BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Consideration of Adoption of the PURPA Section 111(d)(16) Integrated Resource Planning Standard as Required by Section 532 of the Energy Independence and Security Act of 2007.	)))))	**File No. EW-2009-0290**
In the Matter of the Consideration of Adoption of the PURPA Section 111(d)(17) Rate Design Modifications to Promote Energy Efficiency Investments Standard as Required by Section 532 of the Energy Independence and Security Act of 2007.	)))))	**File No. EW-2009-0291**
In the Matter of the Consideration of Adoption of the PURPA Section 111(d)(16) Consideration of Smart Grid Investments Standard as Required by Section 1307 of the Energy Independence and Security Act of 2007.	)))))	**File No. EW-2009-0292**
In the Matter of the Consideration of Adoption of the PURPA Section 111(d)(17) Smart Grid Information Standard as Required by Section 1307 of the Energy Independence and Security Act of 2007.	)))))	**File No. EW-2009-0293**

RESPONSE OF KANSAS CITY POWER & LIGHT COMPANY AND KCP&L GREATER MISSOURI OPERATIONS COMPANY TO ORDER ESTABLISHING DEADLINE FOR RESPONSES TO ADDRESS SUBSTANTIVE ISSUES INVOLVING CONSIDERATION OF THESE STANDARDS

Pursuant to the Order issued March 25, 2009 by the Missouri Public Service Commission ("Commission"), Kansas City Power & Light Company ("KCP&L") and KCP&L Greater Missouri Operations Company ("KCP&L-GMO") (collectively, the "Companies") hereby offer response to the following issues with regard to each standard: (1) does the prior state action exemption apply to any of the new PURPA standards encompassed within the Energy Independence and Security Act of 2007; and (2) should the Commission engage in rulemaking,

or some other procedure to adopt any of the new PURPA standards encompassed within the Energy Independence and Security Act of 2007.

FILE NO. EW-2009-0290
INTEGRATED RESOURCE PLANNING STANDARD

1. Section 532 of the Energy Independence and Security Act of 2007 amends PURPA 111(d) (16). The standard states:

> (16) INTEGRATED RESOURCE PLANNING.—Each electric utility shall—
> (A) integrate energy efficiency resources into utility, State, and regional plans; and
> (B) adopt policies establishing cost-effective energy efficiency as a priority resource.

2. KCP&L and KCP&L-GMO do not believe that prior state action applies with respect to policies establishing cost effective energy efficiency as a priority resource. Missouri 4 CSR 240-22 ("the IRP rules") provide the policy objectives and rules for Utility Resource Planning. The current IRP rules do not treat energy efficiency as a priority resource. 4 CSR 240-22.010 (2) (A) states that electric utilities shall "Consider and analyze demand-side efficiency and energy management measures on an equivalent basis with supply-side alternatives in the resource planning process."

3. Continuing this docket as a proceeding would be appropriate for developing the policy to value energy efficiency investment. The Companies believe that energy efficiency policy, including issues pertaining to cost recovery and ratemaking, should be developed prior to energy efficiency requirements being incorporated into future IRP rules. The IRP rules are long range planning tools and are not an appropriate forum for establishing policy.

4. The Companies support a policy to value energy efficiency investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective energy efficiency programs. Three proposed components required for cost

recovery are (i) return of and return on for all energy efficiency investments; (ii) recovery of lost margins; and (iii) a performance mechanism for meeting or exceeding DSM program energy savings goals. These proposed components are described in detail in the Rate Design Modifications to Promote Energy Efficiency Investments Standard below.

FILE NO. EW-2009-0291
RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY INVESTMENTS STANDARD

5. Section 532 of the Energy Independence and Security Act of 2007 amends PURPA 111(d)(17). The standard states:

> (17) RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY INVESTMENTS.—
> (A) IN GENERAL.—The rates allowed to be charged by any electric utility shall—
> (i) align utility incentives with the delivery of cost-effective energy efficiency; and
> (ii) promote energy efficiency investments.
> (B) POLICY OPTIONS.—In complying with subparagraph (A), each State regulatory authority and each nonregulated utility shall consider—
> (i) removing the throughput incentive and other regulatory and management disincentives to energy efficiency;
> (ii) providing utility incentives for the successful management of energy efficiency programs;
> (iii) including the impact on adoption of energy efficiency as 1 of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives;
> (iv) adopting rate designs that encourage energy efficiency for each customer class;
> (v) allowing timely recovery of energy efficiency-related costs; and
> (vi) offering home energy audits, offering demand response programs, publicizing the financial and environmental benefits associated with making home energy efficiency improvements, and educating homeowners about all existing Federal and State incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable.

6. KCP&L and KCP&L-GMO recognize that the Commission has supported energy efficiency programs; however, they do not believe that prior state action applies with respect to aligning utility incentives with the delivery of cost-effective energy efficiency.

7. In 2005, KCP&L launched its Comprehensive Energy Plan which included, among other components, a portfolio of energy efficiency, demand response, and affordability programs classified as demand-side management ("DSM") programs. The DSM programs were filed as pilot programs to run for a period of time, subject to continuing Commission review and were part of a portfolio to meet the growing demand for electricity and address environmental concerns. DSM programs for KCP&L-GMO were considered in Case No. ER-2007-0004 and Case No. EO-2007-0298. Subsequent to Case No. EM-2007-0374, KCP&L-GMO has approved substantially the same portfolio of energy efficiency demand response and affordability programs as KCP&L.

8. The Companies support the development of comprehensive DSM programs for their customers and a regulatory environment in which energy efficiency resources are considered a preferred resource option. The Companies believe that DSM programs are greatly in the public interest as important and necessary resources, and that such programs should be a key component of any comprehensive energy plan designed to meet the future energy needs of Missouri customers for adequate, safe, efficient, and reliable electric service. The Companies see a unique opportunity to develop DSM programs in a way that benefits customers, the environment, the state economy, and the Company.

9. Two key core principles related to the advancement of energy efficiency are:

(i) To the customer, energy efficiency programs should demonstrate significant economic and societal benefits. Customers desire more influence and control over their own energy and demand usage through greater access to information that enables them to make informed decisions related to energy usage. The utility should be allowed to ensure those benefits are promoted to the

customer and allow the customer a solid rationale for participation in these programs.

(ii) To the utility, energy efficiency should be treated as a preferred resource option. As such, investments in energy efficiency should receive regulatory treatment so as not to discourage utilities from investing in energy efficiency programs.

10. DSM programs by their very nature pose financial challenges to utilities. The goal of such programs is to reduce customer usage and demand. By lowering customer usage and demand, the billing determinants are lowered on which the utility's charges are assessed. Each kWh and kW reduction leads to less revenue for the utility. While the utility can avoid the variable costs of providing the additional service, the net impact is almost always a reduction in net revenue and earnings -- often referred to as "lost margins." While the impact from the reduction of sales attributable to DSM can usually be re-established in the next rate case, there is still a net loss of allowed revenue between rate cases. KCP&L and KCP&L-GMO will experience this revenue, earnings and cash flow loss if they continue the current regulatory model, which includes a historical test year as the basis for establishing rates and recovery of and on the investment in energy efficiency, because the historical test year sets the sales levels of customers at a level that DSM programs are reducing. The current model for investment in DSM programs results in a disincentive to the development and implementation of energy efficiency programs as a more sustainable resource due to the detrimental shareholder impact that such investments currently have.

11. Given its positive experience with the Experimental Regulatory Plan in Missouri (CEP) related programs, the Companies seek to continue their commitment to DSM programs.

In order to aggressively pursue this commitment, the financial disincentives highlighted above need to be eliminated and DSM investments treated as a priority to investments in traditional supply resources.

12. KCP&L and KCP&L-GMO propose the following three components for cost recovery:

1) <u>Return Of and Return On DSM Investments</u>

KCP&L and KCP&L GMO propose to defer the costs of DSM programs in Account 186 and calculate allowance for funds used during construction (AFUDC) monthly. When new rates go into effect reflecting amortization recovery as a result of future general rate proceedings, the Companies will transfer the prudently-incurred costs included in the Account 186 balance to Account 182.3 and include such costs in rate base; stop accruing AFUDC on the amount included in rate base; and begin amortizing the balance over a ten (10) year period. Additional DSM program costs incurred after the effective date of a final Report and Order recognizing these costs will be treated in the same manner, but will be deferred in a different sub-account by vintage. DSM program costs are defined as those costs, both capital and expense, incurred incrementally above existing costs in rates.

2) <u>Recovery of Lost Margins</u>

KCP&L and KCP&L-GMO propose to recover lost margins through an annual energy efficiency rider that is intended to reduce regulatory lag and mitigate the earnings erosion that historically has been associated with DSM initiatives. The Companies propose to establish the rider at the time the Commission approves tariffs required to implement DSM initiatives. At the time the Company applies for approval of the various tariffs, the Company will submit an analysis estimating the cost and impact of the initiatives. When the tariff is approved, the rider

will be established to recover the projected lost margin over the following 12 months. In the ninth month of the rider, the Company will file an updated analysis projecting the lost margin for the next twelve months. Six months after the first 12 months, the Companies will make a true-up filing to either return over recovery or collect under recovery of lost margin, based on the success of the implementation of the initiative. At the time new rates are established as a result of a general rate case, the rider would be set at zero, as the rates will reflect lost margins at that time.

Any changes to the initiatives that result in impacts that differ from those in the general rate case would necessitate another rider based on the next 12 months.

3) Performance Mechanism for Meeting or Exceeding DSM Program Energy Savings Goals

KCP&L and KCP&L-GMO are proposing to determine the net economic benefits of the energy efficiency programs for purposes of developing an annual performance plan. Specifically, the Commission should authorize a performance mechanism that allows the utility to retain for its shareholders a portion of the net economic benefits associated with DSM programs for performance that meets or exceeds agreed upon energy savings goals.

13. Estimated net benefits are equal to the sum of each program's total avoided cost minus program costs. Avoided costs are the cost that would otherwise be incurred by a utility to serve the load that is avoided due to an energy efficiency program.

14. The Companies propose a performance plan based on a sliding scale on the energy savings achieved as a percentage of the energy savings goal for each year of the program. If less than 50 percent of its Commission-approved energy savings goal for the year is achieved no incentive will be earned. If energy savings equal to or greater than 50 percent, but less than 75

percent of its approved energy savings goal for the year is achieved, 10 percent of the net economic benefits will be retained. If 75 percent but less than 100 percent of its approved energy savings goal is achieved, 15 percent of the net economic benefits will be retailed. If 100 percent or greater of its approved savings goals is achieved, 20 percent of the net economic benefits will be retained. A chart showing the proposed incentive percentages is provided below:

ANNUAL SAVINGS AS A PERCENTAGE OF SAVINGS GOAL	**PERFORMANCE PAYOUT %**
0 – 50%	0 %
51 – 74%	10 %
75 - 99%	15 %
> 99%	20 %

This mechanism meets the goal of tying performance to the effectiveness of DSM initiatives. Linking financial benefits of the programs to the actual net benefits generated and achievement of savings goals is preferable to tying an incentive to program costs or similar variable that simply captures the utility's effort. The litmus test of a DSM program's effectiveness is the net benefits created and the achievement of planned savings goals, not the dollars committed. This proposed performance plan better aligns traditional public-policy goals with utility financial requirements.

15. The proposed cost-recovery mechanism and financial incentive would, as a package, allow utilities to increase commitment to DSM without suffering significant financial harm. In other words, DSM initiatives would have earnings impacts similar to or better than those of supply-side investments, depending on performance, and would meet the objective to develop DSM programs as a priority resource.

16. The Companies propose that the Commission continue this docket as a proceeding to establish policy for aligning utility incentives with the delivery of cost-effective energy efficiency and establish policy to promote energy efficiency investments. Actual rate design modifications are an issue best considered in a company-specific docket, since each company approaches the matter with a different historically developed rate structure and a different customer base. In that way, individual rate design modifications can more easily be determined and implemented for each company, consistent with the policies developed in a generic docket.

FILE NO. EW-2009-0292
CONSIDERATION OF SMART GRID INVESTMENTS STANDARD

Section 1307 of the Energy Independence and Security Act of 2007 amends PURPA 111(d)(16). The standard states

> (16) CONSIDERATION OF SMART GRID INVESTMENTS-
> (A) IN GENERAL- Each State shall consider requiring that, prior to undertaking investments in nonadvanced grid technologies, an electric utility of the State demonstrate to the State that the electric utility considered an investment in a qualified smart grid system based on appropriate factors, including
> (i) total costs;
> (ii) cost-effectiveness;
> (iii) improved reliability;
> (iv) security;
> (v) system performance; and
> (vi) societal benefit.
> (B) RATE RECOVERY- Each State shall consider authorizing each electric utility of the State to recover from ratepayers any capital, operating expenditure, or other costs of the electric utility relating to the deployment of a qualified smart grid system, including a reasonable rate of return on the capital expenditures of the electric utility for the deployment of the qualified smart grid system.
> (C) OBSOLETE EQUIPMENT- Each State shall consider authorizing any electric utility or other party of the State to deploy a qualified smart grid system to recover in a timely manner the remaining book-value costs of any equipment rendered obsolete by the deployment of the qualified smart grid system, based on the remaining depreciable life of the obsolete equipment.

17. KCP&L and KCP&L-GMO are not aware of any previous decisions or legislation that would constitute adoption or implementation of a comparable standard or portion of the standard concerning the Smart Grid Investment Standard.

18. The EISA 2007 Section 1301contained a listing of ten (10) characteristics that constitute a Smart Grid. The term "Smart Grid" refers to an electrical transmission and distribution system constructed and operated with a broad range of technologies (some existing but many yet to be developed) that together provide certain enhanced functions and capabilities. No one expects that any utility will deploy all of these components or capabilities at once. Instead, deployment of these technologies will unfold gradually over time on a utility-by-utility basis as the deployment creates value for utilities and consumers. Different utilities will implement different Smart Grid technologies as those technologies meet the needs of the utility and its customers.

19. Read literally, the standard would require the utility to come to its state commission to demonstrate in advance the prudence of each and every investment in traditional grid technologies. And considering the potential variety and nature of Smart Grid technologies, these reviews would likely become very technical decisions. Such a process would be costly and burdensome to utilities, the Commission, and the Commission's Staff.

20. Rather than review every Smart Grid investment decision, KCP&L and KCP&L-GMO recommend the Commission adopt a more strategic and collaborative approach with the utilities to develop a standard framework of treatment regarding future Smart Grid investments. The Commission could then review and approve each utility's Smart Grid technology plans and roadmaps on a case-by-case basis.

21. The Smart Grid standard framework should consider the following:

- Specific goals and objectives of Smart Grid investments that may be desired by the Commission.
- Guidance on technologies that would be considered qualified Smart Grid investments and therefore recoverable, while not limiting the inclusion of future technologies.
- Guidance as to how improved reliability, system efficiency, customer access to information, and other system, customer, and societal benefits should be considered in evaluating the cost-effectiveness of Smart Grid technologies.
- Procedures for review of and collaboration with utilities on future Smart Grid technology plans and roadmaps including pilot programs.
- Discussion of qualifications for recoverable Smart Grid investments.
- Accounting and rate treatment to recover remaining book value for equipment that becomes obsolete due to the deployment of Smart Grid technology.
- Accounting and rate treatments for grants or other Smart Grid stimulus items that may result from the American Recovery & Reinvestment Act of 2009.

22. The Companies propose combining the Smart Grid standards for a generic workshop to allow the parties to share ideas and concerns. The Commission can address those policy and guideline issues that affect all electric utilities dealing with Smart grid technology implementation while leaving the specific utility deployment plans and cost recovery details to individual utility dockets. The differences in service territory and customer base for each electric

utility in Missouri may warrant different approaches and different Smart Grid technology deployment for each. Because each utility may approach implementation of Smart Grid technology in a different fashion (i.e., the types of pilots employed, the time frame for implementation of pilots, etc.), a separate collaborative proceeding for each individual utility should follow the generic proceeding.

FILE NO. EW-2009-0293
SMART GRID INFORMATION STANDARD

23. Section 1307 of the Energy Independence and Security Act of 2007 amends PURPA 111(d)(17). The standard states:

> (17) SMART GRID INFORMATION-
> (A) STANDARD- All electricity purchasers shall be provided direct access, in written or electronic machine-readable form as appropriate, to information from their electricity provider as provided in subparagraph (B).
> (B) INFORMATION- Information provided under this section, to the extent practicable, shall include:
> (i) PRICES- Purchasers and other interested persons shall be provided with information on—
> (I) time-based electricity prices in the wholesale electricity market; and
> (II) time-based electricity retail prices or rates that are available to the purchasers.
> (ii) USAGE- Purchasers shall be provided with the number of electricity units, expressed in kwh, purchased by them.
> (iii) INTERVALS AND PROJECTIONS- Updates of information on prices and usage shall be offered on not less than a daily basis, shall include hourly price and use information, where available, and shall include a dayahead projection of such price information to the extent available.
> (iv) SOURCES- Purchasers and other interested persons shall be provided annually with written information on the sources of the power provided by the utility, to the extent it can be determined, by type of generation, including greenhouse gas emissions associated with each type of generation, for intervals during which such information is available on a cost-effective basis.
> (C) ACCESS- Purchasers shall be able to access their own information at any time through the Internet and on other means of communication elected by that utility for Smart Grid applications. Other interested persons shall be able to access information not specific to any purchaser through

the Internet. Information specific to any purchaser shall be provided solely to that purchaser.

24. KCP&L and KCP&L-GMO are not aware of any previous decisions or legislation that would constitute adoption or implementation of a comparable standard or portion of the standard concerning the Smart Grid Information Standard.

25. Smart Grid information opportunities are often viewed too narrowly with a focus only on what information can be provided to customers. With the broader definition of Smart Grid technology, the available information is significantly greater than only what might be of direct use to a customer. Still, the Companies believe that the Commission should limit its review of Smart Grid information standards to providing guidance and policy on the desired outcome of sharing such information with customers without dictating the type and format of information the utility must provide.

26. The Companies propose combining the Smart Grid standards for a generic workshop to allow the parties to share ideas and concerns. The Commission can address those policy and guideline issues that affect all electric utilities dealing with Smart grid technology implementation while leaving the specific utility deployment plans and cost recovery details to individual utility dockets. The differences in service territory and customer base for each Missouri electric utility may warrant different approaches and different Smart Grid technology deployment for each. Because each utility may approach implementation of Smart Grid technology in a different fashion (i.e., the types of pilots employed, the time frame for implementation of pilots, etc.), a separate collaborative proceeding for each individual utility should follow the generic proceeding.

WHEREFORE, KCP&L and KCP&L-GMO respectfully provide their response to the questions posed by the Commission in its March 25, 2009 order in the above-captioned matters.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or e-mailed to all counsel of record this 15th day of April, 2009.

/s/ Curtis D. Blanc