Lori A. Wright that explain in more detail the various elements of the Stipulation, including the Experimental Regulatory Plan.

4. On April 7, 2005, CCPC and Sierra Club filed Objections To Stipulation in which they requested "the Commission to set aside the stipulation and hold it for naught and commence hearings on rate increases after KCPL files applications for such increases." (CCPC/Sierra Club Objections, p. 4). In support of the Objection, CCPC and Sierra Club also raised certain concerns about the Stipulation which will be briefly addressed herein.

5. First, CCPC and Sierra Club asserted that "The stipulation violates the intent of Section 393.135, RSMo, in that it appears to allow KCPL several years of rate increases in anticipation of the building of a new coal-fired power plant." (CCPC/Sierra Club Objections, p.

1). On this first point, CCPC and Sierra Club are in error. The Stipulation does not violate Section 393.135 in any way since any rate increases that may be approved by the Commission in future rate cases will be based upon plant-in-service that is "fully operational and used for service." Section 393.135. Although CCPC and Sierra Club are correct that the Stipulation contemplates a rate case in 2006 (and possibly optional rate cases in 2007 and 2008) before Iatan 2 is completed, none of the costs of construction of Iatan 2 (*i.e.* Construction-Work-In-Progress) will be considered in those cases in the 2006-2008 time period. Any rate cases filed in 2006, 2007, or 2008, would be based upon plant (excluding Iatan 2 construction costs) that is fully operational and used for service at the conclusion of those respective rate cases. (*See* Stipulation, pp. 30-31, 34-40).

6. The Stipulation does contemplate that a rate case will be filed on October 1, 2009 that will include prudent expenditures for Iatan 2. (*See* Stipulation, pp. 41-44). However, the new rates in the 2009 Rate Case will not become effective until after KCPL has demonstrated that Iatan 2 has met the "in-service criteria" contained in Appendix H of the Stipulation which has been mutually agreed upon by the Signatory Parties. In other words, the Iatan 2 plant will not be included in rates until it is "fully operational and used for service." Section 393.135.¹

7. Second, CCPC and Sierra Club also asserted that "the stipulation violates Section 393.292, RSMo, in that it allows for changes in the amortization and depreciation expenses relating to the Wolf Creek nuclear power plant without a full hearing." (CCPC/Sierra Club Objections, p. 2). On this second point, CCPC and the Sierra Club are also in error. Section 393.292 relates to "a change in the level or annual accrual of funding necessary for its nuclear

¹ CCPC and Sierra Club seem to accept this point when they state that "the stipulation contemplates that KCPL will file an application for a rate increase after the new plant is built, and therefore may not violate the exact words of this statute. . . ." (*Id.*).

power plant **decommissioning trust fund**. . . " (*emphasis added*)². This statutory provision has nothing to do with changes to the amortization and depreciation expenses relating to the Wolf Creek nuclear power plant recommended in the Stipulation. If CCPC and Sierra Club have questions regarding the changes in amortization and depreciations expenses relating the Wolf Creek nuclear power plant, KCPL would direct them to the Direct Testimony of Lori A. Wright (pp. 4-7) filed on April 11, 2005, which discusses these matters.

8. Third, CCPC and Sierra Club also argued that the workshop proceedings "gave apparent legitimacy to the utility's plans to raise rates over the next several years." (CCPC/Sierra Club Objections, p. 2). CCPC and Sierra Club failed to indicate that they participated in the workshop process which they now find objectionable. Unfortunately, CCPC and Sierra Club have missed the point of the purpose of the workshop proceedings. As explained in the Direct Testimony of Chris B. Giles (pp. 4-8), the workshop proceedings gave KCPL, the Commission Staff, Public Counsel, and other interested parties the opportunity to discuss in a collaborative manner KCPL's alternative courses of action over the next several years for addressing the needs of its customers and shareholders, and the opportunity to develop a regulatory roadmap for addressing those needs in a prudent and reasonable manner. The traditional model of contested proceedings apparently being advocated by CCPC and Sierra Club simply does not meet the needs of all interested stakeholders in a convenient way. However, as the KCPL workshop process demonstrated, the collaborative approach results in a more effective way of selecting and planning the right energy investments for the future:

The traditional model often focuses upon historic information rather than looking forward five to ten years--something a utility must do to plan and develop a

² No changes to KCPL's decommissioning trust fund are addressed in the Stipulation and Agreement filed on March 28, 2005.

strategy to continue to provide reliable reasonably priced service for its customers. In addition, the traditional model does not facilitate a convenient method of informally discussing different perspectives on public utility issues, and as a result, it does not take advantage of the “collective wisdom” of other parties. KCPL believed that the traditional model was therefore not the best approach for developing and implementing a regulatory plan when a more collaborative, informal approach was available.

* * *

In the traditional model, the utility does not spend much if any effort to gain acceptance from the interested parties for the plan. While this can save time at the beginning of the process, it can lead to contentious and time-consuming disputes concerning the prudence of its decisions after the investments are made. The public utility must defend its actions and runs the risk that it will not be awarded full recovery of its investments.

(Direct Testimony of Chris B. Giles, p. 6)

Under the regulatory roadmap contained in the Stipulation, there will be formal rate cases filed beginning in 2006 to address KCPL's future requests to modify its rates. CCPC and Sierra Club along with other interested parties will have the opportunity to participate in those contested cases, if they desire to do so.

9. Fourth, CCPC and Sierra Club also asserted that 4 CSR 240-2.115 does not apply to this stipulation, and "[t]here appear to be no sections of the rules governing practice and procedure of the Public Service Commission that deal with intervening in a stipulation signed after a series of workshops." (CCPC/Sierra Club Objections, p. 2). As the Commission knows, 4 CSR 240-2.115 prescribes the procedure when a non-unanimous stipulation and agreement is filed. Although KCPL does not understand the concern of CCPC and Sierra Club that 4 CSR 240-2.115 would be inapplicable in this situation, KCPL has filed testimony in this proceeding to fully address the regulatory issues related to KCPL's future supply and pricing of electricity, and its related Experimental Regulatory Plan.

10. Fifth, CCPC and Sierra Club stated that they oppose Iatan 2, alleging without any evidentiary support, that there are less expensive alternatives available and other preferred technologies available. In response, KCPL would direct the Commission's attention to the Direct Testimony of John R. Grimwade (pp. 4-19) which addressed in detail KCPL's recent resource planning process, including the use of a sophisticated MIDAS model which integrates system dispatch models and financial models used for forecasting, budgeting and resource planning. He also described the informal discussions with the Commission Staff and Public Counsel that helped to form the basis for the development of the resource plan recommended in the Stipulation.

After carefully assessing numerous alternative courses of action, including the addition of gas-fired combustion turbines, gas-fired combined cycle units, pulverized coal-fired generating units, and integrated coal gasification combined cycle technology, as well as the use of demand side management as a replacement for generating resources, KCPL's resource planning process demonstrated that "the addition of a 500 MW share of a pulverized coal-fired generating unit resulted in the lowest PVRR [present value revenue requirement]." (Direct Testimony of John R. Grimwade, p. 9). **In other words, the addition of a 500 MW share of a coal-fired plant into KCPL's generating system would produce the least cost alternative for KCPL's customers in the 2010 timeframe.** As a part of the Regulatory Plan, KCPL will also be constructing 100 MWs of wind generation facilities in 2006, and an additional 100 MWs of new wind generation facilities in 2008 if a detailed evaluation (made with input from interested Signatory Parties, including Staff, Public Counsel and MDNR) supports such an action to proceed with its construction. (Stipulation, p. 45).

11. CCPC supported the environmental upgrades proposed in the Stipulation at Iatan 1 and LaCygne. Both CCPC and Sierra Club supported the energy efficiency programs proposed in the Stipulation, and CCPC requested that a third party examine these programs for effectiveness and possible implementation. (CCPC/Sierra Club Objections, p. 3) KCPL appreciates the support of CCPC and Sierra Club for the planned environmental upgrades at Iatan 1 and LaCygne, and for the initiation of the proposed efficiency programs. With regard to the request of CCPC have a "third party" examine the efficiency programs for effectiveness and possible implementation, KCPL would note that this suggestion has already been included in the Stipulation. Under the terms of the Stipulation, KCPL has agreed to work with the Customer Programs Advisory Group ("CPAG")(consisting of Staff, Public Counsel, MDNR and any other interested Signatory Party) to "complete the necessary pre-implementation evaluations to determine the initial implementation plan for the Efficiency Programs within four (4) months of the effective date of an Order Approving Stipulation and Agreement. The initial implementation plan for Efficiency Programs may be modified . . . based on results from the pre-implementation evaluations and input from the CPAG." (Stipulation, p. 47).

12. Finally, CCPC and Sierra Club chastised the Staff for having "made up their minds that a new coal-fired power plant is 'necessary.'" (CCPC/Sierra Club Objections, p. 4) In addition, CCPC and Sierra Club further "reminds" the Commission "that it has the obligation to review the evidence produced at the hearing on the stipulation (although there should be no stipulation and therefore no hearing on it), and at the upcoming rate increase hearings, fully and fairly." . (Id.) While such patronizing comments are clearly unnecessary in the regulatory process, KCPL is confident that the Commission will "fulfill its duties to the citizens of Missouri and listen to evidence produced during a contested case." (Id.)

WHEREFORE, KCPL submits its Response to the Objections to Stipulation, and respectfully requests that the Commission deny the CCPC and Sierra Club's request to set aside the stipulation.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, transmitted by e-mail or mailed, First Class, postage prepaid, this 13th day of April, 2005, to counsel on the following service list:

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