BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Resource Plan of Kansas City Power & Light Company	))	File No. EO-2014-0256

COMMENTS OF SIERRA CLUB

Intervenor Sierra Club hereby submits these comments on the Kansas City Power & Light Company ("KCP&L") 2014 Integrated Resource Plan ("IRP") Annual Update Report. On November 26, 2013, in Case No. EO-2013-0537, the Commission ordered KCP&L to "address," in this 2014 update, "all issues and criticisms identified in the comments filed in response to its 2013 annual update report." Many of the criticisms Sierra Club filed in response to the 2013 update were in turn directed to deficiencies in KCP&L's 2012 triennial integrated resource plan filing, Case No. EO-2012-0323, which the Commission declined to approve.[1] Therefore, for a number of the deficiencies identified in these comments, the 2014 update marks the third year that KCP&L has not resolved the issue despite repeated stakeholder input and direction from the Commission.

First, KCP&L continues to mask the benefits renewable resources offer ratepayers, both by undervaluing these resources and by severely restricting the variety of renewable additions it models. Second, KCP&L does not analyze distributed generation technologies as candidate resource options, despite Commission rules explicitly requiring this analysis. Third, KCP&L relies on projected off-system sales to select a resource plan that includes continued investment in the coal-fired Montrose and La Cygne Generating Stations, increasing ratepayers' exposure to

[1] The Commission also ordered that these issues be addressed in the 2013 annual update. *See* Order Regarding 2012 Integrated Resource Plan, Case No. EO-2012-0323 at 3 (Dec. 19, 2012).

the risks associated with coal generation, and should identify off-system sales as a critical uncertain factor in any future IRP analysis. Fourth, KCP&L again fails to explain why it is reasonable to assume the same percentage of customers will opt out of demand-side management ("DSM") programs as was observed with the KCP&L Greater Missouri Operations Company ("GMO"), despite relevant differences in these customer bases. Fifth, in its 2015 triennial compliance filing, KCP&L will need to address developments impacting environmental compliance cost estimates, including an upcoming EPA proposal for greenhouse gas standards under Clean Air Act Section 111(d) and a recent Supreme Court decision reinstating the Cross-State Air Pollution Rule ("CSAPR").

Sierra Club respectfully requests that the Commission issue an order directing KCP&L to address the issues and deficiencies identified in these comments in its 2015 triennial compliance filing.

I. KCP&L Should Evaluate Whether Additional Cost-Effective Wind PPAs Could Meet Energy Demands.

KCP&L's 2014 IRP Update does not appear to sufficiently evaluate the possibility of supplementing its supply-side resources with additional renewables such as low-cost wind PPAs. This Commission's rules specify that "renewable energy resources on the utility-side of the meter, including a wide variety of renewable generation technologies" are supply-side resources and "shall be considered as supply-side resource options." CSR 240-22.040(1). KCP&L is required to "collect generic cost and performance information sufficient to *fairly analyze*" renewable supply-side resource additions. CSR 240-22.040(1) (emphasis added). Instead, KCP&L considered only two levels of wind additions and adopted arbitrary assumptions that inflated the projected cost of the resource. For example, KCP&L assumed ownership when calculating its All-In $/MWh cost for wind generation. (KCP&L 2014 IRP Update at 78). This

assumption probably disadvantages wind resources, given that KCP&L rejected options that included ownership during its recent RFP process for additional wind. KCP&L further limited its evaluation of wind resources by modeling only one plan that included wind generation greater than the minimum required to meet RPS standards.[2] KCP&L selected this plan, ABBKW, as its contingency resource plan because even under KCP&L's questionable assumptions about the cost of wind energy, it would cost less than the Preferred Plan in Mid or High Gas, High CO_2 Price Scenarios. (KCP&L 2014 IRP Update at 99).

In addition to selecting supply-side resources to meet *capacity* needs, KCP&L should consider whether renewable PPAs represent low-risk, low-cost options for meeting its customers' *energy* demands. As KCP&L's own experience demonstrates, long-term wind PPAs can secure energy at competitive prices.[3] When the wind is blowing and the wind energy delivered is the least-cost option, KCP&L can either temporarily ramp down its coal and gas generation or sell any excess energy off-system. Either option could be a boon to KCP&L's ratepayers, who would benefit from the resulting decreased fuel and environmental compliance costs and/or from the value of the sales. These effects might also reduce the NPVRR of a given plan.

Utilities and regulators in other jurisdictions have recognized that wind PPAs can provide advantages to ratepayers even when their utility has no need for increased capacity. One example is Alabama Power, which entered into a 20-year, 202 MW wind PPA in September

[2] KCP&L has executed a PPA for a 200 MW wind facility in Kansas that is scheduled to begin operating by December 2015. (KCP&L 2014 IRP Update at 102). All but one plan modeled would add just these 200 MW in 2016, with an additional 200 MW in 2024 and 150 MW in 2032. *Id.* at 47-50, Tables 31-34. For solar, all plans modeled would add 11 MW in 2018 and 6 MW in 2021. *Id.*

[3] *See* KCP&L Notification of Preferred Resource Plan Change, Case No. EO-2012-0323, Ex. A at 5-6 (Jan. 17, 2014).

2011. As the Company explained at the time of the purchase, "the wind power will cost less than its avoided cost and would not increase retail rates. More stringent environmental regulations, rising fuel costs and other factors would likely increase Alabama Power's avoided costs over time [. . .] making the wind PPA an increasingly better deal for customers."[4] Alabama Power expects the 2011 PPA and another wind PPA executed in 2012, totaling to 404 MW, to displace higher-cost energy that the utility would otherwise produce using other resources.[5] A second example is Georgia Power, which applied to the Georgia Public Service Commission ("GPSC") in November 2013 to certify two wind PPAs totaling 250 MW. In that certification proceeding, GPSC Public Interest Advocacy Staff concluded that these PPAs represent an extraordinary advantage to ratepayers despite Georgia Power having no need to add capacity for the first five years of the PPA period, in part because they were priced below the Company's avoided cost.[6]

KCP&L should model resource plans that incorporate a variety of levels of renewables to supply energy in addition to existing supply-side resources that meet KCP&L's capacity needs. When wind is anticipated to be available, models should assume either: 1) decreased generation from other resources, such as the Company's coal and gas units – and therefore, decreased fuel and compliance costs – and/or 2) increased off-system sales. Two plans for additional wind is too few to model, given that wind prices are increasingly competitive and do not vary with the price of fuel.[7] Furthermore, KCP&L should develop realistic assumptions for the cost of wind in

[4] Platts, *State Regulators OK Alabama Power 202-MW Wind PPA* (Sept. 8, 2011), *available at*: http://www.tradewindenergy.com/WorkArea/showcontent.aspx?id=2056.
[5] North American Wind Power, *Alabama Utility Begins Receiving Power From Oklahoma Wind Project* (Dec. 17, 2012), *available at*: http://www.nawindpower.com/e107_plugins/content/content.php?content.10833.
[6] Staff Direct Testimony of Jamie Barber and Carolyn Gilbert, Docket No. 37854 at 14-15 (Mar. 28, 2014).
[7] Sierra Club highlighted KCP&L's limited choice of plans as a deficiency before, with respect to DSM. KCP&L's inapposite response was that it has "evaluated 23 ARPs alternatives varying

order to fairly analyze this resource.

II. KCP&L Must Consider Distributed Generation Technologies As Candidate Resource Options.

This Commission's rules explicitly require KCP&L to analyze distributed generation technologies during the IRP process: "supply-side candidate resource options that the utility passes on for further evaluation in the integration process shall represent a wide variety of supply-side resource options with diverse fuel and generation technologies, including a wide range of [. . .] technologies for distributed generation." 4 CSR 240-22.040(4). KCP&L is required to analyze "candidate resource options" more thoroughly than other potential resource options, and to include them in one or more alternative resource plans. *See* 4 CSR 240-22.040; 4 CSR 240-22.020(3). Yet, for at least the past three years, KCP&L has omitted distributed generation technologies from its list of supply-side candidate resource options during the IRP and annual update processes.[8] The Commission should order KCP&L to comply with 4 CSR 240-22.040(4) in its 2015 triennial compliance filing by evaluating a range of distributed generation technologies and analyzing whether programs to support distributed generation could lower the NPVRR for ratepayers.

III. KCP&L Should Identify Off-System Sales Revenue as a Critical Uncertain Factor and Begin Reporting It in Future IRP Filings.

In comments on KCP&L's 2013 Annual Update Report, Sierra Club expressed its concern that the Company had not properly disclosed its assumptions about the amount and

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DSM levels, retirement units, timing of retirement units, types of generation additions, and amounts of generation additions." (KCP&L 2014 IRP Update at 77). KCP&L misunderstands Sierra Club's comment, which was directed to the variety of plans modeled, rather than the quantity. If KCP&L modeled 100 plans but inappropriately restricted the makeup of those plans, the same problem would persist.

[8] In the 2012 triennial integrated resource plan filing, Case No. EO-2012-0323, the only candidate resource options KCP&L selected for further evaluation were coal, nuclear, combined cycle, combustion turbine, centralized wind, centralized solar, conversions of existing resources, and retrofits of existing resources. (KCP&L 2012 IRP at Volume 4, Table 15, p. 40).

allocation of off-system sales revenue during the IRP process. *See* Comments of Sierra Club, Case No. EO-2013-0537 at 17-18 (Aug. 21, 2013). To some extent, KCP&L clarified its approach to allocation of off-system sales revenue in the 2014 Annual Update Report. (*See* 2014 IRP Update at 77). However, it is crucial that KCP&L continue to report the *amount* of off-system sales that its model projects for each alternative resource plan that the Company evaluates. KCP&L's selection of a preferred resource plan relies heavily on its continued ability to generate significant off-system sales revenue from its aging coal-fired generating fleet. This significantly increases ratepayers' exposure to the risks associated with coal as a resource, and it compounds the seriousness of deficiencies in KCP&L's IRP analysis that cause the Company to undervalue renewable energy resources, such as long-term wind PPAs, that do not entail similar risks.

In light of the critical role that off-system sales revenue plays in the performance of KCP&L's preferred resource plan, in the Company's 2015 triennial filing and in any future IRP analysis, the Company should identify off-system sales revenue as a critical uncertain factor under 4 CSR 240-22.060(5) and track it explicitly in its modeling runs. This would then require KCP&L to "describe and document its assessment of the impacts and interrelationships of [off-system sales revenue] on the expected performance of each of [its] alternative resource plans . . . and analyze the risks associated with [OSS revenue under different] alternative resource plans." 4 CSR 240-22.060(6). In light of the major shifts in energy markets in recent years – due to a substantial decrease in current and projected future natural gas prices, increasing environmental compliance costs and risks for coal-fired generation, and the increasing competitiveness of renewable resources – KCP&L cannot continue to assume that its aging coal-fired power plants will return to the levels of profitability through off-system sales that the Company may have

enjoyed in previous years. The Company must instead begin explicitly evaluating off-system sales revenue as an uncertain factor in the performance of its alternative resource plans in order to address in the IRP process its declining ability to generate off-system sales revenue from its aging coal-fired power plants.

IV. KCP&L's Downward Adjustment to the DSM Potential Study Remains Unjustified.

Also in comments on KCP&L's 2013 Annual Update Report, Sierra Club noted that KCP&L made a downward adjustment to the amount of energy savings potential Navigant found in the "Demand-Side Resource Potential Study Report" based on the questionable assumption that 15% of its commercial and industrial customers would opt out. *See* Comments of Sierra Club, Case No. EO-2013-0537 at 16-17 (Aug. 21, 2013). In the 2014 Annual Update Report, KCP&L responded essentially that because it did not know which of its own customers would opt out, KCP&L relied on data from GMO to estimate an opt out percentage. (*See* 2014 IRP Update at 43). However, it was already clear last year that the 15% adjustment was based on GMO's experience. *See* Comments of Sierra Club, Case No. EO-2013-0537 at 16-17 (Aug. 21, 2013). KCP&L still has yet to explain why it is reasonable to assume the same percentage of KCP&L customers will opt out, given that GMO has both a different customer distribution and more energy intensive customers. *See id.*

V. KCP&L Should Account for Developments Impacting Environmental Compliance Costs.

With a host of contemporary factors driving coal unit retirements in increasing numbers, prudent resource planning demands a comprehensive, realistic and forward-looking assessment of the economic viability of KCP&L's Montrose and La Cygne Generating Stations. Therefore, KCP&L should address the impacts of the following two regulatory developments in its 2015 triennial compliance filing, among other issues expected to impact environmental compliance

costs.

a. Greenhouse Gas Regulations

On June 1, 2014, EPA is scheduled to propose new standards to regulate greenhouse gas emissions from existing coal-fired power plants under Section 111(d) of the Clean Air Act.[9] KCP&L should consider the impacts of those standards in its IRP analysis for the 2015 triennial compliance filing.

b. CSAPR

On April 29, 2014, after KCP&L filed its 2014 Annual Update Report, the Supreme Court reinstated U.S. EPA's Cross State Air Pollution Rule ("CSAPR"). *See EPA v. EME Homer City, L.P.*, No. 12-1182, Slip Op. Last year, Sierra Club commented that KCP&L's preferred plan was "highly vulnerable to the possible reinstatement of" CSAPR, which at that time was still being considered by the Supreme Court. CSAPR restricts sulfur dioxide ("SO2") and nitrogen oxide ("NOx") emissions from power plants due to their impacts on air quality in downwind states. Comments of Sierra Club, Case No. EO-2013-0537 at 14 (Aug. 21, 2013). In the 2014 Annual Update Report, KCP&L responded as follows:

> In the event the rule is reinstated in part or whole, the Company will comply through a combination of trading allowances within or outside its system in addition to changes in operations as necessary. Due to the significant amount of announced coal unit retirements and reduced generation caused by [Mercury and Air Toxics Standards rule] compliance and the availability and economics of natural gas generation, it is anticipated adequate CSAPR allowances will likely be available to address any allowance trading by the Company for any shortfalls.

(2014 IRP Update at 76-77). With this response, KCP&L recites compliance options and offers vague reassurances, but does not attempt to quantify the cost of complying with the rule. The Commission should order KCP&L to estimate this cost and incorporate it into the 2015 triennial

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[9] *See* Presidential Memorandum: Power Sector Carbon Pollution Standards (June 25, 2013), *available at*: http://www.whitehouse.gov/the-press-office/2013/06/25/presidential-memorandum-power-sector-carbon-pollution-standards.

compliance filing as a probable environmental cost of coal-fired power from the Montrose and La Cygne Generating Stations.

VI. Conclusion and Remedies

For the reasons set forth above, and in light of the fact that KCP&L has failed to produce a compliant IRP during this entire three-year cycle, Sierra Club respectfully requests that the Commission issue an order requiring KCP&L to address the issues and deficiencies identified above in its 2015 triennial compliance filing.

Date: May 21, 2014 Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct PDF version of the foregoing was filed on EFIS and sent by email on this 21st day of May, 2014, to all counsel of record.

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