

## M E M O R A N D U M

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.

Exhibit No. 14  
Date 12-19-89 Case No. HM-90-4  
Reporter *gsm* HA-90-5

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.