

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

*Susan K. Duffy* Docket  
Room

In the Matter of a General Investigation       )  
Into Incentives for Fuel Switching.       )       Docket No. 09-GIMX-160-GIV

**INITIAL COMMENTS OF MIDWEST ENERGY, INC.**

COMES NOW Midwest Energy, Inc. (Midwest Energy) and, pursuant to the Commission's September 29, 2008 Order Initiating Investigation and Assessing Costs (Order), submits the following Initial Comments.

**I. INTRODUCTION**

Midwest Energy is a customer-owned Kansas corporation operating on a not-for-profit cooperative basis. Midwest Energy is both an electric and natural gas public utility, as defined by K.S.A. 66-101a(a) and K.S.A. 66-1,200(a).

On September 29, 2008, the Commission issued its Order to consider the appropriateness of encouraging fuel switching for end-use or direct-use applications, defined as the mechanism used at the point of consumption (as opposed to the point of energy production). Due to the lack of significant research on this topic, the Commission requested interested parties to comment on questions intended to garner information on fuel switching, particularly whether it is appropriate for utilities to use monetary incentives to encourage consumers to switch fuels for end-use applications within their homes.

As the only combination electric and natural gas public utility in the state, Midwest Energy is uniquely positioned to comment on whether offering incentives or otherwise encouraging customers to switch fuels for end-use applications is appropriate.

## II. RESPONSES TO QUESTIONS

### A. **Can end-use application programs for fuel-switching incentives be economically and/or environmentally justified?**

Midwest Energy believes end-use application programs for fuel-switching incentives can be economically justified. Environmental justification, however, is problematic. For example, an environment evaluation may result in the comparison of one form of environmental degradation (cost) to another. Although one can measure environmental impacts, the only way to compare different forms of environmental degradation is to quantify environmental costs. To the extent current or anticipated environmental costs are included in the fuel price, the analysis of fuel-switching incentive programs becomes only an economic analysis. This is because the taxes (or equivalent) included in fuel price are a quantification of environmental damage tied to the use of a fuel source. Midwest Energy reiterates its belief that it is appropriate to include both existing and anticipated environmental costs in any benefit-cost analysis – but it is not appropriate to include one-sided environmental externalities. Given anticipated environmental costs, the economic analysis is straightforward: a utility should encourage fuel switching if it leads to economic efficiency.<sup>1</sup>

In the simplest terms, the real issue isn't the environment, it's the economics. If you build environmental costs (taxes, etc.) into the economic analysis, you don't need to perform an environmental analysis.

Often, in the context of fuel switching, complaints of unfair competition are raised. For example, a gas utility may complain that an electric utility is unfairly “subsidizing” the installation of electric space heating at the expense of gas space heating. This subsidy may come in the form of customer incentives, rebates or other for the installation of electric space heating

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<sup>1</sup>The only benefit-cost test that truly measures economic efficiency is the Ratepayer Impact Measure (RIM) test. See Initial Comments of Midwest Energy, Docket No. 08-GIMX-442-GIV, pp. 2-3.

technologies. The competition is considered unfair because non-participants in the program pay for the cost of the incentives provided to program participants. However, if the benefits of the additional electric load more than outweigh the costs of the incentives and other program costs, then non-participants may have net benefits. This is exactly what is measured by RIM; that is, if a fuel-switching incentive program passes the RIM test, it is yielding net benefits to non-participants and therefore there is no unfair subsidy.

**B. Is general research available regarding the costs and benefits of fuel-switching for end-use applications that can be provided for the Commission's review?**

There are many sources of information regarding end-use energy consumption and the costs and benefits of using different technologies and fuel sources for the end use. For example, there are energy calculators available online that allow alternative end-use technologies to be entered such that comparisons of net costs and even carbon footprint can be compared. (See, e.g., Home Energy Saver at <http://hes.lbl.gov/hes/db/zip.shtml>.)

**C. Is there research available which indicates the effect of fuel switching for end-use applications on the environment, energy use, and energy costs? If so please elaborate and provide citations.**

Midwest Energy is not aware of specific research on end-use applications that indicates the effect of fuel switching on the environment, energy use or energy costs.

**D. What is the cost of switching fuels for end-use applications?**

The cost of switching fuels for end-use applications depends on the perspective of various stakeholders -- society, customer, utility gaining the end-use application, utility losing the end-use application. Without an understanding of which perspective to use in the analysis, Midwest Energy cannot answer the question. Having said that, however, generally if a program passes the RIM test, benefits outweigh the costs.

**E. Under what conditions would it be appropriate for a utility to offer an incentive to switch fuels?**

Midwest Energy believes it is appropriate for a utility to offer incentives to switch fuels if the switch leads to improved economic efficiency. In other words, incentives are appropriate if and only if the program passes the RIM test.

**F. If utilities should be required to promote the most economical or environmentally beneficial fuel, is the issue regarding lost revenue recovery any different than for energy efficiency programs in general?**

Midwest Energy does not believe that any utility should be forced to promote another utility's product. If fuel switching makes economic sense, cross fuel competition leads to the best outcome. Utilities instead should be allowed to compete fairly for end-use load with competitive fuel choices. As long as competing utilities' incentive programs pass the RIM test (that is, non-participants are not subsidizing participants), utilities should be allowed to compete for load to the maximum benefit of consumers. To the extent that anticipated environmental benefits or costs can be quantified, such costs can be included in the RIM test.

**G. Does the Commission have jurisdiction to consider issues related to fuel-switching programs, incentives, rulemaking, policy, and/or regulation? If so, are there any limits to the Commission's jurisdiction? Should this be the first question?**

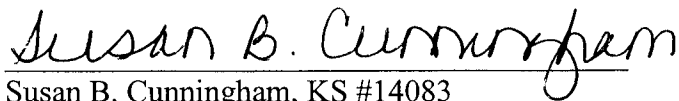
Kansas law confers upon the Commission the authority to ensure that utilities provide reasonably efficient and sufficient services and facilities at just and reasonable rates. K.S.A. 66-101b, 66-117. Pursuant to K.S.A. 66-101 and 66-1,201, the Commission has full power, authority and jurisdiction to supervise and control the electric and natural gas public utilities and is empowered to do all things necessary and convenient for the exercise of such power, authority and jurisdiction. K.S.A. 66-101g and 66-1,207 state that the provisions of the Kansas Public Utilities Act and all grants of power, authority and jurisdiction made to the Commission should be liberally construed, and all incidental powers necessary to carry into effect the provisions of

the act are expressly granted and conferred upon the Commission. K.S.A. 66-101b and 66-1,202 prohibit the provision of unjust, unreasonably discriminatory or unduly preferential utility service as unlawful and void.

These general statutes appear to provide the Commission with sufficient authority to require or allow utilities to use incentives to encourage consumers to switch fuels for end-use applications, particularly if the Commission finds that (1) such incentives would result in more reasonable rates or more efficient provision of utility services and (2) the incentives are not unjust, unreasonably discriminatory or unduly preferential. Stated another way, if a fuel-switching incentive results in more reasonable rates or more efficient provision of utility services, then clearly the incentive would not be unjust, unreasonably discriminatory, or unduly preferential.

WHEREFORE, Midwest Energy respectfully requests that the Commission consider its Initial Comments and for such other relief as deemed necessary and appropriate by the Commission.

Respectfully submitted,



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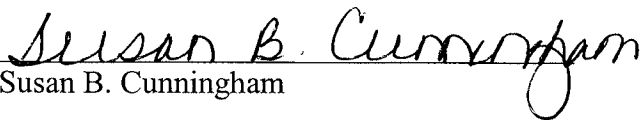
Attorneys for Midwest Energy, Inc.

**VERIFICATION**

K.S.A. 53-601

STATE OF KANSAS            )  
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COUNTY OF SHAWNEE    )       ss:

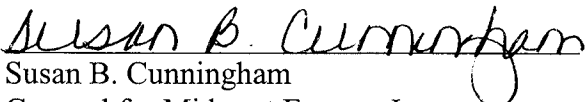
I verify under penalty of perjury that the foregoing is true and correct.

  
Susan B. Cunningham

Executed on November 18, 2008

**CERTIFICATE OF SERVICE**

I, the undersigned, do hereby certify that on this 18th day of November, 2008, a true and correct copy of the above and foregoing document was mailed, postage prepaid, or hand-delivered, to the parties on the docket service list for Docket No. 09-GIMX-160-GIV, as last modified on October 23, 2008.

  
Susan B. Cunningham  
Counsel for Midwest Energy, Inc.