

MEMORANDUM

TO: Missouri Public Service Commission Official Case Files
Case No. HM-90-4 and Case No. HA-90-5

FROM: Dale W. Johansen *Dale W. Johansen*
Utility Division Director's Office

SUBJECT: Staff's Recommendation in Case No. HM-90-4 and Case No. HA-90-5;
Kansas City Power & Light Company and Trigen-Kansas City District
Energy Corporation

DATE: December 8, 1989

Reviewed by:

Ed L. Lange 12-8-89
Director of Utilities/Date

Manly Young 12/8/89
General Counsel/Date

These cases pertain to the sale of KCPL's downtown Kansas City, Missouri, central station steam heat distribution system to Trigen and Trigen's application for a certificate of public convenience and necessity to provide steam heat system.

A staff member from the Utility Division's Accounting and Electric Departments have submitted memoranda to the Director's Office concerning their review of and recommendations on these cases. These memoranda are attached hereto and identified as Attachments #1 and #2, respectively.

Based upon these memoranda, Staff's recommendation in this case concerning the sale of the steam system is that the Commission accept one of the following options as the resolution for these cases. With either option chosen, approval should be contingent upon Trigen receiving the necessary environmental permits for burning coal.

- 1) The Commission authorize the sale of KCPL's steam system and grant Trigen's application for a certificate of public convenience and necessity utilizing KCPL's existing rates and rejection of Trigen's request regarding the contracts.
- 2) The Commission authorize the sale of KCPL's steam system and grant Trigen a conditional certificate of public convenience and necessity utilizing Trigen's proposed rates, setting a date for hearings on the requested treatment of the contracts, and indicating the rates and rules and regulations are interim with Staff authorized to conduct a review of the reasonableness of the rates and rules and regulations at the end of 18 months.

Staff further recommends that the Commission approve the transfer of the "banked" pollution control credits associated with the Grand Avenue generating station, regardless of which of the above options concerning the sale is approved.

/lm

cc Gordon Persinger
Mary Ann Young
Hearing Examiner

Mike Straub
Mark Oligschlaeger
Office of Public Counsel

KCPL
Trigen

FILED
DEC 8 1989
PUBLIC SERVICE COMMISSION

MEMORANDUM

TO: Dale Johansen

FROM: Mark Oligschlaeger *MLB*

RE: Accounting Department Recommendation in Case Nos. HM-90-4/HA-90-5 -
Kansas City Power and Light/Trigen-Kansas City District Energy
Corporation

DATE: December 8, 1989

This memorandum will address two aspects of Kansas City Power & Light's (KCPL) proposed sale of its downtown Kansas City steam heating system to Trigen-Kansas City District Energy Corporation (Trigen): (1) the proposed level of rates to be charged by Trigen if the sale of the steam heating system is approved; (2) the proposed transfer of certain "banked" pollution control credits associated with Grand Avenue Station from KCPL to Trigen.

PROPOSED RATES

Trigen has proposed to increase the level of steam heating rates currently in effect for KCPL concurrent with acquisition of the system. Trigen estimates its new rates would generate an additional \$569,880 over the level generated by the current KCPL tariffs, a 7.5% increase. (This increase would be partially offset by the revenue impact of the decrease of Kansas City's gross receipt tax from 10% to 4%, effective January 1, 1990.) On a unit basis, Trigen's rates would generate \$12.69 per Mlb, compared to \$11.92 per Mlb under the current KCPL rates.

It has been the policy in the past not to allow increased rates to go into effect associated with utility acquisitions, primarily because no actual cost data exists to base new rates for the purchasing entity. Purchasing entities have assumed the existing level of rates authorized by the Commission at the time of purchase. In this case, Trigen's proposed rates are based on their estimates of future revenues and expenses. No opportunity exists for Staff to examine the reasonableness of the proposed rates in light of actual operating experience of the downtown steam system by Trigen. KCPL's current rates were set in 1982, and the revenue requirement calculation sponsored by Staff in Case No. HO-86-139 showed these rates to be deficient at that time (1987) to cover the costs and return associated with KCPL's steam heating system. However, the Commission in that case made a policy decision to not grant any rate increase to KCPL so as to keep the system financially viable for a possible future purchase. It should be kept in mind that Trigen's costs to run the downtown Kansas City steam system are likely to be different from KCPL's costs, and Trigen should be able to incur significantly less cost to run the system than KCPL has in the past. In light of these facts, the Accounting Department does not recommend granting Trigen a rate increase concurrent with its acquisition of KCPL's steam heating system (if approved), as the basis for those rates are not subject to audit and verification through

examination of actual costs. The Accounting Department would recommend that Trigen follow the traditional practice of assuming KCPL's current level of rates upon purchase of the steam system, and filing a rate increase request if the current level of rates are not considered adequate.

If the Commission finds that Trigen's proposed level of rates are reasonable and should be put in effect upon acquisition of the system, the Accounting department would recommend that a rate investigation of Trigen be ordered on a flexible schedule once sufficient operating data was available (12-24 months), so that the reasonableness of Trigen's rates at that time could be subject to audit and examination.

BANKED POLLUTION CREDITS

As part of its agreement to sell the downtown steam heating system, KCPL has agreed to transfer certain "banked" pollution credits associated with the Grand Avenue generating station to Trigen. These credits came about when KCPL switched from coal to gas as the primary fuel at the Grand Avenue station after retirement of the stations electrical generation facilities in 1984. These "banked" credits have a potential future value to KCPL, as the Company might be able to use these credits to meet future emissions limits that might be applicable to existing or future generating units. Trigen has indicated to Staff that purchase of KCPL's steam system is not economically feasible without transfer of these credits. KCPL has asked the Commission to find that transfer of the credits is reasonable and specifically approve such transfer if Trigen's purchase of the steam system is authorized.

Staff's investigation of KCPL's pollution control credits has indicated that these credits have a highly uncertain future value to KCPL, primarily dependant upon future emissions limits that may or may not be enacted by governmental agencies. These credits do not have an ascertainable value at this time, as no market exists for them. In light of these facts, the Accounting Department recommends that the Commission find that transfer of the "banked" pollution control credits associated with Grand Avenue generating station is reasonable and should be approved, if the Commission finds that Trigen's proposed acquisition of KCPL's downtown Kansas City steam heating system is in the public interest.

MO/msb

cc: Mary Ann Young
Mike Straub
Cary Featherstone

MEMORANDUM

To: Dale Johansen

From: Michael W. Straub *MWS*

Subject: Application of Kansas City Power & Light Co. to sell steam system. Case No. HM-90-4
Application of Trigen-Kansas City District Energy Corporation for a certificate of public convenience and necessity. Case No. HA-90-5

Date: December 8, 1989

On September 8, 1989, Trigen-Kansas City District Energy Corporation (Trigen) filed with this Commission an application for permission, approval, and a certificate of public convenience and necessity authorizing it to acquire, own, operate, control, manage and maintain a steam heat distribution system to provide steam heat service, and for approval of its rates and rules and regulations applying to steam heat service. Kansas City Power & Light Company (KCPL) filed an application for authority to sell its downtown Kansas City, Missouri, central station steam heat distribution system, and for the revocation of its certificate of public convenience and necessity to provide steam heat service.

The Trigen application contained their proposed tariffs and a five year contract with KCPL that would require Trigen to maintain and provide on call up to 750 Mlb of steam per hour to be used in existing steam turbines at Grand Avenue for the purpose of generating electricity during KCPL's peaks. This contract contains automatic fuel, CPI, and chemical adjustment clauses. Trigen is also proposing that the Commission not regulate rates for any customer who is willing to sign a long term service contract (3 years or longer). They contend these contracts are made in a free market environment subject to competition and should not be overturned by future Commissions. These contracts may contain fuel, CPI, and chemical adjustment clauses, and, or any other adjustment clause Trigen or the customer deems necessary. The National Starch contract is scheduled to expire next year. Trigen has been negotiating with National Starch for a new contract. This contract may have all the automatic adjustment clauses listed above, and possibly others. This is the type of contract Trigen proposes not be regulated.

I have reviewed the tariffs filed as an exhibit to the application on September 8, 1989. The proposed rate design consists of an annual base charge, which is very similar to a twelve month ratchet demand charge, a usage (energy) charge that can fluctuate due to a sliding scale credit (fuel adjustment), and a monthly minimum charge of \$50. After discussions with the staff, Trigen filed substitute tariffs that would provide for a maximum usage (energy) rate and eliminate the sliding scale adjustment to the usage rate. The maximum rate will allow Trigen to reduce the \$3.90 per Mlb usage charge to reflect its success in reducing operating costs and improving system efficiency. Any reduction to the usage charge will be uniformly applied to all customers receiving steam service under the terms of the rate schedule.

Based on the application that was filed on September 8, 1989, the proposed tariffs will generate revenues that amount to an additional \$569,880, approximately seven and one half percent (7.5%) above the current annual revenues of KCPL exclusive of gross receipts tax. Trigen has convinced the city of Kansas City to lower the gross receipts tax from the current ten percent (10%) to four percent (4%) effective January 1, 1990. This will lessen the effect of the increase generated by these tariffs to the steam customers.

Trigen hopes to sell steam at rates lower than the current Kansas City Power & Light steam rates by implementing the following:

1. Aggressively marketing steam to industrial users who have processing loads, and to promote steam for use to produce and sell chilled water. This would improve the load factor and increase the demand making coal a better choice for boiler fuel.
2. Upgrade maintenance to the Grand Avenue Station so coal can be burned reliably whenever the total system output is above 75 Mlb per hour.
3. Propose a rate structure that would send an accurate signal to the customers about the costs of steam production.

As of this date Trigen does not have the necessary environmental permits necessary for burning coal at the Grand Avenue Station, therefore, approval of the Sale should be contingent upon Trigen getting these approvals.

The objection I have to Trigen's Application is their request for unregulated long term contracts, and the automatic adjustment clauses contained in those contracts. Under current regulatory requirements, I cannot recommend approval of the request for unregulated contract customers or the approval of automatic adjustment clauses. Therefore, I recommend approval of the Sale and Certificate, but rejection of the request regarding contracts. If Trigen is willing to accept this conditional Certificate but would like an opportunity to have the Commission hear the issue of contracts and automatic adjustment clauses, then I recommend the Sale and Certificate be granted, then schedule a hearing for a later date on the two issues. If the Commission grants the Sale and Certificate then I recommend the proposed tariffs, both rates and rules and regulations, be effective on interim basis for 18 months. This will give the Staff and Trigen an opportunity to evaluate the rate design and tariff language to see if any modifications may be necessary at the end of this period.