



Western
Resources

WESTERN RESOURCES, INC.

LAW DIVISION
P.O. Box 889, 818 Kansas Avenue
Topeka, Kansas 66601
(913) 575-8125
Telecopier (913) 575-8163

FILED

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Michael C. Pendergast
Assistant General Attorney, Regulation

PUBLIC SERVICE COMMISSION

August 3, 1992

Hand Delivered

Mr. Brent Stewart
Executive Secretary
MISSOURI PUBLIC SERVICE COMMISSION
301 West High Street
Jefferson City, MO 65101

Re: Electric Utility Resource Planning
Proposed Rule Making
Case No. EX-92-299

Dear Mr. Stewart:

Enclosed please find the original and 14 copies of the **Comments of Western Resources, Inc.** to be filed in the above-referenced matter.

Thank you for your assistance.

Very truly yours,

Michael C. Pendergast
Michael C. Pendergast *g jmr*
Assistant General Attorney,
Regulation

MCP/naf
Enclosures

cc: Office of Public Counsel
Staff, Missouri Public Service Commission

Kelly R. Harrison
Manager, Forecasting and Planning
Western Resources, Inc.
P.O. Box 889, 818 Kansas Avenue
Topeka, Kansas 66601
(913) 575-1636

It is requested that all of the above names be placed on the Commission's official service list. As required by the Notice of Public Hearing, James A. Martin and Kelly B. Harrison will be in attendance at the Public Hearing on September 10th and 11th, 1992 to respond to the Commissioners' and hearing examiner's queries. Gas Service is also evaluating the use of a consultant for the hearings and reserves the right to add additional parties to the attendance list at a later date.

II.

A. INTRODUCTION.

Gas Service is a corporation organized and existing under the laws of the State of Kansas with its principal office located in Topeka, Kansas. It is a public utility engaged in the local distribution of natural gas in the States of Kansas, Missouri, and Oklahoma. In Missouri, Gas Service provides service to approximately 450,000 customers. Other companies of Western Resources also operate as electric utilities in the State of Kansas, serving over 500,000 customers.

III.

The Proposed Rule policy objectives appear on the first page and provide:

"4 CSR 240-22.010 Policy Objectives ...

(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 utilities subject to its jurisdiction in order to ensure that the public interest is adequately served....

(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 and reasonable rates, in a manner that adequately serves the public interest. This objective requires that -

(A) The utility shall consider and analyze demand-side efficiency and energy management measures on an equivalent basis with supply-side alternatives in the resources planning process;

(B) The utility shall use minimization of the present worth of long-run utility costs as the primary selection criterion in choosing the preferred resource plan;...." (Emphasis added.)

The purpose of the proposed rule is to develop a planning framework for electric utilities which facilitates the greatest overall benefit for society in the management of economic and environmental resources. The proposed rule correctly requires the evaluation of end-use measures by an electric utility when preparing an Integrated Resource Plan. The proposed rule, however, has excluded the consideration of fuel substitution alternatives as an end-use measure. Thus, under Staff's proposed rule, an electric utility addressing demand-side requirements in the IRP process, would be required to evaluate only electric "options" and would not be required to evaluate the most readily available substitutable fuel, natural gas.

The inclusion of fuel substitution as an end-use measure was discussed at length by Staff and utility representatives at the IRP workshops. Proposed language from prior drafts of the proposed

rule which required consideration of fuel substitution, however, was deleted from Staff's June 16, 1992, filing. Gas Service urges the Commission to insert all references to fuel substitution that were included in prior drafts of the proposed rule. In these drafts, the electric utilities were required to consider fuel-substitution as an alternative end-use measure¹. The removal of fuel substitution as and end-use/demand-side alternative creates an inherent flaw in the proposed rule that contradicts the stated purpose of the rule.

B. THE PROPOSED RULE IGNORES THE MOST READILY AVAILABLE LEAST COST RESOURCE ALTERNATIVE ON THE DEMAND-SIDE.

Consumers in Gas Service's territory currently have competitive alternative fuels to choose from in making their end-use energy decisions with respect to heating, cooling, cooking, washing, drying, and other uses. In addition, the use of gas space cooling, as an alternative to electric, can significantly reduce the summer peak-demand upon electric generating, transmission and distribution facilities. Electric utilities incur significant costs, to install and operate generating, transmission, and

¹In Staff's May 27, 1992, draft, "fuel substitution measure" was deleted from the definition of "end-use measure", thus effectively removing any fuel-substitution measure from consideration as a demand-side alternative. That draft also defined fuel substitution as:

"(24) Fuel substitution means the future use of an energy source to provide an end-use energy service that is currently provided by a different energy source."

This definition was deleted in the final draft. Other references to end-use competitive alternatives also were deleted from the May 27, 1992 draft. See: 4 CSR 240-22.030 (3)(A)1. and 4 CSR 240-22.030(5)(B)2.C.

distribution capacity to serve cooling demand during peak periods. If switching an identifiable number of customers to gas space cooling would eliminate the need for costly construction and maintenance of generating, transmission, and distribution facilities, it should be considered in an electric utility's integrated resource planning.

The elimination of fuel substitution as a demand-side alternative also defeats the evaluation requirements of the proposed rule. The proposed rule, at 4 CSR 240-22.050(9), provides, in part:

"(9) Evaluation of Demand-Side Programs. The utility shall develop evaluation plans for all demand-side programs The purpose of these evaluations shall be to develop the information necessary to improve the design of existing and future demand-side programs, and to gather data on the implementation costs and load impacts of programs for use in cost-effectiveness screening and integrated resource analysis.

(A) Process Evaluation. Each demand-side program ... shall be subjected to an ongoing evaluation process that addresses at least the following questions about the program design:

* * *

3. Does the mix of end-use measures included in the program appropriately reflect the diversity of end-use energy service needs and existing end-use technologies within the target segment?" (Emphasis added.)

Unless electric utilities are required to consider fuel substitution alternatives, the answer to the above question always should be NO. However, because the majority of existing end-use/demand-side fuel-substitution alternatives have been definitionally excluded as end-use measures, the proposed rule would allow the electric utilities to respond YES!

C. ELIMINATION OF FUEL SUBSTITUTION AS AN END-USE MEASURE IS INCONSISTENT WITH PROPOSED RULE LANGUAGE ON FORECASTING.

The proposed rule, at 4 CSR 240-22.030(5)(B)2.A., requires utilities to...

"document how the forecast of use per unit has taken into account the effects of real prices of electricity, real prices of competitive energy sources, real incomes and any other relevant economic and demographic factors".
(Emphasis added.)

The rule's elimination of consideration of fuel substitution in other sections is inconsistent with this section which requires utilities to forecast the effect of fuel-substitution as a competitive energy source.

D. ELIMINATION OF FUEL-SUBSTITUTION ON THE DEMAND SIDE VIOLATES THE STATED OBJECTIVE OF EVALUATING, ON AN "EQUIVALENT BASIS," BOTH DEMAND SIDE AND SUPPLY SIDE ALTERNATIVES.

The proposed rule requires electric utilities to consider alternate fuels in performing their supply-side resource analysis. 4 CSR 240-22.040(1) and 4 CSR 240-22.040(9). The policy statement requires that:

"The utility shall consider and analyze demand-side efficiency and energy management measures on an equivalent basis with supply-side alternatives in the resources planning process...." 4 CSR 240-22.010(2)(A).

In the integrated resource analysis provisions, the proposed rule requires an electric utility to develop modeling procedures to evaluate its integrated resource planning. The proposed rule provides, in part:

"The modeling procedures shall treat supply-side and demand-side resources on a logically consistent and economically equivalent basis. This means that the same types or categories of costs, benefits and risks shall be considered, and that these factors shall be quantified at

a similar level of detail and precision for all resource types." 4 CSR 240-22.060(4)(D).

By requiring electric utilities to consider substitute fuel resources in the supply-side analysis and eliminating the same considerations from the demand-side analysis, it would be impossible for electric utilities to develop models that treat both demand and supply-side "resources on a logically consistent and economically equivalent basis."

It is not equitable to require fuel substitution on the supply-side to meet, for example, certain environmental goals, and then prohibit the same type of environmental benefits analysis for substitute fuel alternatives on the demand-side of the equation. An example of a peak shaving, fuel substitution alternative is the use of solar powered water heating. Such an alternative may be a more environmentally acceptable alternative to building additional peaking capacity. However, as the Proposed Rule is drafted an electric utility would not be required to consider this alternative because it requires a demand-side substitute fuel, solar power.

E. IT IS IMPOSSIBLE FOR ELECTRIC UTILITIES TO MEET THE MANDATE OF THE PROPOSED RULE OF MINIMIZING COSTS WITHOUT THE CONSIDERATION OF DEMAND-SIDE FUEL-SUBSTITUTION.

The Proposed Rule mandates in its policy statement that electric utilities' integrated resource plans minimize costs to consumers. The Proposed Rule provides in pertinent part:

"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 and reasonable rates, in a manner that adequately serves the public interest. This objective requires that -

(B) The utility shall use minimization of the present worth of long-run utility costs as the primary selection criterion in choosing the preferred resource plan;" (Emphasis added.) 4 CSR 240-22.010(2).

A primary criteria for implementing an integrated resource plan is to minimize the cost that the consumer will have to pay in rates. If a fuel substitution end-use measure would lower the present worth long-run cost to an electric utility's customers, then failure of an electric utility to evaluate such a measure would ultimately increase rates rather than minimize customer and societal costs. By not considering alternative fuels, therefore, an electric utility would be ignoring one of the primary policy considerations which justify the imposition of an IRP rule. The proposed rule not only allows an electric utility to ignore substitute fuel alternatives, but the rule itself removes the alternatives from consideration, resulting in potentially higher electric rates for an electric utility's customers and greater costs paid by society.

III.

In conclusion, removal of substitute fuels as an end-use that must be considered renders the proposed rule ineffective as an integrated resource planning tool. The proposed rule should explicitly require that fuel substitution measures be evaluated and considered for inclusion in an electric utility's integrated resource Planning as long as: 1) they pass a cost-effectiveness

test, 2) the utility providing reduced service is not financially harmed, and 3) customer service standards are maintained.

Respectfully submitted,

WESTERN RESOURCES, INC.

By: Michael C. Pendergast
Michael C. Pendergast *gm*
Assistant General Attorney,
Regulation
P.O. Box 889, 818 Kansas Avenue
Topeka, Kansas 66601
(913) 575-8125

T.L. Green
Assistant General Attorney,
Litigation
P.O. Box 889, 818 Kansas Avenue
Topeka, Kansas 66601
(913) 575-1953

ITS ATTORNEYS

Dated: August 3, 1992

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