

MEMORANDUM

TO: Missouri Public Service Commission Official Case File No. EO-2012-0343,
Change in Electric Supplier filed by Nickie Hertzog

FROM: Daniel I. Beck, Energy Unit – Engineering Analysis

/s/ Lena M. Mantle 08/27/12 /s/ Goldie Tompkins 08/27/12
Energy Unit / Date Staff Counsel's Office / Date

Subject: Staff Recommendation for Commission to Deny a change in electric service provider to structures located at 17607 and 17609 191st Street, Pleasant Hill, Missouri 64080

Date: August 27, 2012

SUMMARY

Based on a review of all filings, as well as conversations with the Applicant, the Staff recommends the Commission deny the Application for change of electric supplier. For the reasons explained herein, Staff maintains that sufficient facts exist for the Commission to find that the change of supplier request is not in the public interest for a reason other than a rate differential. If the solar rebate is a rate, the change in electric suppliers cannot be for that reason.

OVERVIEW

On April 13, 2012, Nickie Hertzog (“Applicant”) filed an application with the Missouri Public Service Commission (“Commission”) requesting that the electric supplier for 17607 and 17609 191st Street, Pleasant Hill, MO 64080 be changed from Osage Valley Electric Cooperative Association (“Osage Valley” or “Cooperative”) to KCP&L Greater Missouri Operations Company (“GMO” or “Company”). GMO filed its response on May 16, 2012, stating that “Nickie Hertzog is a customer of Osage Valley

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Electric Cooperative. In the event that her change of supplier request is granted, GMO will extend service at a cost determined by its tariffs in effect at that time.” On June 4, 2012, Osage Valley filed its response opposing the application stating that the request appears to be initiated because of a rate differential created by the statutory requirement that GMO offer a \$2.00 per watt rebate for solar generation that the Cooperative is not required to offer. Section 394.315.2., RSMo requires that a change of supplier be granted if it is determined that it is in the public interest for a reason other than a rate differential.

SPECIFIC INFORMATION ABOUT THE PROPERTY

This discussion section is based on Staff’s understanding of the facts after it reviewed the filings in this case, reviewed the data request responses provided by Ms. Hertzog, and participated in a conference call with Ms. Hertzog.

Staff has attached several overhead photos of the addresses involved in this application. 17609 191st Street is the residence of Ms. Hertzog and is the darker roofed building that is the northern-most building in the photos. This is an ** _____
_____* and is served by the Cooperative ** _____ ** 17607 191st Street is the address of the three large buildings with light colored roofs that are south and west of the residence. These buildings were previously used for a construction company that was sold as part of the Applicant’s divorce and therefore these buildings are now ** _____ ** There are currently ** _____ ** for these buildings. ** _____

_____* Staff would also note that there

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MO PSC CASE NO. EO-2012-0343
OFFICIAL CASE FILE MEMORANDUM
AUGUST 27, 2012
Page 3 of 7

is a cell tower located south of the residence that has electric service but is not controlled by the Applicant and is not part of this change of supplier request.

Ms. Hertzog is exploring various business opportunities that would involve these buildings but the current usage of these buildings ** _____ ** than it was when the construction company occupied the buildings. The Applicant believes that installing 25 kW of solar panels would be a good investment if the \$2 per watt rebate that is required to be offered by GMO were available to her. However, Staff has reviewed the “Solar Electric Investment, Incentive and Energy Savings Analysis” (quote) that the Applicant is relying on and has concerns about the accuracy of this quote. These concerns include:

- The quote assumes that the customer is a commercial customer that has historical usage of ** _____ ** per year. It appears that the ** _____ ** for 17607 191st Street is a small fraction of the ** _____ ** usage used in the analysis. Therefore the “utility savings \$/year” from the ** _____ ** of annual generation will not be realized at current usage levels.
- Since the Applicant currently has no substantial business operating at 17607 191st Street, the ** _____ ** in tax credits that is a key component of the quote cannot be utilized by the Applicant at this time.
- Since the Applicant currently has no substantial business operating at 17607 191st Street, the ** _____ ** in depreciation expense that is a key component of the quote cannot be utilized at this time.

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- The residence at 17609 191st Street appears to ** _____
_____ ** Since that load is ** _____ **, the quote does not
reflect the costs and savings available to an individual because individuals
cannot use depreciation expense as an income tax deduction.
- Although the residence at 17609 191st Street appears to ** _____
_____ ** Staff estimates that this load is still well below
the ** _____ ** used in the quote and therefore a 25 kW solar unit
would be impractical for this residence.
- The quote assumes that Kansas City Power & Light Company would be
the new provider but the request is for GMO to be the provider.

Given the concerns listed above, Staff does not believe that it is reasonable to rely
on the quote for cost effectiveness of a 25 kW solar installation.

No analysis of the cost to extend GMO's facilities to these accounts has been done
at this time. Factors like the level of service (single-phase vs. three-phase), the type of
service (overhead vs. underground), the distance from the distribution line to the
customer's meters, and the specifics of GMO's extension policy would all affect the
prices. Without any more specific information, Staff conservatively estimates that the
customer will need to pay between \$5,000 to \$10,000 to connect to GMO's system.

THE RENEWABLE ENERGY STANDARD

In November 2008, Missouri voters approved Proposition C, which was the result
of an initiative petition that is commonly referred to as The Renewable Energy Standard
(RES). This RES includes a provision that requires investor-owned electric utilities

MO PSC CASE NO. EO-2012-0343
OFFICIAL CASE FILE MEMORANDUM
AUGUST 27, 2012
Page 5 of 7

(IOUs) like GMO to offer a \$2 per watt rebate for customer-owned solar generation.

Proposition C does not require electric cooperatives to offer a solar rebate.

GMO has been offering the solar rebate since January 1, 2010. In its 2011 compliance filing in Case No. EO-2012-0349, GMO stated that it issued rebates totaling \$1,351,670 to 46 customers during the compliance period. It is Staff's understanding that the number of rebates issued and requested for the current calendar year is significantly higher than last year.

Staff is not aware of any Commission decision regarding a change of supplier request that is associated with the RES. However, Staff would note that there is another change of supplier request, Case No. EO-2011-0391, pending before the Commission where the applicant wishes to change suppliers from an electric cooperative to an IOU to take advantage of the \$2 per watt solar rebate. A hearing is scheduled for this case on September 10, 2012.

CHANGE OF SUPPLIER STATUTES

Sections 394.315 and 393.106, RSMo are the statutes that address the change of supplier from an electric cooperative and from an electrical corporation to another electric utility. These statutes are commonly referred to as the anti-flip-flop statutes. The statutes include the following language: "The public service commission, upon application made by an affected party, may order a change of suppliers on the basis that it is in the public interest for a reason other than a rate differential." The Application clearly states that the availability of an "incentive for Solar Energy" is a reason for the requested change of supplier and the customer confirmed that the \$2 per watt rebate is the incentive that was referred to in the Application during conversations with the Staff. The

MO PSC CASE NO. EO-2012-0343
OFFICIAL CASE FILE MEMORANDUM
AUGUST 27, 2012
Page 6 of 7

Cooperative's response states that any rebate "would or should be included in the determination of the amount of a rate differential." The statutes do not provide any further definition of the term "rate differential." GMO's tariff includes a section devoted to the Solar Photovoltaic Rebate Program on Sheets R-62.19 and R-62.20. On tariff sheet R-62.19 the \$2.00 per watt rebate is specifically listed, as are other aspects of the program.

Likewise, these specific statutes do not provide any further guidance to the term "public interest;" however, legal counsel advised Staff that there is case law regarding the public interest standard. Since the Commission determined that GMO and Osage Valley are necessary parties to the case, Staff maintains that the Applicant, GMO and Osage Valley all have an interest in this case. While the Applicant and Osage Valley have expressed their preference regarding the change of supplier request, GMO has not. GMO took no position to the Application, but instead stated that it would serve the customer according to its tariff if ordered to do so. Staff believes that the position of the utilities that would be affected by a change of supplier is an important factor in determining the public interest. Osage Valley's opposition to the request is an important factor.

STAFF RECOMMENDATION

It is Staff's recommendation that the Commission should deny the Applicant's request because of the economic impact of changing suppliers on GMO, Osage Valley and the Applicant. The Staff maintains that sufficient facts exist for the Commission to find that the change of supplier request is not in the public interest for a reason other than a rate differential. If the solar rebate is a rate, the change in electric suppliers cannot be for that reason.

MO PSC CASE NO. EO-2012-0343
OFFICIAL CASE FILE MEMORANDUM
AUGUST 27, 2012
Page 7 of 7

The Staff has verified that GMO filed its 2011 annual report and is not delinquent on its assessments. Osage Valley is a rural electric cooperative that provides electric service to its members, and no annual reports or assessments are required from the Commission.