

**KANSAS CITY POWER & LIGHT COMPANY**

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**KANSAS CITY, MISSOURI 64141-9679**

**FILED**

AUG - 3 1992

**PUBLIC SERVICE COMMISSION**  
**August 3, 1992**

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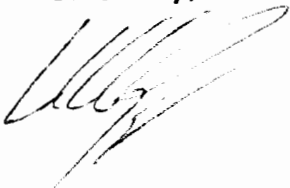
**RE: Case No. EX-92-299**

**Dear Mr. Stewart:**

**Enclosed for filing are the original and fourteen (14) copies of KCPL's Initial Comments in the above-referenced case.**

**Thank you for your assistance in this matter.**

**Sincerely,**



BEFORE THE PUBLIC SERVICE COMMISSION OF THE  
STATE OF MISSOURI

**FILED**

AUG - 3 1992

Proceeding to Adopt Rules for  
Electric Utility Resource Planning

4 CSR 240-22.010 et seq.

PUBLIC SERVICE COMMISSION  
Case No. EX-92-299

**INITIAL COMMENTS OF KANSAS CITY POWER & LIGHT COMPANY**

COMES NOW Kansas City Power & Light Company (KCPL or Company) and submits its initial comments on the proposed rules for Electric Utility Resource Planning.

**I. General Comments**

Kansas City Power & Light (KCPL or Company) supports resource planning, and in general, supports the concepts set forth in the proposed rules for Electric Utility Resource Planning (EURP). The Company presented its most recent integrated resource plan completed in September 1991 "KCPLAN Integrated Resource Plan: 1991-2010" to the Commission and Staff in November 1991. The September 1991 integrated resource plan is the third update of the original October 1, 1981, KCPLAN. KCPLAN has matured over the past ten years to where it is no longer a study but has become an integrated resource planning process. Even with the evolution in KCPLAN, KCPL continues to strive for excellence in its planning process.

As stated earlier, KCPL generally supports the concepts set forth in the proposed rules and is of the opinion that it is appropriate for the Commission to adopt general

161

rules which provides guidance to what is deemed acceptable resource planning. However, there are certain requirements, principles, objectives and policies that require revision, elimination or addition in order that rules for Electric Utility Resource Planning are established which provide utility management with guidance and direction while permitting adequate flexibility in the planning process. This requires the rules to be general in nature and not too prescriptive.

The Company is of the opinion that the planning process utilized in developing "KCPLAN - Integrated Resource Planning 1991-2010" would be in substantial compliance in principle with the proposed rules. However, there are numerous technical requirements of the proposed rules not sufficiently reflected in KCPLAN 1991. The Company has serious doubt as to the cost benefit of the additional resources required for full compliance, and would be required to request waivers for certain requirements of the proposed rules that the Company would be unable to meet. These technical issues will be discussed in greater detail later in these comments.

Before providing specific comments to the proposed EURP rules, the Company would like to thank the Commission and their staff for providing KCPL with the opportunity to participate in the workshops over the past several months. As a result of the workshops and the efforts put forth by Staff, the majority of the technical issues were resolved and a healthy dialogue on all issues, both technical and policy, occurred between the interested parties.

KCPL will have available for questioning by the Hearing Examiner and Commissioners the following individuals:

Steven W. Cattron, Director Regulatory Affairs  
Chris B. Giles, Director Marketing Programs  
Jerome L. Sippel, Manager Operations Planning & Budgeting  
William G. Riggins, Staff Attorney  
Mark English, Deputy General Counsel  
W. Edward Blunk, Supervisor Fuel Planning  
Bruce R. Knodel, Director Budgeting & Forecasting

## **II. Policy Issues**

KCPL has identified the following policy issues:

1. Commission approval of the resource acquisition strategy;
2. Protection of shareholder interests;
3. Flexibility to ensure a "level playing field" between demand-side and supply-side resources.

**The Commission Should approve the resource acquisition strategy.**

The Company offers several reasons for the incorporation of plan approval into the EURP rules. Commission approval will result in a significantly improved EURP process and in investment decisions consistent with Commission action.

First, the Company is confident that Commission approval will result in more efficient regulatory involvement in the resource planning process. The efficiency would be achieved as a result of contemporaneous and non-repetitive litigation. Given the

proposed requirement for only a compliance review by Staff, there is a high probability that the same "planning" issues will be addressed and litigated in planning proceedings, rate proceedings, as well as promotional practice proceedings, at great unnecessary cost. In addition, plan approval would allow planning issues to be dealt with at the time decisions are made and not 10-15 years later, under such a scenario, hindsight regulation would cease to become an issue.

These rules would provide the Commission with all the relevant information required to allow contemporaneous approval to occur. It simply comes down to an issue of the Commission deciding to allocate the necessary resources to the process.

In past rate proceedings, the Commission has relied on planning decisions many years after the fact by including or excluding investments from ratebase based upon these planning decisions. The benefits of contemporaneously ruling upon the planning decisions, before the investments are made, should be obvious. The Company is in no way suggesting that Commission approval would provide management with a "blank check" or "rubber stamp." To the contrary, the Company would still be subject to prudence reviews of implementation costs, and the evaluation of alternative recovery mechanisms. Plan approval will, however, minimize litigation costs by determining these planning issues more efficiently at the time management makes its decisions rather than 10-15 years later. In addition, planning issues would be dealt with in one regulatory proceeding rather than multiple proceedings.

This concept of plan approval is consistent with the concept of "Rolling Prudence Reviews" which is receiving interest across the nation and was supported by William D. Steinmeier, during his term as chairman of this Commission.

In addition, the Commission approval may assist in improving the quality of resource decisions since the key assumptions and uncertainties of the planning process would undergo the scrutiny of all interested parties. Without Commission approval the opportunity for discussion of these uncertainties and key assumptions is lost when only a "pass-fail" is available from the compliance "checklist" (i.e., the Company filled in all the boxes). It is easily envisioned that a company could be in full compliance pursuant to these rules and because of an erroneous assumption, a key uncertainty overlooked, or simply a mechanical mistake, the best resource strategies or investment decisions may not be selected or even evaluated.

Utility resource planning is quite complex and involves numerous assumptions and evaluations of uncertainties that allows for an infinite combination of possibilities. The simple modification of one key uncertainty such as the load forecast, a fuel price, or the impact of environmental regulations fifteen years after resource decisions are made has resulted in significant revisions to resource plans and exposed utilities to significant financial risk in past rate proceedings.

Finally, KCPL believes the Commission has the opportunity to provide direction and guidance for the role of alternative resources (i.e., demand-side resources, renewable, etc.) in the resource plans within the state. It is fair to say that utilities have approached these alternative resources cautiously, awaiting a clear direction from their commissions. The states that are most active with alternative resources are those that have established direction and clearly communicated it. Without that policy direction, the Company is put in the position of assuming all the risks with not compensating benefits.

With direction from the Commission, KCPL is prepared to engage in prudence reviews of implementation cost and review of the evaluation programs for future demand-side resources. There are articles appearing routinely in the trade and technical journals that support KCPL's concern and demonstrate the varying views of intervenors. Without Commission approval, the Company will be in the precarious position of selecting resource acquisition strategies and investment decision without all the pertinent information, i.e., while being subjected to future financial risk, brought about solely by the lack of Commission guidance and direction. Management must know the rules of the game, since shareholder money will be put at risk. It is imperative that all interested parties be required to set forth their issues and positions within the planning proceeding rather than waiting until subsequent rate proceedings to bring their concerns forward. Plan approval will require issues and positions to be

presented, defended, and ultimately ruled upon prior to significant dollars being put at risk.

**Shareholder interests are not adequately addressed.**

As an investor owned utility, KCPL is concerned with the complete omission of shareholder interests from these proposed rules, since the law requires the Commission to balance the interest of shareholders and ratepayers. KCPL is unable to identify any policy reference to the shareholder in this section of the proposed rules. KCPL would encourage the Commission to modify 4 CSR 240-22.010 to adequately balance the interests of shareholders and ratepayers in the final rules by including provisions for plan approval and equivalent treatment of demand-side and supply-side resources.

**Flexibility to address the "level playing field" is not adequately addressed.**

An additional policy issue that is of concern to the Company, is whether the "non-traditional accounting procedures" adequately addresses the policy objective and requirement set forth in 4 CSR 240-22.010(2)(A) (i.e., "The utility shall consider and analyze demand-side efficiency and energy management measures on an equivalent basis with supply-side alternatives in the resource planning process;")

The proposed rules do not adequately address the objective set forth in 4 CSR 240-22.020(2)(A). As drafted, the proposed rules consider "non-traditional accounting procedures" as the sole option to maintain a "level planing field" between demand-side

and supply side resources. Unfortunately, this falls significantly short of the objective and may result in bias toward one resource over another.

The Commission should ensure the equivalency of demand-side and supply-side resources by providing adequate flexibility in the rules to allow a multitude of cost recovery options. There are many options which have been utilized in other jurisdictions to address this issue, including but not limited to: decoupling; non-traditional accounting procedure; regulatory asset; bounty incentives; incentive regulation; return on equity; surcharge; shared savings; to mention a few. In addition, given the evolutionary process that exists today, there are additional options yet to be discovered. Development and implementation of these concepts should not be prohibited in other regulatory proceeding such as a rate proceedings. In fact, these options are directly related to rates and future recovery.

In addition, current statutes such as the one prohibiting CWIP in rate base, complicate the issue as reflected in this proposal. 4 CSR 240-22.060 (4)(B) requires modeling to be based on the assumption that rates will be adjusted annually in a manner consistent with Missouri law, which will result in additional costs being accumulated on supply side resources that would rarely be associated with demand-side resources, thus increasing the potential bias. In addition, the primary objective set forth in 4 CSR 240.010(2)(B) (to minimize the present worth of long-run utility costs) will routinely favor demand-side resources as supply-side resources include a return on investment

to the shareholder. This is simply an issue that is related to "traditional" rate of return regulation.

Traditional regulation allows for the direct pass through of prudently incurred expenses without a profit margin while investments result in a contribution to the shareholder. The Company is not interested in necessarily increasing its rate base, but it is also not interested in providing competitive services at cost. This issue can be resolved in the implementation in any number of the options outlined earlier.

With respect to the current "non-traditional accounting procedures" proposal, it is imperative that the Commission clearly state its intent to allow recovery of these cost through rates if prudently incurred. This commitment from the Commission is necessary to ensure that the costs reflected on the Company's balance sheet as a regulatory asset meets the requirements of FAS71.

**The following changes to the proposed rules should be made to incorporate the policy issues addressed above: (For all of KCPL's comments the lined through language is to be deleted and the shaded language is to be added.)**

#### 4 CSR 240-22.010(1)

The Commission's policy goal in promulgating this chapter of rules is to set minimum standards to govern the scope and objectives of the resource planning process that is required of electric subject to its jurisdiction, and to provide for certain approvals of the process and resulting strategies and plans in order to ensure that the public interest is adequately served. ~~Compliance with these rules shall not be construed to result in commission approval of the utility's resource plans, resource acquisition strategies or investment decisions.~~

#### 4 CSR 240-22.010(2)

The fundamental objective of the resource planning process at electric utilities shall be to provide the public with energy services that are safe, reliable, and efficient, at just an reasonable rates, in a manner that balances shareholder and ratepayer interests, and thus adequately serves the public interest. ~~adequately serves the public interest.~~

#### 4 CSR 240-22.080 Purpose

PURPOSE: This rule specifies the requirements for electric utility filings to demonstrate compliance with the provisions of this chapter of rules, and it also provides for the commission to approve, approve with modifications, or disapprove the utility's proposed resource acquisition strategy. ~~The purpose of this compliance review required by this chapter of rules is not commission approval of the substantive findings,~~

~~determination or analyses contained in the filing. The propose of the compliance review required by this chapter is to determine whether the utility's resource acquisition strategy meets the planning objectives stated in 4 CSR 240-22.020(2)(A)-(C).~~

#### 4 CSR 240-22.080 (4)

The Commission will establish a docket for the purpose of receiving the compliance filing of each affected electric utility and for the purpose of determining whether the utility's proposed resource acquisition strategy should be approved, approved with modifications, or disapproved. The Commission will issue an order that establishes an intervention deadline, sets an early preparing conference and provides for notice.

#### 4 CSR 240-22.080 (5)

The staff shall review each compliance filing required by this rule and shall file a report not later than one hundred twenty (120) days after each utility's scheduled filing date that identifies any deficiencies in the electric utility's compliance with the provisions of this chapter of rules, any major deficiencies in the methodologies or analyses required to be performed by this chapter of rules, and any other deficiencies which the staff in its limited review determines would cause the electric utility's resource acquisition strategy to fail to meet the planning objective identified in 4 CSR 240-22.020(2)(A)-(C) recommends that the commission approve the utility's proposed resource acquisition strategy, approve it with specified modifications, or disapprove it.

#### 4 CSR 240-22.080 (6)

Also within one hundred twenty (120) days after an electric utility's compliance filing pursuant to this rule, the office of public counsel and any intervenor may file a report or comments ~~based on a limited review that identify any deficiencies in the electric utility's compliance with the provisions of this chapter of rules, any deficiencies in the methodologies or analyses required to be performed by this chapter of rules, and any other deficiencies which the public counsel or intervenor believes would cause the utility's resource acquisition strategy to fail to meet the planning objectives identified in 4 CSR 240.22.010(A)(2)(A) — (C)~~ recommending that the commission approve the utility's proposed resource acquisition strategy, approve it with modifications, or disapprove it.

#### 4 CSR 240-22.080 (8)

If the Staff, Public Counsel, or any intervenor ~~finds deficiencies~~ disputes or disagrees with any aspect of the utility's proposed resource acquisition strategy, it shall work with the electric utility and the other parties to reach, within forty-five (45) days of the date that the report or comments were submitted, a joint agreement on a plan to ~~remedy the identified deficiencies~~ resolve the disputed areas. If full agreement cannot be reached, this should be reported to the commission through a joint filing as soon as possible, but no later than forth-five (45) days after the date on which the report or comments were submitted. The joint filing should set out in a brief narrative description those areas on which agreement cannot be reached.

#### 4 CSR 240-22.080 (9)

If all agreement on ~~remedying deficiencies resolving disputed areas of the utility's proposed resource acquisition strategy~~ is not reached, then within sixty (60) days from the date on which the staff, public counsel or any intervenor submitted a report or comments relating to the electric utility's compliance filing, the electric utility may file a response and the staff, public counsel and any intervenor may file comments in response to each other. The commission will issue an order which indicates on what items, if any, a hearing will be held and which establishes a procedural schedule.

#### 4 CSR 240-22.080 (13)

The commission will issue an order which ~~approves, approves with modifications, or disapproves the utility's proposed resource acquisition strategy contains findings that the electric utility's filing that the electric utility's filing pursuant to this rule either does or does not demonstrate compliance with the requirements of this chapter of rules, and that the utility's resource acquisition strategy either does or does not meet the planning objectives stated in 4 CSR 240-22.020.(1) (A) (C), and which addresses any utility requests pursuant to section (2) for authorization or reauthorization of nontraditional accounting procedures for demand-side resource costs. Should the commission's order either approve with modifications, or disapprove the proposed resource acquisition strategy, the utility shall submit a conforming resource acquisition strategy for hearing and approval in accordance with the requirements of the order.~~

#### 4 CSR 240-22.080(2)

The electric utility's compliance filing may also include a request for nontraditional accounting procedures and information regarding any associated ratemaking treatment to be sought by the utility for demand-side resource costs. If the utility desires to make any such request, it must be made in the utility's compliance filing pursuant to this rule in future rate proceedings. If the utility desires to continue any previously authorized nontraditional implementation period, it must request reauthorization in each subsequent filing pursuant to this rule. Commission does not constitute a finding that the expenditures involved are reasonable or prudent, and should not be construed as approval or acceptance of any item in any account for the propose of fixing rates. However, the Commission intends to allow future rate recovery of all prudently incurred costs which are deferred pursuant to an authorized or reauthorized nontraditional accounting procedure. Any request for initial authorization or reauthorization of these nontraditional accounting procedures must -

(A) Be limited to specific demand-side programs that are included in the utility's implementation plan; and

(B) Include specific proposals that contain at least the following information:

1. An explanation of the specific form and mechanics of implementing the proposed accounting procedure and any associated ratemaking treatment to be sought;
2. A discussion of the rationale and justification of the need for a nontraditional treatment of these costs;
3. An explanation of how the specific proposal meets this need for nontraditional treatment, and
4. A quantitative comparison of the utility's estimated earnings over the three (3) year implementation period with and without the proposed nontraditional accounting procedures and any associated ratemaking treatment to be sought.

### **III. Technical Issues**

#### **A. Load Analysis And Forecasting (4 CSR 240-22.030)**

##### **1. (1) (D) Length of Data Base**

The proposed requirement to develop a 10-year historical data base beginning in 1982 for weather normalized class and system energy and monthly demands at the time of system peak will require a significant commitment of resources from KCPL in order to gain compliance, but will result in little, if any, forecast improvement. The amount of effort required to prepare the historical weather

normalized data base is significant and is evidenced by the fact that the MoPSC staff has held two separate multi-day workshop sessions on weather normalization procedures during the past two years. KCPL estimates that the initial preparation of a "weather-normalized" data base beginning in 1982 to comply with the rules as written will cost approximately \$200,000.

The use of such a lengthy data base in the preparation of detailed end-use based loads forecasts as required by the proposed rules is very limited and the preparation of any such data base should be on a largely prospective basis. The immediate preparation of the proposed data base will result in a misallocation of KCPL forecasting resources that could be more effectively used in gaining compliance with other areas of the proposed rules which will result in forecast improvement.

In preparing end-use forecasts, minimal benefits are associated with a weather normalized load data base which begins earlier than three years prior to the forecast base year. In fact, a "sanity check" on end-use forecasts appears to be the primary required use of the proposed rule of the "weather normalized" data base, detailed in 4 CSR-240-22.030 (5)(B)2.D.

KCPL believes that the length of the weather normalized data base required for analysis purposes is excessive, and a "sanity check" of forecast trends can be accomplished with a much shorter data base of normalized load information.

KCPL agrees that prudent planning does require that some level of historical load patterns be reviewed as part of the load forecasting process, but as has often been pointed out in proceedings before this Commission, using historical trends as a foundation for forecast evaluation represents a tenuous exercise at best. For example, after the 1973 Arab oil embargo electric utility load growth dropped permanently and dramatically below the 6-7% historical trends experienced in prior years.

KCPL proposes that no more than a three-year historical weather normalized data base be required to be submitted as part of the utility's initial filing in response to this rule. Subsequent filings will provide weather normalized data for additional years and a 10-year data base will ultimately be developed over the course of the next 12 years. 4 CSR 240-22.030 (1)(D) 1. should be changed to read:

1. ~~The development of a~~ Actual and weather-normalized monthly class and system energy usage and actual hourly net system loads shall start from ~~January of 1982 or for the period of time used as the basis of the utility's~~

~~forecast of these loads, whichever is longer. be provided for the three~~  
~~calendar years preceding the utility's date of filing as required by these rules~~

4 CSR 240-22.030 (1)(D) 2. should be changed similarly to read:

2. Actual and weather-normalized class and system monthly demands at the time of the system peak and weather-normalized hourly system loads shall ~~start from January of 1990 or for the period of time used as the basis of the utility's forecast of these loads, whichever is longer. be provided for the three~~  
~~calendar years preceding the utility's date of filing as required by these~~  
~~rules~~

4 CSR 240-22.030 (5)(B) 2.D should be changed to read:

- D. The major class forecasted use per unit shall be compared to historical trends in weather-normalized use per unit. Significant differences between the forecasts and ~~long term and recent~~ ~~historical~~ trends shall be analyzed and explained.

## 2. (3) (A) End-Use Detail

This section of the proposed rule requires the development, where applicable, for each major class, of end-use information for at least lighting, motor drives, space cooling, space heating, water heating and refrigeration. The requirement to develop separate end-use data on motor drives is neither practical or

meaningful in many instances since motor drives are typically included as part of other end-uses such as cooling, heating and refrigeration.

KCPL recommends the elimination of the motor drive as a separate end-use and in its place an end-use entitled "process equipment". Process equipment would include motor drive equipment such as found in specific industrial applications and industrial process equipment not dedicated to other specific end-use functions.

**B. Supply-Side Resource Analysis (4 CSR 240-22.040)**

- 1. (8)(A)(2) The utility shall consider the accuracy of previous forecasts as an important criterion in selecting providers of fuel price forecasts.**

This requires the consideration of "accuracy" of previous forecasts in selection of a forecast provider. This consideration could lead to a motivational bias in future forecasts. The forecaster may suppress the full range of uncertainty that he actually believes to be present because he knows that the short-term accuracy of his forecast will affect whether he is selected to provide future forecasts. A lesson we must learn from energy markets since the 1970's is that focusing on the best estimate leads to inflexibility.

**2. (8)(A)(3) The provider of each fuel price forecast shall be required to identify the critical uncertain factors that drive the price forecast and to provide a range of forecasts and an associated subjective probability distribution that reflects this uncertainty;**

**(8)(D)(2) The provider of the forecast shall be required to identify the critical uncertain factors that may cause the value of allowances to change significantly, and to provide a range of forecasts and an associated subjective probability distribution that reflects this uncertainty; and**

These provisions require the forecaster to focus on "critical uncertain factors." Once the forecaster's focus is narrowed to "critical" factors, they are to determine a range of forecasts. Using this approach will result in the following flaws to the probabilistic forecast:

- 1) Only a few sources of uncertainty will be considered. The range of uncertainty will therefore be under estimated.
- 2) Additional sources of uncertainty that influence future years will not be considered.

The combination of the above provisions would require that the forecaster develop a best estimate and then identify a range of forecasts about that estimate. This will impose adjustment and anchoring biases upon the forecast range. The forecast will have a central bias, which means that the distribution is tighter (has less spread) than is justified by the forecaster's actual state of information.

As one gains experience making decisions using these techniques, it quickly becomes obvious that a variable's range is much more important than a well defined base case. It is soon discovered there are some variables that may not cause a different strategy to be chosen no matter how much they change. There are others that, with very little change, would cause a different strategy to be chosen. That is, some variables have greater elasticity than others. It is this second group of variables that warrant detailed examination.

Whereas the purpose of these rules is to ensure the explicit consideration of uncertainty throughout the Company's decision making process, it would be more appropriate to simply require: (1) The use of probabilistic forecasts (2) The forecast documentation to identify key conditional assumptions upon which the probabilistic forecast is based.

3. (1)(L) Other characteristics that may make the technology particularly appropriate as a contingency option under extreme outcomes for the critical uncertain factors identified pursuant to 4 CSR 240-22.070(2).

Rule (1)(L) requires the consideration of factors not developed until much of the work under Section 22.070 is completed. The Company recommends that rule (1)(L) be deleted, or amended so that it is clear that the requirements of this rule cannot be met until the utility nears completion of the requirements under Section 22.070, so that the utility is only required to consider critical uncertainties identified during the utility's previous cycle of integrated planning.

4. 4 CSR 240-22.0404 For the utility's preferred resource selected pursuant to 4 CSR 240-22.070(7), the utility shall determine. . .

The requirements under rule (6) cannot be performed contemporaneously with the rest of Section 22.040, as the preferred resource plan is not known at that time. The requirements of rule (6) should be moved to Section 22.070, perhaps immediately after Section 22.070(6).

#### **C. Definitions (4 CSR 240-22.020)**


**1.(27) Levelized cost means the dollar amount of a fixed annual payment for which a stream of such payments over a specified period of time is equal to a specified present value based on a specified rate of interest.**

During the technical workshops, the reference to "levelized" costs in the supply side resource analysis section of the rules was eliminated. The reason for doing this was to maintain the flexibility to use the economic carrying charge approach, if desired at a later date. Numerous references to the use of levelized costs exist throughout 4 CSR 240-22.050. Rather than trying to change all of the references, and possibly miss one, KCPL recommends the definition of levelized cost (definition (27)) be amended by adding the following text:

In lieu of levelized cost, a utility may use an economic carrying charge approach to the calculation of fixed costs, in which the annual dollar amount increases each year at a rate equal to an assumed inflation rate, and for which a stream of such amounts over a specified period of time is equal to a specified present value based on a specified rate of interest. In the special case of an assumed zero percent inflation rate, the economic carrying charge costs equals the levelized costs.

WHEREFORE, KCPL requests that the Commission incorporate the above comments into the proposed rules.

Respectfully submitted,

  
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