LAW OFFICES

BRYDON, SWEARENGEN & ENGLAND

PROFESSIONAL CORPORATION

312 EAST CAPITOL AVENUE

P.O. BOX 456

JEFFERSON CITY, MISSOURI 65102-0456

AREA CODE 314

TELEPHONE 635-7166

FACSIMILE 635-0427

MEMBER: STATE CAPITAL LAW FIRM GROUP

DAVID V.G. BRYDON
JAMES C. SWEARENGEN
WILLIAM R. ENGLAND, III
JOHNNY K. RICHARDSON
STEPHEN G. NEWMAN
MARK W. COMLEY
GARY W. DUFFY
JOHN A. RUTH
PAUL A. BOUDREAU
BARRY V. CUNDIFF
SONDRA B. MORGAN
SARAH J. MAXWELL
ROBERT K. ANGSTEAD

August 3, 1992

FILED

AUG - 3 1992

PUBLIC SERVICE COMMISSION

Mr. Brent Stewart
Executive Secretary
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Re: Case No. EX-92-299

Dear Mr. Stewart:

Enclosed for filing with your office please find an original and fourteen copies of the initial comments of Missouri Public Service.

If there are any questions about this, please contact me.

Sincerely yours,

Gary W. Duffy

GWD:ab
Enclosure
cc: Office of Public Counsel

FILED

AUG - 3 1992

PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the matter of proposed Commission rules 4 CSR 240-22.010 through 4 CSR 240-22.080; Electric Utility Resource Planning	))))	**Case No. EX-92-299**

INITIAL COMMENTS OF
UTILICORP UNITED, INC., MISSOURI PUBLIC SERVICE DIVISION

Comes now UtiliCorp United, Inc., Missouri Public Service Division ("MPS"), and submits its initial comments with regard to the Commission's proposed rules for Electric Utility Resource Planning. These comments are in response to the notice of proposed rulemaking printed in the Missouri Register Volume 17, Number 13, July 1, 1992 (pages 889-902). MPS's comments are presented on sequential basis with references to each section.

MPS intends to have Mr. Bradley R. Lewis, Director - Regulatory Affairs, in attendance at the public hearing on September 10, 1992 to answer questions from the commissioners and the hearing examiner, as requested in the notice.

Introduction

1. Overall, MPS supports the intent of the proposed rules to provide a regulatory framework and standards for the resource planning process to be conducted by electric utilities subject to the Commission's jurisdiction. MPS has already begun acquiring and developing the technical and human resources necessary to comply with the proposed rules; however, in order to fully comply with the

rules, MPS will incur ongoing annual costs ranging in the millions of dollars.

2. MPS's main concerns are that the proposed rules should: (a) be less prescriptive and allow for flexibility in the electric utility resource planning process, (b) provide specific linkages to appropriate regulatory cost recovery mechanisms for demand-side management ("DSM") program costs, and (c) include Commission approval of the utility's "resource acquisition strategy" in order to deal effectively with potential prudence issues on a timely basis.

3. Compliance with the rules should result in benefits that exceed costs to utilities and their customers over the long term. This means that the proposed rules should provide the opportunity for utilities to earn a fair rate of return on cost-effective demand-side and supply-side resources required to provide safe, reliable, and efficient energy services to customers at reasonable rates in a manner that protects the environment. Exemptions to the rules, either in their entirety or parts thereof, should be provided to those utilities where expected benefits may not exceed costs of compliance with the rules.

4 CSR 240-22.010 Policy Objectives

4. Section (1). Demand-side and supply-side resource options evaluated in the utility's integrated resource plan ("IRP") should provide sufficient flexibility to meet forecasted customer energy needs considering planning uncertainties. The Commission

should approve the utility's "resource acquisition strategy," so that the utility can pursue timely implementation of the strategy with the flexibility to make cost-effective investment decisions that will have a reasonable assurance of cost recovery. Without Commission approval of the "resource acquisition strategy", utilities and their customers will incur the higher costs of compliance with the rules without assurance of any offsetting benefits.

5. Subsection (2)(B). To be consistent with demand-side resource cost-effectiveness tests, the primary evaluation criterion should be minimization of the present worth of long-run utility costs and direct customer costs. Otherwise, the resource acquisition strategy may over-estimate the potential customer costs and load impacts of DSM programs. In general, customers cannot be expected to implement all DSM programs that may be cost-effective based on the proposed Utility Benefits Test due to limited budgets and individual preferences for energy services.

4 CSR 240-22.020 Definitions

6. Section (29). Load building programs should be more clearly defined as DSM programs which increase "on-peak" demand at the time of the utility's annual system peak load. Otherwise, DSM programs that have the potential to reduce system peak load requirements, improve annual system load factor, and defer the need for new capacity may not be fairly evaluated in the resource planning process.

7. Section (45). Probable environmental costs with a "nonzero probability" of being imposed within the planning horizon are too numerous to identify and evaluate. The phrase "nonzero probability" should be replaced with "fifty (50) percent or greater probability." Otherwise, the utility will be required to evaluate a myriad of potential environmental costs with a small likelihood of occurrence.

8. Section (55). Utility costs are defined to be synonymous with utility revenue requirements. The basic assumptions on which revenue requirements should be calculated for demand-side and supply-side resources also need to be defined. Specifically, DSM program costs, lost revenue, and incentives should be included in utility revenue requirements to fairly evaluate DSM programs.

4 CSR 240-22.030 Load Analysis and Forecasting

9. Paragraphs (3)(B)2. and (5)(B)2. Estimates of end-use energy and demand at time of monthly peaks for each major class would be very difficult and burdensome for utilities to develop, and of relatively low accuracy in the analysis of use per unit, since this information would be based on end-use surveys that are updated every three years. MPS suggests that "annual" rather than "monthly" estimates of end-use energy and peak demand (summer and winter) be developed for analysis of use per unit by major customer class. This information is generally available from EPRI's annual end-use energy forecasting models (REEPS, COMMEND, and INFORM). Moreover, historical and forecast weather-normalized monthly energy

and peak loads by major customer class will be inconsistent if different models, methods, and data are used to weather-normalize historical and forecast loads.

4 CSR 240-22.040 Supply-Side Resource Analysis

10. Paragraphs (2)(B)1. and 2. The phrase "nonzero probability" related to identifying environmental pollutants and mitigation levels would require a review of all possible environmental laws and regulations which may be imposed in the future, which is not practical for utilities to address in the resource planning process. The phrase "nonzero probability" should be replaced with "fifty (50) percent or greater probability" so that only the "most likely" environmental pollutants and mitigation levels are evaluated.

11. Subsection (5)(G). Constraints on the utility system caused by wheeling arrangements are a dynamic process. From a transmission system planning perspective there is no practical way to optimize an integrated resource strategy based on wheeling constraints over a 20-year planning horizon. The evaluation of firm and non-firm power purchases and sales must necessarily be limited to the short-term opportunities that may be available to the utility.

12. Paragraphs (8)(B)1. and 2. Capital cost estimates for supply-side resource options based on utility data or estimates from a qualified engineering firm may be difficult to obtain with any degree of accuracy other than "order of magnitude" for projects

beyond five years into the future. Obtaining subjective probability distributions for supply-side resource capital cost estimates may also be difficult to obtain from any source. MPS suggests that capital cost estimates developed and updated by EPRI in the "Technical Assessment Guide" be acceptable for estimating capital costs of supply-side resources over the 20-year planning horizon.

4 CSR 240-22.050 Demand-Side Resource Analysis

13. Subsections (7)(C) and (D). The definitions of Utility Cost Test and Total Resource Cost Test should also be included in the Definitions rule (4 CSR 240-22.020).

14. Section (10). The distinction between naturally-occurring energy-efficiency and DSM program-induced energy-efficiency makes it difficult to estimate the costs and load impacts of so-called "load building" programs that promote high-efficiency load management equipment to reduce on-peak system demand and improve system load factor. Such programs that reduce on-peak system demand should be defined as "load management" DSM programs. True "load building" programs, by definition in 4 CSR 240-22.020, should be more carefully defined as those promotional programs that increase on-peak system demand. Separate classification of "load management" DSM program costs and load impacts that do not contribute to on-peak system demand should not be required by the rules. Most importantly, a specific linkage to a DSM cost recovery accounting mechanism should be described in

this section of the rules in order to assure utilities of future recovery of DSM program costs, lost revenues, and incentives.

4 CSR 240-22.060 Integrated Resource Analysis

15. Section (3). Alternative resource plans should include cost-effective "load management" DSM programs that reduce on-peak system demand. MPS generally agrees that "load building" programs which increase on-peak system demand should be excluded from the evaluation of alternative resource plans unless such programs can be shown, based on the analysis in section (5) and subsection (6)(F), to reduce long-term costs and average rates to customers over the planning horizon.

4 CSR 240-22.070 Risk Analysis and Strategy Selection

16. Section (8). A definition for the "Expected Value of Better Information" should be described here and in the Definitions rule (4 CSR 240-22.020). EPRI's "End-Use Technical Assessment Guide, Volume 4: Fundamentals and Methods (CU-7222 V4)" provides a definition and several examples of expected value of better information for DSM programs.

17. Section (9). A specific time frame for development of an implementation plan for the "preferred resource plan" should be identified. MPS recommends that a three-year implementation plan be prepared consistent with the "preferred resource plan."

4 CSR 240-22.080 Filing Schedule and Requirements

18. Section (2). The rules provide a linkage for requesting non-traditional accounting procedures and ratemaking treatment related to demand-side resource costs. This linkage should be much stronger by specifying a specific DSM cost recovery mechanism that will provide reasonable assurance to utilities that DSM program costs, lost revenues, and incentives can be recovered in future rates, so that utilities can aggressively pursue implementation of DSM programs.

19. Section (10). The Commission should provide flexibility for the utility to implement contingency options that are cost-effective upon sixty (60) days written notice and submission of a revised implementation plan, without a formal review process. This section should clarify that the utility has the flexibility to implement contingency options that are consistent with the officially adopted "resource acquisition strategy."

Need for a DSM Cost Recovery Mechanism

20. MPS believes that the effectiveness of the Commission's proposed electric utility resource planning rules will be compromised unless a specific DSM cost recovery mechanism is clearly linked to the rules. Central to a comprehensive regulatory response is the development of a DSM cost recovery mechanism. Over the past few years, a consensus has emerged among utilities and many regulators that traditional cost recovery mechanisms, designed in an era when only supply-side resources were considered, are

ineffectual for DSM resources and penalize utilities that attempt to follow the mandates of integrated resource planning rules. New cost recovery approaches, being designed and implemented in many states across the country, can overcome the financial disincentives affecting DSM under traditional regulation and actually make DSM profitable to utilities and customers. Under the traditional regulatory approach followed in Missouri and several other states, there are several disincentives to utilities related to DSM resources, as follows:

A. **Under-recovery of Program Costs:** When a utility's DSM program budget is expanding, its DSM expenditures will not be fully recovered to the extent they exceed the expenditure level that was assumed in the test year used to set base rates.

B. **Loss of Revenue:** When DSM reduces sales, the utility loses the contribution to coverage of fixed costs and earnings that it would have received had it not undertaken DSM programs.

C. **Loss of Investment Opportunities:** Implementation of DSM programs forecloses the opportunity to earn on the traditional supply-side investments they displace. Such investments would typically be larger than the corresponding DSM expenditures, and are customarily capitalized and amortized with a return to shareholders.

D. **Uncertainty:** DSM introduces additional and largely unfamiliar uncertainties into the planning and management of

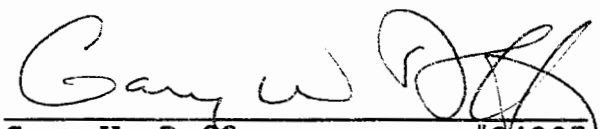
utility operations. For example, energy-efficiency measures may have longer or shorter useful lives than originally forecast; customer acceptance of DSM programs is notoriously difficult to predict; and the regulatory treatment accorded DSM programs could be reversed by the Commission at a later date after the utility begins a "good faith" effort to implement cost-effective DSM programs.

Because of these disincentives, greater reliance on DSM programs under traditional regulation is likely to impair, rather than enhance, a utility's financial position and is therefore inconsistent with the utility's fiduciary obligation to shareholders. A well-designed DSM cost recovery mechanism would address each of the traditional disincentives to DSM. First, it would fully recover DSM program costs not already accounted for in base rates. Second, it would incorporate a revenue adjustment to compensate for DSM-related lost revenue to contribute to fixed costs and earnings. Third, it would include a performance incentive, such as a "net resource value shared savings" feature, to offset the uncertainties and risks attending DSM program adoption by customers, and provide a positive incentive for vigorous implementation of cost-effective DSM programs by the utility. Finally, the mechanism would include a method for allocating all cost-of-service components (program costs, lost revenue, and incentives) to customer classes for rate design purposes in a manner that minimizes concerns over inequitable treatment of nonparticipants in DSM programs.

Need for Commission Approval of the Utility's Resource Acquisition Strategy

21. Pursuant to section (13) of 4 CSR 240-22.080, MPS believes that it would be in the best interest of customers and the utility for the Commission to formally approve the utility's officially adopted "resource acquisition strategy" provided that it meets the objectives of the resource planning process. It should be noted that approval is requested for the utility's "resource acquisition strategy" rather than the "preferred resource plan" so that management prudence issues may be addressed in a timely manner. MPS believes that Commission approval of the resource acquisition strategy will ensure that the utility pursues implementation of its strategy in a timely and flexible manner which deals effectively with uncertainties and risks.

Respectfully submitted,



Gary W. Duffy #24905
BRYDON, SWEARENGEN & ENGLAND P.C.
312 East Capitol Avenue
P. O. Box 456
Jefferson City, Missouri 65102-0456

Attorneys for
UtiliCorp United, Inc.
Missouri Public Service Division