

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of a Proposed Experimental     )  
Regulatory Plan of Kansas City Power &     )     **Case No. EO-2005-0329**  
Light Company     )

**OPINION OF COMMISSIONER STEVE GAW CONCURRING IN PART AND  
DISSENTING IN PART**

I concur in part and dissent in part from the Commission's decision in the above captioned matter. I agree that Kansas City Power & Light Company's (KCPL) application for approval of a regulatory plan that facilitates the construction of a new coal generation unit is appropriate based on the evidence in the record. I base that decision on the weight of evidence that demonstrates the need for new generation and the type of generation (i.e., coal-fired baseload) most appropriate to satisfy that need. However, I have significant concerns as to some of the analysis undertaken, the lack of strong commitment to specific energy efficiency programs and the consequences of this state's failure to implement a comprehensive energy policy. In addition, I seek to note, through this opinion, the critical nature that the inclusion of margins from off-system sales plays in the overall acceptability of the joint recommendation.

The evidence before the Commission demonstrated expected load growth in the KCPL service area over the next several years and that this load growth results in a need for additional generation. The testimony offered from KCPL, Staff and OPC and supported by specific computer models indicated that coal-fired baseload generation like the proposed Iatan 2 facility would be the most cost effective way to meet this need. The offer of evidence from the two witnesses of Sierra Club and Concerned Citizens was general in nature and did not present the Commission with a viable alternative to the proposal in the joint recommendation. Because it

appears that the projections of overall load growth were unchallenged<sup>1</sup>, the evidence presented left very little choice but for the Commission to conclude that the Iatan 2 proposal was the most viable option.

I am concerned about the lack of verification of certain inputs used in the computer modeling, the results from which supported the joint recommendation. Like any resource plan, the proposal underlying this regulatory plan is based on assumptions. The accuracy of those assumptions is important to the ultimate accuracy of the conclusions of the computer model. During inquiry of Staff's witnesses, at times I lacked confidence in Staff's verification of those assumptions. Only the passage of time will permit the Commission to fully evaluate those assumptions. When information becomes available, it is important that KCPL, Staff, OPC and others verify whether the plan's course of action is achievable. Fluctuations in variables such as natural gas prices, transportation costs, environmental regulations, and technological developments from those utilized in the modeling may lead to needed changes in the plan. Thus, constant, regular monitoring and communication to the Commission is critical to moving forward.

In examining the choices of generation types, there was a lack of development of evidence on integrated gasification combined cycle (IGCC). Most of the testimony from KCPL and Staff on this subject gave a negative impression of this alternative. IGCC, however, provides hope for a cleaner way to use coal as fuel. It appears that at least one major electric utility is moving forward with plans on two 600 MW IGCC units. However, Staff and KCPL testified that this technology was not yet ready for deployment for a plant of Iatan's size. As Staff indicated:

---

<sup>1</sup>The Sierra Club and Concerned Citizens pointed to growth rates in Missouri indicating little if any load growth. However, the load on the system overall appears from the evidence to be growing. KCPL's generation is dispatched for its system – not separately for Missouri and Kansas. Costs are then allocated from a financial perspective. It would not be efficient to build one system for Missouri and a separate system for Kansas. The overall costs for both Kansas and Missouri customers would hypothetically increase if the system were separated.

This generation unit would represent a relatively large percentage of Kansas City Power & Light's needed capacity in the time frame soon after it's built, and years on out it continues to represent a significant percentage. Staff is uneasy with proceeding forth with a technology that, frankly, appears to need to do some maturing before it becomes the next resource.

And with that, I would say looking at IGCC, I think it represents a tremendous opportunity. I think it is probably the bridge technology to where we can begin to talk about potential zero emission plants, other technology that's being talked about, maybe an incremental step in overall efficiency.

It's very possible 10 to 15 years from now we may look back and say, you know, I wish we could have waited 10 to 15 years. But at this point in time with the information we have available, natural gas prices where they are and expectation for where they're going and some of the other sensitivities looked at in this model, I can't recommend that we wait those 10 to 15 years. It takes 5 years to build the unit. By the time it's built, we will very likely need all of its capacity.<sup>2</sup>

While Sierra Club and Concerned Citizens seemed at times supportive of IGCC they presented no evidence rebutting Staff and KCPL's assertion on viability and no detailed cost information. Such critical analysis of an alternative technology would have been helpful.

This aspect of the plan would be further improved with significant specific proposals for energy conservation to meet the expected KCPL load growth. While it is positive that efforts were made to discuss this issue and that some renewable energy in the form of wind generation will come into being as a result of this plan, the proposal could have been much stronger. Load demand can be met by additional generation and by increasing the efficiency of energy use. Both should be seen as energy resources. Energy efficiency is a domestic energy resource and usually better for the environment. Increasing the amount of load growth met with specifically detailed energy savings programs having planned implementation dates would have improved this plan.

This state needs a comprehensive energy policy that includes a mandatory or incentive-based renewable portfolio standard. Without such a state policy, the Commission continues to analyze new capacity and energy needs on a least cost basis that does not include valuations of

---

<sup>2</sup> Tr. 619-620.

long term health effects, economic costs of dwindling fossil resources and environmental consequences. Missouri can do better.

There was considerable testimony about off-system sales. At the public hearing, Witness Byron Combs delivered important data to the Commission regarding the level of these sales. While the data turned out to be gross sales and not net, it is clear that, except for the time frame after the explosion at the Hawthorn Plant, KCPL's off-system sales have been increasing. The trend infers that the increase in volume of off-system sales is an indication that the additional generation proposed is for the purpose of off-system sales and not really for use by KCPL's native load. If so, KCPL customers should not be forced to pay for this large investment which carries significant risk. However, the testimony given by Staff and KCPL countered such an inference. KCPL currently has substantial coal-fired baseload capacity in its system. This capacity was built over 25 years ago. With the recent increase in natural gas prices the comparative cost of coal generation to natural gas generation is much more favorable and lucrative. Thus, KCPL's opportunities to sell excess generation to others outside of its system have increased – as have the revenues. Taken alone, this evidence casts a shadow on the proposed Iatan 2 construction. However, the testimony was uncontroverted that the predicted native load growth will very soon cause KCPL's available generation for off-system sales to diminish and eventually disappear. The evidence indicates that additional generation to meet native load system requirements is needed over the next 5 years. KCPL Witness Grimwade testified:

A. If you know what – and just with everything else equal, over the next five years as we grow into base load, we'll see a relative decline in off-system sales. And then when – ...

A. When Iatan II is built, we'll see a step up to some degree in the same amount of off-system sales and there will be a revenue associated with an incremental price that's a function of the growing, you know, as we see gas price escalate over that period of time the price of electricity will be reflective of that higher price for natural gas. And then we'll start declining down in terms of off-

system sales as we grow into that amount of base load that's in the mix. ...

A. I really can't get into exact percentages. I mean, we sell somewhere just slightly under, I think, around 5 million megawatt hours today – ...

A. – for generation that I think is slightly around 20 – 20 million megawatt hours. Give you a frame of reference. So we'll grow into that over the next five years and then we'll see probably an increase in off-system sales that will probably reflect something close to what we have today. I don't think it will go a whole lot higher than that from what I've seen.<sup>3</sup>

Finally, it is very important to note that Iatan 2 construction again creates capacity for potential off-system sales. The credibility of those sales to the benefit of KCPL customers is critical to the Staff's favorable recommendation in the Nonunanimous Stipulation. Mr. Schallenberg testified:

Q. The off-system sales provisions, in regard to Iatan II, then, are very important – this provision is very important to what occurs with those – those sales, this provision. I mean, the one dealing with off-system sales and how long it goes?

A. Its very important in terms of the consideration as to what cost of the consideration as to what the cost of Iatan II would be to customers.

Q. Yes. And when you said earlier that off-system sales were very important in Staff signing off on this agreement, was Staff – did Staff make an assumption in regard to whether or not off-system sales from Iatan II would be credited to customers in signing the agreement?

A. Yes. In fact, it would be used as an offset to the cost. When you put in the cost of Iatan II, in order to determine its true cost to customers off-system sales, and actually off-system sales margins would be used in that determination of ultimate cost would be passed through in rates.<sup>4</sup>

KCPL consumers who are paying for this plant deserve and will be credited for amounts representing any margins associated with off-system sales. If this were not so, this plan should not be approved. If the credit for off-system sales is diverted from consumers in the future, it will be in violation of the understanding of this Commissioner and will amount to taking from KCPL customers what is rightfully theirs.

---

<sup>3</sup> Tr. 1008-1009.

<sup>4</sup> Tr. 1035-1036.

For these reasons I concur in part and dissent in part from the decision of the Commission.

Respectfully Submitted,



Steve Gaw  
Commissioner

Dated at Jefferson City, Missouri,  
on this 19<sup>th</sup> day of August, 2005.