



Western
Resources

WESTERN RESOURCES, INC.

LAW DIVISION

P.O. Box 889, 818 Kansas Avenue

Topeka, Kansas 66601

(913) 575-6404

Telecopier (913) 575-1788

August 31, 1992

Mr. C. Brent Stewart
Executive Secretary
Missouri Public Service Commission
Post Office Box 360
Jefferson City, Missouri 65102

RE: Western Resources, Inc.
EX-92-299

Dear Mr. Stewart:

Enclosed for filing please find an original and fourteen (14) copies of Reply Comments of Western Resources, Inc.

A copy of the foregoing document will also be mailed to all entities who have filed Initial Comments in this matter.

Sincerely,

Michael C. Pendergast *by [signature]*
Assistant General Attorney,
Regulation

MCP/jr
Enclosures

FILED

AUG 31 1992

PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

**REPLY COMMENTS OF
WESTERN RESOURCES, INC.**

Pursuant to the Commission's Notice of Public Hearing in the above-referenced case, Western Resources, Inc. d/b/a Gas Service, a Western Resources Company (Gas Service) respectfully submits the following comments in response to those filed by the Commission Staff (Staff), Office of Public Counsel (Public Counsel) and other interested parties.

A. FAILURE TO ADDRESS FUEL SUBSTITUTION AS AN END USE MEASURE.

In its initial comments, Gas Service explained in detail why the proposed rule's failure to consider fuel substitution as an end use measure would seriously compromise the fundamental policy objectives that have been invoked in support of this rulemaking. It is simply not possible, as the proposed rule states, to promote "efficient" utility service and achieve "minimization of...long-run utility costs" under a framework that excludes from the planning process certain demand side measures that, under any objective analysis, represent the least cost alternative for meeting a utility's resource needs.

Nor has any justification for such an approach been offered in the initial comments of the other parties. To the contrary, while neither Staff nor the electric utilities explicitly address this

FILED

AUG 31 1992

issue in their comments, their statements regarding the basic purposes and merits of the proposed rule clearly support the need to consider fuel substitution measures as an essential component of any demand side evaluation. For example, in extolling the virtues of the resource planning process, Staff states that it will provide "the rationale for utilities to encourage the efficient use of energy rather than to focus only on supplying energy." Staff Comments, p. 1. Such a rationale is a laudable objective and cannot be reconciled with a proposed rule that explicitly permits demand side decisions to ignore the most efficient use of energy.¹

The electric utilities' comments regarding the complexity and cost of the resource planning process contemplated by the proposed rule are also relevant to the question of whether a fuel substitution provision should be added. If, as the electric utilities suggest, compliance with the proposed rule will require a significant expenditure of resources, there is an even greater need to ensure the effectiveness and integrity of the planning process established by the rule. It simply makes no sense to commit an estimated \$19.7 million in additional resources over the

¹Staff may also argue that competition between gas and electric utilities can achieve the same results as a fuel substitution provision. For competition to be effective in this regard, however, the Commission would have to permit both electric and gas utilities to compete freely under rates that were constantly adjusted to reflect the true, long-run marginal cost of service for the class or end use in question. Given the existence of the Commission's promotional practice rules, the traditional reliance on embedded cost ratemaking, and the gap which often exists between rates and class cost of service, it is highly unlikely that these preconditions to such an approach will be in place anytime in the foreseeable future.

next several years to an endeavor that is so flawed that it cannot achieve its stated goals. Since the ultimate purpose of the Commission's initiative is to protect customers from the potential consequences of inadequate, incomplete or biased resource planning, it should not be launched with a proposed rule that shares all three of these characteristics.²

It is clear from the foregoing that there is no substantive basis for excluding a fuel substitution provision from the Commission's proposed rule. In fact, rather than address the merits of such a provision, Gas Service anticipates that those opposing fuel substitution will simply urge the Commission to view this issue as nothing more than a self-serving effort by gas utilities to capture additional load. In this regard, the Commission should note that in its comments in the integrated resource planning proceedings currently underway in Kansas, Western Resources has proposed that fuel substitution be considered an end use measure for both electric and gas utilities. Gas Service also recognizes that the same fuel substitution criteria will apply to its gas operations in Missouri once the Commission initiates a

²Although St. Joseph Light & Power Company did not address the fuel substitution issue, it did argue that the added costs it would have to incur to comply with the proposed rule would put it at a competitive disadvantage vis a vis electric cooperatives and natural gas utilities. Comments of St. Joseph Light & Power Company, pp. 3-4. St. Joseph's competitive concerns are only relevant, however, if one assumes that the ultimate effect of the proposed rule would be to increase its electric rates above the level that would have otherwise been experienced absent the rule. If the Commission believes this will be the case, the appropriate response would be to abandon the rule altogether on the grounds that it will actually cost customers more than it will save them.

similar integrate resource planning rule for gas utilities. In any event, whether or not the promotion of a fuel substitution provision may be self-serving is irrelevant to the question of whether it should be adopted by the Commission. After all, while it may be "self-serving" to wear a seatbelt, it is still the right thing to do.

B. PUBLIC COUNSEL'S PROPOSAL

In light of these considerations, Gas Service recommends that the Commission, at a minimum, adopt Public Counsel's proposal that the fuel substitution language from earlier drafts of the rule be retained, while affording electric utilities the opportunity to seek a waiver from its requirements. Public Counsel Comments, p. 8. Although Gas Service is not prepared to state that electric utilities should automatically be granted a waiver pending the implementation of similar resource planning rules for natural gas utilities, such an approach would provide them with an opportunity to demonstrate whether competitive concerns or other considerations actually justify such relief. At the same time, it would also ensure the promulgation of a rule that could, in fact, accomplish its stated objectives.

Finally, Gas Service believes that any remaining concerns electric utilities may have over the impact of a fuel substitution provision can be accommodated by implementing their proposals for protecting the interests of utility shareholders in the integrated resource planning process. As with other demand side programs, Gas Service believes that non-traditional accounting and cost recovery

procedures should be established to ensure that utility shareholders would not be disadvantaged by implementation of a fuel substitution measure. In addition to protecting the financial integrity of all utilities under the Commission's jurisdiction, such an approach would benefit customers by encouraging the selection of those resource options that are best designed to provide cost effective and environmentally sound results.

C. PUBLIC HEARING ATTENDANCE

In addition to those individuals identified in Gas Service's initial comments, Mr. George L. Fitzpatrick, an energy consultant recently retain by the Company, will also be available to answer questions from the Commission and hearing examiner at the September 10-11, 1992, public hearing.

For the foregoing reasons, Gas Service respectfully requests that the Commission modify its proposed rule consistent with the recommendations set forth herein and in the Company's initial Comments.

Respectfully Submitted,

WESTERN RESOURCES, INC.

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

ITS ATTORNEYS

Dated: August 31, 1992