In the Matter of the Complaint of Kansas Gas Service, a Division of ONE Gas, Inc., Against Westar Energy, Inc., Regarding Westar's Practice of Offering Payments to Developers in Exchange for the Developers Designing All Electric Subdivisions.

Docket No. 19-WSEE-061-COM

#### **DIRECT TESTIMONY**

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### OF

### JANET L. BUCHANAN

### ON BEHALF OF KANSAS GAS SERVICE,

### A DIVISION OF ONE GAS, INC.

### DIRECT TESTIMONY OF JANET L. BUCHANAN ON BEHALF OF KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.

#### 1 I. INTRODUCTION; PURPOSE OF TESTIMONY; IDENTIFICATION OF KGS'S

#### 2 WITNESSES

- 3 Q. Please state your name and business address.
- 4 A. My name is Janet L. Buchanan, and my business address is 7421 W. 129th St.,
- 5 Overland Park, KS 66313.

### 6 Q. By whom are you in employed and in what capacity?

- A. I am Director of Rates and Regulatory Reporting for Kansas Gas Service ("KGS" or
  the "Company"), which is a division of ONE Gas, Inc., ("One Gas").
- 9 Q. Please describe your educational background and professional experience.
- Α. I earned a Bachelor of Arts degree and a Master of Arts degree in economics 10 from the University of Kansas. From June 1993 through August 1998 and from 11 May 1999 through August 2011, I worked for the Kansas Corporation 12 Commission ("Commission") in various positions with varying levels of 13 examining for 14 responsibility for rates natural gas, electric. and telecommunications utilities, researching current policy issues within the 15 16 industries and managing projects. Positions held included: Utility Rates Analyst, Senior Research Economist, Managing Research Economist, Telecommunications 17 Economist, Senior Telecommunications Analyst, Senior Managing Research 18

1Analyst, Chief of Telecommunications and Chief of Energy Efficiency and2Telecommunications. From September 1998 through April 1999, I worked as a3Policy and Program Analyst with the Kansas Department of Revenue. In4September 2011, I joined Texas Gas Service Company, a Division of ONE Gas, as a5Manager of Rates and Regulatory Analysis. I was promoted to my current6position with KGS in October 2017.

- 7 Q. Have you previously testified before the Commission?
- 8 A. Yes. I have testified before the Commission on numerous occasions.

9 **Q.** What is the purpose of your testimony?

10 A. The purpose of my testimony is to support (1) the complaint KGS has filed 11 against Westar Energy, Inc., ("Westar"); and (2) the relief sought by KGS in this 12 docket.

### 13 Q. Please summarize the complaint KGS has filed against Westar.

14 A. There are three basic elements to KGS's complaint against Westar:

(1) Westar's Total Electric Subdivision Heat Pump Program ("Program")
violates the Order issued by the Commission in Docket No. 09-GIMX-160-GIV
("160 Docket"). That Order precludes utilities from using ratepayer funds to pay
for load-building programs targeted at developers and contractors;

Westar violated K.S.A. 66-101(c), by failing to obtain approval from the
 Commission of its Program, which uses customer funds to pay developers cash
 rebates in exchange for those developers agreeing to build all-electric housing in
 their subdivisions; and

1 (3) Westar's Program, which ties payments to developers in exchange for the 2 developers' agreement not to install or allow the installation of natural gas 3 facilities in their subdivisions, actively damages rather than promotes the public 4 interest by eliminating customer choice.

5

### Q. Please summarize the relief KGS is seeking from the Commission.

6 A. KGS is seeking the following relief from the Commission in this docket:

7 (1) That the Commission find: (a) that Westar's Program and the practice of 8 using customer funds to provide developers cash rebates in exchange for 9 building all-electric housing in their subdivisions is in violation of the 10 Commission's Order issued in the 160 Docket; (b) that Westar failed to obtain 11 approval from the Commission of the Program and practice; (c) that the Program 12 and practice should cease; and (d) that Westar should be required to pay 13 sanctions and penalties for violating the Commission's order and statute.

14 (2) That the Commission find that Westar's Program and the practice of tying 15 payments to developers in exchange for the developers' agreement for building 16 all-electric housing in their subdivisions is not in the public interest and should be 17 prohibited.

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### Q. Please summarize the remaining sections of your testimony.

A. Section II of my testimony provides relevant information that KGS has been able
to obtain through discovery in this case regarding Westar's Program and its
practices. That information includes:

1	(1) The terms and conditions that the developers must agree to in order to
2	become eligible for the rebates offered by Westar under the Program, including
3	the provision that requires that all homes built by the developer exclude natural
4	gas;
5	(2) The Program start date and evidence that it continues to exist;
6	(3) The scope of the Program;
7	(4) Westar's use of customer funds to pay for the rebates offered under the
8	Program; and
9	(5) Absence of Commission approval for the Program.
10	Section III of my testimony explains why Westar's Program and its
11	practices violate the Commission's Order issued in the 160 Docket.
12	Section IV of my testimony explains how Westar violated K.S.A. 66-101c
13	by failing to obtain approval of its Program.
14	Section V of my testimony explains why that portion of Westar's Program
15	and practice that ties rebate payments to developers in exchange for those
16	developers' agreement to only build all-electric homes and effectively preclude
17	natural gas usage in those subdivisions is contrary to the public interest and
18	should be prohibited.
19	Finally, Section VI of my testimony sets forth the remedies KGS is seeking
20	in this docket.

1Q.Please identify the witnesses submitting testimony in this filing on behalf of2KGS.

A. In addition to my testimony, Ms. Lyn Leet, Manager of Customer Development 3 4 for KGS, is providing testimony on behalf of KGS. Ms. Leet, who is responsible for working with developers in KGS's service territory, explains how Westar's 5 6 Program and its practices have resulted in areas (pockets or islands located in urban communities) where residents now have no economic access to natural 7 gas service and are captive customers of the electric utility. These residents 8 9 have no opportunity for fuel choice for space conditioning, cooking and water heating. Ms. Leet reiterates that Westar's Program and practices are contrary to 10 the public interest and should be prohibited. 11

### 12 II. WESTAR'S TOTAL ELECTRIC SUBDIVISION HEAT PUMP PROGRAM

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### A. GENERAL TERMS AND CONDITIONS OF THE PROGRAM

#### 14 Q. Can you generally describe Westar's Program?

Α. Yes. Westar's Program is described in the form contract ("Contract") attached to 15 the Complaint filed in this case as Exhibit A. The Contract is between Westar and 16 the developer of a residential subdivision. It applies to the specific residential 17 18 subdivision listed in the contract. Under the Contract, the developer must agree that "[a]ll buildings within the subdivision [are] to be built Total Electric with a 19 full heat pump split system as the primary heating source." Additionally, the 20 Contract specifies that all buildings in the subdivision must be served directly by 21 22 Westar. The agreement is in effect for five (5) years from the date the Contract

is signed. Once the heat pump system is installed and the permanent electric 1 2 residential meter has been set, Westar agrees to pay the developer a cash rebate for each building. The Program covers single family, duplexes, guads and 3 buildings with more than four units. The cash rebates range between \$1,200 to 4 5 \$20,000 per building depending upon the type of building and the Seasonal Energy Efficiency Ratio ("SEER") of the heat pump. Both Westar and the 6 7 developer are required to agree to and accept the provisions contained in the Contract.<sup>1</sup> 8

9 Westar has indicated in response to discovery that despite the language 10 contained in the Contract requiring that all buildings within the subdivision be 11 built all-electric, it has not always enforced this provision and has offered the 12 rebate to developers even if those developers have some buildings that use 13 natural gas. However, that is clearly not what is included in the Contract used by 14 Westar under its Program.<sup>2</sup>

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### B. DURATION OF THE PROGRAM

### 16 Q. How long has Westar been offering its Program to developers?

- A. Through discovery in this docket, KGS has been able to learn that Westar's
   Program has been in effect since the fourth quarter of 2009.<sup>3</sup>
- 19 Q. Is Westar's Program still in effect?

<sup>&</sup>lt;sup>1</sup>Copies of the terms of the Program are included in Westar response to data request KCC-04 (attached hereto as Exhibit JLB-1).

<sup>&</sup>lt;sup>2</sup> Westar response to data request KGS-03 (attached hereto as Exhibit JLB-2).

<sup>&</sup>lt;sup>3</sup> Westar response to data request KCC-02 (attached hereto as Exhibit JLB-3).

1	Α.	Yes. According to Westar's response to the discovery issued by KGS in this case,				
2		Westar's Program remains in effect, with the terms and conditions of the				
3		Program unchanged. <sup>4</sup>				
4		C. <u>SCOPE OF PROGRAM</u>				
5	Q.	What has KGS been able to learn about the scope of Westar's Program?				
6	Α.	Through discovery in this case, KGS has learned the following about the scope of				
7		Westar's Program:				
8		(1) 75 residential subdivision developers have received cash rebates under				
9		the Program; <sup>5</sup>				
10		(2) Since 2011, there have been 82 subdivisions that have been involved in				
11		the Program; <sup>6</sup>				
12		(3) Those 82 subdivisions are located in 25 different Kansas cities; <sup>7</sup>				
13		(4) As of December 20, 2018, subdivision developers have received cash				
14		rebates for 1,924 units (1,102 single family homes; 184 duplexes; 96 quads; and				
15		9 residential buildings with more than four units); <sup>8</sup>				
16		(5) Westar estimates that the cash rebates have totaled \$1,910,500 since the				
17		inception of the Program; <sup>9</sup>				

<sup>&</sup>lt;sup>4</sup> Westar response to data request KGS-18 (attached hereto as Exhibit JLB-4).

<sup>&</sup>lt;sup>5</sup> Westar response to data request KCC-05(b) (attached hereto as Exhibit JLB-5).

<sup>&</sup>lt;sup>6</sup> Westar response to data request KGS-21 (attached hereto as Exhibit JLB-6).

<sup>&</sup>lt;sup>7</sup> Id.

<sup>&</sup>lt;sup>8</sup> Westar response to data request KCC-06 and KCC-07(attached hereto as Exhibit JLB-7).

<sup>&</sup>lt;sup>9</sup> Westar response to data request KCC-05 (attached hereto as Exhibit JLB-5).

1		(6) Westar estimates that there is a potential for \$628,300 in additional cash			
2		rebates for subdivisions still under contract; <sup>10</sup> and			
3		(7) Westar estimates that its annual administrative/overhead/other costs			
4	relating to the Program, based upon 2013-2017 data, has ranged betwee				
5		\$41,000 and \$62,000. <sup>11</sup>			
6		D. WESTAR IS USING FUNDS FROM RATEPAYERS TO PAY FOR THE COST			
7		THE PROGRAM			
8	Q.	How is Westar funding its Program?			
9	Α.	Westar states in paragraph 8 of its Answer to the Complaint that the cost of the			
10		Program is now, as well as in the past, included in its base rates. <sup>12</sup> Therefore,			
11		customers are funding the program.			
12		E. WESTAR'S PROGRAM HAS NOT BEEN SUBMITTED TO THE COMMISSION			
13		FOR APPROVAL			
14	Q.	Has Westar submitted an application to have its Program approved by the			
15		Commission?			
16	Α.	No. In paragraphs 7 and 11b of its Answer to KGS's Complaint, Westar states			
17		that Commission approval of the Program is not required and admits that it did			
18		not submit an application to have its Program approved by the Commission. <sup>13</sup>			

<sup>&</sup>lt;sup>10</sup> Westar response to data request KGS-21 (attached hereto as Exhibit JLB-6).

<sup>&</sup>lt;sup>11</sup> Westar response to data request KGS-08 (attached hereto as Exhibit JLB-8).

<sup>&</sup>lt;sup>12</sup> Westar Answer, page 2, paragraph 8.

<sup>&</sup>lt;sup>13</sup> Westar Answer, page2, paragraph 7 and page 3, paragraph 11(b).

Westar indicated in response to discovery issued in this case that it 1 2 believes Staff has been generally aware of the Program since it was mentioned in Docket Nos. 08-WSEE-1041-RTS, and 11-WSEE-377-PRE as well as in the 160 3 Docket.<sup>14</sup> However, Westar also conceded that it has never stated that Staff was 4 aware that the cost of the Program was being paid for by Westar's customers.<sup>15</sup> 5 Does the testimony in Docket No. 08-WSEE-1041-RTS cited by Westar in Q. 6 response to data request KCC-03 issued in this case describe the Program, or 7 indicate that the rebates will be provided to developers, or that the cost of the 8 9 Program will be paid for by Westar's customers? 10 Α. No. The direct testimony of Mr. James Ludwig, cited by Westar, provides a chart on page 26 of his testimony describing the company's energy efficiency 11 department. A "Builder/Developer" <sup>16</sup> program is listed under "Trade & Ally 12 Programs" in the chart but there is no description of the program. There is 13 discussion of heating, ventilation and air conditioning ("HVAC") programs in Mr. 14 Ludwig's testimony. This testimony indicates that the programs focus on 15 16 partnering with HVAC dealers, builders and architects to educate and influence customers about choices of equipment. Mr. Ludwig described these programs as 17 relationship building and educational in nature. His discussion of financial 18 incentives is focused on customers (rather than developers) and the need to 19

<sup>14</sup> Westar Response to data request KGS-04 (attached hereto as Exhibit JLB-9).

<sup>15</sup> Id.

<sup>&</sup>lt;sup>16</sup> The Total Electric Subdivision Heat Pump Program is also sometimes identified by Westar as the Builder/Developer Program. See Westar response to data request KCC-03 (attached hereto as Exhibit JLB-10).

1		make them aware of the "financial resources and tax incentives available for
2		investment in high efficiency equipment available through government
3		programs." <sup>17</sup> He also indicates that energy efficiency programs " may need to
4		include financing packages and other incentives." <sup>18</sup> A chart on page 29 of
5		Mr. Ludwig's testimony indicates that Westar intended to develop a "Builder
6		new home heat pump program" to be implemented in April 2008 but there is no
7		specific discussion of rebates for installation of high efficiency heat pumps in
8		total electric subdivisions within his testimony.
9	Q.	Does the testimony cited by Westar contain a request for approval of the
10		Program?
11	A.	No. The testimony of Mr. Ludwig does not request approval of the Total Electric
12		Subdivision Heat Pump Program or any other specific program.
13	Q.	Did Staff address energy efficiency programs in its testimony filed in Docket
14		No. 08-WSEE-1041-RTS?
15	Α.	No. Staff addressed the recovery of program costs in the testimony of Mr. Justin
16		Grady, but did not discuss specific programs. <sup>19</sup>
17	Q.	Was the Program discussed in the Settlement Agreement or the Commission's
18		order approving the Settlement Agreement in Docket No. 08-WSEE-1041-RTS?
19	A.	No, the program was not discussed. <sup>20</sup>

<sup>&</sup>lt;sup>17</sup> Direct Testimony of James Ludwig, Westar Energy, Docket No. 08-WSEE-1041-RTS, pages 18-20 (attached hereto as Exhibit JLB-11).

<sup>&</sup>lt;sup>18</sup> Id.

<sup>&</sup>lt;sup>19</sup> Direct Testimony of Justin Grady, page 16, filed September 29, 2008, Docket No. 08-WSEE-1041-RTS.

1Q.Does the testimony in Docket No. 11-WSEE-377-PRE, cited by Westar in2response to data request KCC-03, describe the Program or specifically indicate3that rebates will be provided to developers and will be funded by Westar's4customers?

5A.No. The direct testimony of Mr. James Ludwig cited by Westar is a discussion of6Westar's programs to educate HVAC professionals and builders. Mr. Ludwig7does state that ". . .we provide financial incentives, brochures and other8educational materials these trade allies can use when educating consumers. . .."921 It is unclear from this statement whether the financial incentives are provided10to the HVAC professionals, the builder, or are used in the process of educating11consumers.

### 12 **Q.** Does the testimon

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- Does the testimony cited by Westar contain a request for approval of the Program?
- 14A.No. The testimony of Mr. Ludwig does not request approval of any programs15mentioned in his testimony. Rather, the testimony was provided to fulfill a16requirement of the statute (K.S.A. 66-1239) governing a "predetermination"17filing a filing made with the Commission for determination of the ratemaking18treatment that will be applied to a generation facility or purchased power19contract prior to construction of the facility or execution of the contract. The

<sup>&</sup>lt;sup>20</sup> Stipulation and Agreement, filed October 27, 2008, Docket No. 08-WSEE-1041-RTS.

<sup>&</sup>lt;sup>21</sup>Direct Testimony of James Ludwig, Westar Energy, Docket No. 11-WSEE-377-PRE, pages 21-22 (attached hereto as Exhibit JLB-12).

utility is required to provide: "(A) [a] description of the public utility's
 conservation measures; (B) a description of the public utility's demand side
 management efforts. ...<sup>22</sup>

### 4 Q. Does the 160 Docket, cited by Westar in its Answer to the Complaint filed by 5 KGS, address the Program?

Α. Yes. In a Report and Recommendation filed by Staff on September 28, 2010, 6 Staff discusses this Program and a similar program offered by Kansas City Power 7 and Light Company ("KCPL"). Staff indicated that the programs and the 8 incentives offered through them were not tariffed and that it was unclear 9 10 whether the costs associated with the programs were included in rates charged to customers of these utilities. Staff suggested the Commission would need 11 additional information to determine if these programs should be permitted and 12 if so, whether the cost of the programs should be borne by shareholders.<sup>23</sup> 13

14Staff filed another Report and Recommendation in the 160 Docket on15September 8, 2011, recommending that the Commission find that energy16efficiency programs be designed in a manner that doesn't bias the consumer17toward a specific fuel source.<sup>24</sup> KGS filed a response to the Report and18Recommendation renewing its concerns about the non-tariffed programs among19other issues. In reply, Staff again stated that "[n]othing should prevent utilities

<sup>&</sup>lt;sup>22</sup> K.S.A. 66-1239 (c)(2).

<sup>&</sup>lt;sup>23</sup> Second Staff Report and Recommendation, 160 Docket, September 28, 2010, pages 18, 20 and 24 (attached hereto as Exhibit JLB-13).

<sup>&</sup>lt;sup>24</sup> Staff Report and Recommendation, 160 Docket, September 8, 2011, Attachment A, page 3.

1 from promoting their fuels through non-tariff, stakeholder funded ventures, but 2 it is important that these are not being subsidized by ratepayers and that they 3 are not easily confused with tariff programs."<sup>25</sup> (Emphasis added.)

4 Q. Did the Commission address this issue in the 160 Docket?

In its Order to Close Docket, the Commission specifically addressed 5 Α. Yes. programs like Westar's Program. The Commission's order reiterated Staff's 6 position that ". . .nothing should prevent utilities from promoting their fuels 7 through non-tariff, stakeholder funded ventures, but that it is important that 8 these programs are not subsidized by ratepayers and that they are not easily 9 *confused* with tariff programs."<sup>26</sup> (Emphasis added.) 10 Furthermore, the Commission states that utilities shall ". . .offer energy-efficiency programs in a 11 manner that does not bias users toward a particular fuel source."<sup>27</sup> 12

13Q.Is the Program easily identifiable and distinguished from tariff programs14included in Westar rate cases?

A. As I previously mentioned, Westar asserts that Staff has been generally aware of
 the Program, but that it is not known whether the Staff knew that Program costs
 were included in base rates established in three of Westar's general rate cases.<sup>28</sup>
 From the information cited above in the 160 Docket, it appears Staff

<sup>&</sup>lt;sup>25</sup> Staff Reply to Response of Kansas Gas Service to Staff Report and Recommendation, 160 Docket, October 3, 2011, paragraph 5, page 2 (attached hereto as Exhibit JLB-14).

<sup>&</sup>lt;sup>26</sup> Order to Close Docket, Docket No. 09-GIMX-160-GIV, paragraph 14, pages 5-6 (attached hereto as Exhibit JLB-15).

<sup>&</sup>lt;sup>27</sup> *Id.*, paragraph 17, page 7 (attached hereto as Exhibit JLB-15).

<sup>&</sup>lt;sup>28</sup> Answer of Westar Energy, Inc., Docket No. 19-WSEE-061-COM, paragraph 8, page 2. Also see Westar response to data request KGS-04 (attached hereto as Exhibit JLB-9).

acknowledged the possible existence of a program but had not fully investigated 1 2 the Program. Given information provided by Westar in response to data requests, KGS does not believe the Program is easily identifiable or distinguished 3 from Westar's tariffed programs. Westar states that no testimony specifically 4 addressing the Program was filed in its rate cases.<sup>29</sup> Additionally, Westar 5 indicates that the Program expenses are not separately tracked from the other 6 customer assistance activities.<sup>30</sup> More specifically, Westar indicates that rebates 7 paid to developers are recorded in Account 908-Customer Assistance.<sup>31</sup> 8 An example of Account 908-Customer Assistance data was provided by Westar for 9 2017 and lists "HVAC", "Builder Program", "Smart Build Subdivision" and 10 "Builder Operator Certification" activity in addition to "Customer Activity".<sup>32</sup> It is 11 not immediately apparent from this information that rebates are being paid to 12 13 developers. Given the number of issues Staff must investigate during a rate case, it is conceivable that these account descriptions would not have prompted 14 further review to determine whether rebates were included which would result 15 in ratepayer subsidization in conflict with the Order in the 160 Docket prohibiting 16 such programs from being funded by customers. 17

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Q.

Has the Commission addressed this issue or similar issue in any other dockets?

<sup>&</sup>lt;sup>29</sup> Westar response to data request KGS-13 (attached hereto as Exhibit JLB-16).

<sup>&</sup>lt;sup>30</sup> Westar response to data request KGS-08 (attached hereto as Exhibit JLB-8).

<sup>&</sup>lt;sup>31</sup> Westar response to data request KGS-12 (attached hereto as Exhibit JLB-17).

<sup>&</sup>lt;sup>32</sup> Westar response to data request KGS-16 (attached hereto as Exhibit JLB-18).

Yes. In Docket No. 08-KCPE-848-TAR, the Commission considered an energy 1 Α. 2 efficiency program proposed by KCPL which was targeted at new home development. The Energy Star<sup>®</sup> New Homes Program ("New Homes Program") 3 was proposed by KCPL to address barriers to the construction of energy efficient 4 5 homes by assisting with educating builders, marketing of homes meeting program guidelines, providing an incentive of \$800 per home to builders meeting 6 the required Energy Star<sup>®</sup> rating, and paying for the cost of inspections of 7 homes, up to \$750 per home, by certified inspectors.<sup>33</sup> Additionally, KCPL would 8 9 assist in recruiting additional inspectors, if necessary, and may assist with the cost of training inspectors. Staff specifically noted that there was not a 10 requirement for builders to install only electric appliances.<sup>34</sup> Staff stated that "... 11 . the builder's choice of appliances or space heating is not influenced through the 12 incentive payment."<sup>35</sup> The Commission's order noted that Staff had indicated 13 that fuel-switching was not an issue but indicated that the Commission's 14 approval of the program was not making a determination on the fuel-switching 15 issue which was being addressed in the 160 Docket. 16

### 17 Q. Did the Commission address a similar issue in Docket No. 08-KCPE-581-TAR?

A. Yes. In this docket, KCPL proposed implementation of the Home Performance
 with ENERGY STAR<sup>®</sup> Program ("HPwES"). Under this program, owners of existing
 residential properties (single family homes, multiplexes, apartments) could

<sup>&</sup>lt;sup>33</sup> Staff Memorandum, Docket No. 08-KCPE-848-TAR, October 30, 2008, page 7 attached hereto as Exhibit JLB-19).

<sup>&</sup>lt;sup>34</sup> *Id*., page 7.

<sup>&</sup>lt;sup>35</sup> *Id.*, page 14.

receive rebates, up to \$600 per unit, for implementing certain home 1 2 improvements after being evaluated by an approved energy efficiency consultant.<sup>36</sup> Staff noted that the "[g]ualified improvements exclude 3 improvements related to natural-gas-only equipment . . . "<sup>37</sup>(Emphasis original.) 4 Staff noted that this provision could be viewed as a fuel-switching incentive and 5 recommended several options for the Commission to consider. The Commission 6 agreed with Staff that it was reasonable to deny KCPL's proposal until the fuel-7 switching issue had been resolved in the 160 Docket.<sup>38</sup> 8 However, the Commission stated it would entertain a resubmission to address other concerns 9 raised in the Commission's order, prior to the resolution of the fuel-switching 10 11 issue, if KCPL agreed to remove the language excluding natural-gas-only equipment from eligibility.<sup>39</sup> KCPL asked for a hearing to address the 12 13 Commission's concerns and agreed to remove the language regarding the exclusion of natural-gas-only equipment. A hearing was granted, but ultimately, 14 the Commission did not reconsider its order denying the request for approval of 15 the program. 16

### 17

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How are the two dockets you just discussed relevant to the Program offered by Westar?

Q.

<sup>&</sup>lt;sup>36</sup> Report and Recommendation of the Commission Staff, Docket No. 08-KCPE-581-TAR, July 28, 2008, Attachment 1, pages 1 and 2 (attached hereto as Exhibit JLB-20).

<sup>&</sup>lt;sup>37</sup> *Id.*, page 4.

<sup>&</sup>lt;sup>38</sup> Order on Staff Report and on Petition for Reconsideration, Docket No. 08-KCPE-581-TAR, paragraph 34 (attached hereto as Exhibit JLB-21).

<sup>&</sup>lt;sup>39</sup> *Id.*, paragraph 35.

In the two energy efficiency programs discussed, the Commission determined 1 Α. 2 that rebates (rebates which are funded by utility customers) did not incent or should not incent the selection of an appliance or equipment operated by a 3 particular fuel type. Specifically, in its evaluation of the New Homes Program 4 5 Staff noted that the incentives did not incent the builder to install equipment powered by a specific fuel source. However, Westar's Program, also funded by 6 7 customers, does require the installation of all electric equipment and appliances. 8 In its evaluation of the HPwES program, the Commission was concerned that the 9 provision excluding natural-gas-only equipment from rebate eligibility would promote fuel-switching and provided KCPL with the option to revise its program 10 11 to remove that language or resubmit an application following conclusion of the 160 Docket. Again, Westar's Program is at odds with this finding. While not 12 13 strictly an energy efficiency program (though there is a higher rebate for more efficient equipment), if Westar's Program is to persist, it should be treated 14 consistent with the Commission's findings in the KCPL dockets and in the 160 15 Docket. That is, if the Program is funded by customers it should not bias fuel 16 selection. 17

## 18 III. WESTAR'S PROGRAM VIOLATES THE ORDER ISSUED BY THE COMMISSION IN 19 THE 160 DOCKET

 20
 Q.
 Does Westar's Program and its practices violate the Order issued by the

 21
 Commission in the 160 Docket?

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Yes. As I previously stated, in the 160 Docket Staff recommended and the 1 Α. 2 Commission concluded in its Order that non-tariff programs that promote fuel choice should not be funded by ratepayers and should not be easily confused 3 with tariff programs.<sup>40</sup> Westar's Program violates the Order issued by the 4 5 Commission in the 160 Docket as Westar concedes in its Answer to the Complaint that the Program is funded by its customers. In addition, the Program 6 7 is easily confused with similar proposed tariff programs that I have mentioned in 8 my testimony which have been submitted by electric utilities for approval. It 9 should be noted that in some instances these programs were not approved by the Commission. 10

### II IV. WESTAR VIOLATED K.S.A. 66-101C BY FAILING TO OBTAIN COMMISSION 12 APPROVAL OF ITS PROGRAM

### 13Q.What is the basis for KGS's claim that Westar violated K.S.A. 66-101c by failing14to obtain Commission approval of its Program?

A. The basis for KGS's claim that Westar violated K.S.A. 66-101c by failing to obtain Commission approval of its Program is twofold. First, similar types of programs, which I mentioned earlier in my testimony, were required to be filed for approval by the Commission. In some cases, similar programs were not approved by the Commission. Second, the Program or practice is being funded by Westar's customers; therefore, the Program and practice should have been approved by the Commission.

<sup>&</sup>lt;sup>40</sup> See, Exhibit JLB-15, paragraph 14, pages 5-6, paragraph 17, page 7.

1Q.Westar has indicated that it did not need to obtain approval of the Program by2the Commission because the Program "does not involve a rate being charged3to customers who purchase electricity from Westar." Do you agree with4Westar's position?

5 A. No, I do not agree with Westar's position. Westar's Program is very similar to 6 energy efficiency programs that have required prior-approval from the 7 Commission. This is especially true, given the fact that the costs of the Program 8 have been included in the development of Westar's base rates. The Program, in 9 fact, does involve a rate being charged to customers who purchase electricity 10 from Westar.

### 11 V. WESTAR'S PROGRAM AND PRACTICE IS NOT IN THE PUBLIC INTEREST AND 12 SHOULD BE PROHIBITED

13Q.What is the basis for KGS's claim that Westar's Program is not in the public14interest and should be prohibited under K.S.A. 66-101e and K.S.A. 66-101f?

Α. The Commission has the authority to prohibit any practice by an electric utility 15 that violates any provisions of the Kansas Public Utility Act under K.S.A. 66-101f. 16 This means the Commission has the authority to prohibit any practice that is 17 18 found not to be in the public interest. Westar's Program and practice goes well 19 beyond offering incentives to encourage developers to install heat pumps in 20 subdivisions. Instead, Westar's Program and practice is anti-competitive and actively damages rather than promotes the public interest. Westar's Program 21 22 and practice ties its rebate payments to the developers' agreement that all

buildings in the subdivision must be total electric. It creates economic waste by 1 2 effectively prohibiting the installation of natural gas facilities in these new subdivisions, thereby creating areas (pockets or islands within urban 3 communities) where residents only have access to electricity for space 4 conditioning, cooking and water heating purposes. Westar's Program and 5 practice negatively impacts Kansas citizens, who will eventually reside within the 6 subdivisions, by eliminating their choice to the type of energy available to them. 7 8 These citizens become captive customers to the electric utility. This issue will be discussed in more detail in Ms. Leet's testimony. 9

10 It is one thing for an electric utility to have a program or practice to promote the use of electricity which is an essential product used in every house. 11 However, it is quite a different thing for a regulated utility to promote that 12 essential product by tying any payment or rebate in exchange for a developer's 13 agreement to effectively exclude the use of other fuel products, such as natural 14 15 gas. Such practice eliminates fuel choice for future customers living in these total electric subdivisions and is not in the public interest. This practice should 16 17 be prohibited by the Commission.<sup>41</sup>

### 18 VI. <u>CONCLUSION: REMEDIES REQUESTED BY KGS IN THIS COMPLAINT CASE</u>

<sup>&</sup>lt;sup>41</sup> It is one thing if a developer on its own decides to only build all electric homes in its subdivision. It certainly has the right to do so. However, it is a completely different thing for a regulated utility to pay a developer using customer funds to make that decision. In fact, even if Westar's shareholders were making the payments, it would still be against the public interest for a regulated utility to tie a subsidy relating to what is an essential product (electricity) in exchange for the developer having to agree not to build any homes that use natural gas or other fuel.

1

3

### Q. What is KGS asking the Commission to do in this docket?

- 2 A. KGS asks the Commission to issue an Order:
  - (1) Requiring Westar to cease its Program;
- 4 (2) Finding that Westar violated the Commission's order in the 160 Docket
  5 by having its customers s fund the Program;
- 6 (3) Finding that Westar violated the provisions of the Kansas Public Utility
  7 Act by implementing a customer funded program or practice without
  8 Commission approval;
- 9 (4) Finding that Westar's Program and its practice of tying its promotional 10 payments or rebates to developers in exchange for those developers agreeing to 11 build only all-electric homes in their subdivisions is not in the public interest and 12 shall be prohibited because the result of the Program and practice is to 13 effectively eliminate fuel choice for customers in these subdivisions; and,
- 14 (5) Imposing sanctions and penalties against Westar for violating the 15 Commission's order in the 160 Docket; for not seeking Commission approval of 16 the Program; and for implementing a Program and practice that is not in the 17 public interest and is therefore in violation of the provisions on the Kansas Public 18 Utility Act.
- 19 Q. Does this conclude your direct testimony?
- 20 A. Yes, it does.

### VERIFICATION

STATE OF KANSAS

COUNTY OF JOHNSON

Janet L. Buchanan, being duly sworn upon her oath, deposes and states that she is Director, Rates and Regulatory Reporting for Kansas Gas Service, a division of ONE Gas, Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.

) ss.

Janet L. Buchanan

Subscribed and sworn to before me this  $\frac{23}{23}$  day of April 2019.

My appointment Expires:

04/05/22

NOTARY PUBLIC



#### List of Exhibits

- Exhibit JLB-1 Data Request KCC-04: Total Electric Subdivision Heat Pump Program Documents
- Exhibit JLB-2 Data Request KCC-03: Rebate Paid
- Exhibit JLB-3 Data Request KCC-02: Total Electric Subdivision Heat Pump Program
- Exhibit JLB-4 Data Request KGS-18: Westar Total Electric Subdivision Heat Pump Program
- Exhibit JLB-5 Data Request KCC-05: Cumulative Amount of Rebate Program
- Exhibit JLB-6 Data Request KGS-21: Westar Total Electric Subdivision Heat Pump Program (Redacted)
- Exhibit JLB-7 Data Request KCC-06: Customers Served Under Subdivision Heat Pump Program
- Exhibit JLB-8 Data Request KGS-08: Past 5 Yr Annual Costs
- Exhibit JLB-9 Data Request KGS-04: Who Paying for Program
- Exhibit JLB-10 Data Request KGS-03: Rebate Paid
- Exhibit JLB-11 Direct Testimony of James Ludwig, Dkt No. 08-WSEE-1041-RTS
- Exhibit JLB-12 Direct Testimony of James Ludwig, Dkt No. 11-WSEE-377-PRE
- Exhibit JLB-13 KCC Staff Report and Recommendation: Dkt No. 09-GIMX-160-GIV
- Exhibit JLB-14 Staff Reply to Response of KGS to Staff R&R: Dkt No. 09-GIMX-160-GIV
- Exhibit JLB-15 Order to Close Docket: Dkt No. 09-GIMX-160-GIV
- Exhibit JLB-16 Data Request KGS-13: Testimony Submitted in Rate Cases
- Exhibit JLB-17 Data Request KGS-12: FERC Account for Heat Pump Program
- Exhibit JLB-18 Data Request KGS-16: Westar Energy Total Electric Subdivision Heat Pump Program
- Exhibit JLB-19 Staff Memorandum: Dkt No. 08-KCPE-848-TAR
- Exhibit JLB-20 Staff Report and Recommendation: Dkt No. 08-KCPE-581-TAR
- Exhibit JLB-21 Order of Staff's Report on Petition for Reconsideration: Dkt No. 08-KCPE-581-TAR

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-1



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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

## Exhibit JLB-2



Docket: [ 19-WSEE-061-COM ] Kansas Gas Complaint Requestor: [ Jim Flaherty ] [ Jim Flaherty ] Data Request: KGS-03 :: Rebate paid Date: 0000-00-00

Question 1 (Prepared by Drew Torkelson)

Has Westar ever paid a rebate to a developer or builder who did not chose to build all buildings within a subdivision as total electric with full heat pump split system as the primary heating source? If so, please provide the name of the developer and a description of the circumstances.

#### Response:

Yes. Some examples include the following: Stone Creek development in Derby; Paul Kelsey developer. Part of the way through the building process he chose to install gas in 14 homes. The developer was paid for the homes that were built with a full heat pump split system. No rebate was paid on the homes that had gas installed. Interlachen Development in Manhattan; Developer Zach Burton. After the original agreement, the developer chose not to install heat pumps, so the agreement was cancelled. No payments were made on this development. Bellerive development in Manhattan developer Andy Carson installed standard air conditioning with electric heat on 3 homes. The developer was not paid for the homes without a full heat pump split system.

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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

## Exhibit JLB-3



The Total Electric Subdivision heat pump program launched the 4th quarter 2009.

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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

## Exhibit JLB-4

DATA REQUEST energytools, llc. EABY ACCESS MANAGEMENT SYSTEM	
Home Page Change Password	Friday, February 08, 2019 Logged in as: [Jim Flaherty] Logout
Docket: [ 19-WSEE-061-COM ] Kansas Gas Complai Requestor: [ Jim Flaherty ] [ Jim Flaherty ] Data Request: KGS-18 :: Westar Energy Total Elec Date: 0000-00-00	nt tric Subdivision Heat Pump Program
<i>Question 1</i> (Prepared by Drew Torkelson) If Westar is currently offering its Total Electric Subdiv provide the current terms and conditions offered under	ision Heat Pump Program to developers and builders, then er said program.
Response: Please see attached file labeled 2019 TE DEV Program	۱.

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Person's Name	
Company Name	
Company Addres	S
City, State, Zip	

LETTER OF INTENT: Total Electric Heat Pump Subdivision Development Name, Development City, KS

### **MAXIMUM NUMBER OF BUILDINGS:**

XX buildings. All buildings within the subdivision to be built Total Electric with a Full Heat Pump split system as the primary heating source. All buildings to be served directly by Westar Energy.

### **REBATE AMOUNTS:**

Westar Energy Agrees to provide a cash rebate for each building, once a full heat pump system and permanent residential meter have been set. The cash rebate amounts are as follows:

PER BUILDING PAYOUT			
Building Type*	14 SEER HP	16+ SEER HP	Notes
Single Family	\$1,200.00	\$1,500.00	1 or more heat pump system per building
Duplexes	\$1,600.00	\$2,000.00	2 or more heat pump systems per building
Triplexes	\$2,100.00	\$2,700.00	3 or more heat pump systems per building
Quads	\$2,400.00	\$3,000.00	4 or more heat pump systems per building
Greater than Ouad	\$500.00 per l	HP unit, 14+ SEER	Maximum \$20,000,00 rebate per building

\*Must be within a total electric subdivision containing multiple buildings of quads or less.

### **COMPLETION DATE:**

This agreement is in effect for five years from the date of signature.

### ACCEPTANCE:

Westar Energy agrees to the above and accepts the above conditions.

Drew Torkelson Westar Energy Manager, Trade and Ally Services Date

Company Name agrees to the above and accepts the above conditions.

Person's Name

Date

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-5



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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-6


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#### CONFIDENITAL

Response to KGS-10, Question 1 below. Oct. 2018 Total Electric Subdivision Heat Pump Program

### CONFIDENITAL

### To right of line added for KGS-21 response 02/12/19

								KGS-21	KGS-21	KGS-21
				No. Bldgs in				Potential for more	If so, how	Est. future
<u>Date</u>	Subdivision Name	<u>City</u>	street addresses	<u>Subdivision</u>	<u>Developer Name</u>	Total rebates	baid	rebates to be provided	many	payments
03/10/11	_	Cherryvale		3		\$ 3	,600	no		
04/11/11	_	Derby		104		\$ 108	,000	no		
04/13/11	_	Wichita		20		\$ 30	,000	no		
12/30/11	_	Wichita		1		\$ 1	,500	no		
03/18/11	<u>.</u>	Lawrence		18		\$ 27	,000	no		
07/15/11	<u>.</u>	Junction City		14		\$ 9	,600	no		
07/01/11	<u>.</u>	Lawrence		34		\$ 7	,200	no		
08/24/11	<u>.</u>	Park City		8		\$ 9	,600	no		
01/07/12	2	Derby		4		\$ 4	,800	no		
01/27/12	2	Wichita		5		\$ 6	,000	no		
02/13/12	2	Independence		24		\$ 34	,200	no		
05/29/12	2	Arkansas City		7		\$ 8	,800	no		
06/19/12	2	Lawrence		5		\$ 7	,500	no		
2012	2	Hutchinson		1		\$ 1	,200	no		
09/20/12	2	Lawrence		4		\$ 6	,000	no		
12/20/12	2	St George		56		\$ 66	,000	no		
05/22/12	2	Topeka		72		\$ 86	,400	no		
01/01/12	2	Whitewater		2		\$ 3	,000	no		
07/25/12	2	Pittsburg		17		\$ 20	,400	no		
2013	3	Pittsburg		7		\$ 8	,100	no		
2013	3	Pittsburg		6		\$ 7	,200	no		
09/02/13	3	Wichita		8		\$ 12	,000	no		
09/23/13	3	Wichita		6		\$ 6	,000	no		
2013	3	Wamego		6		\$ 4	,800	no		
11/25/13	3	Manhattan		12		\$ 14	,700	no		
11/06/13	3	Manhattan		28		\$ 37	,200	no		
10/02/13	3	Wichita		6		\$ 7	,200	no		
09/13/13	3	Wichita		5		\$ 6	,000	no		
04/01/14	ŀ	Salina		4		\$ 4	,500	no		
04/08/14	ŀ	Bel Aire		6		\$ 7	,200	no		
05/28/14	Ļ	Lawrence		9		\$ 13	,500	yes	5	\$7,500
04/17/14	ŀ	Topeka		84		\$ 100	,800	yes	94	\$112,800
06/09/14	ŀ	Park City		14		\$ 33	,600	no		
2014	ŀ	Manhattan		1		\$ 1	,200	no		
07/28/14	ŀ	Wichita		6		\$ 9	,000,	no		
01/08/15	5	Lawrence		4		\$ 6	,000	no		
01/08/15	5	Lawrence		8		\$ 15	,500	no		
01/12/15	5	Manhattan		7		\$ 8	,400	no		
02/11/15	5	Emporia		2		\$ 3	,000	yes	3	\$4 <i>,</i> 500
04/04/15	5	Wichita		9		\$ 13	,500	no		

Exhibit JLB-6 Confidential Information Redacted 2

09/08/15	Topeka	5	\$ 6,300	yes 5	\$6,000
09/03/15	Topeka	8	\$ 9,600	no	
08/20/15	Hutchinson	3	\$ 4,500	yes 13	\$19,500
10/12/15	Manhattan	2	\$ 2,400	no	
10/24/15	Manhattan	<del>17</del> -30	\$ 19,200	yes 14	\$16,800
07/13/15	Hutchinson	2	\$ 3,000	yes 22	\$36,000
04/04/16	Salina	34	\$ 40,800	no	
12/15/16	Wichita	26	\$ 39,000	yes 34	\$51,000
08/19/16	Pittsburg	3	\$ 4,800	no	
06/24/16	Wichita	3	\$ 14,000	no	
12/21/16	Newton	29	\$ 34,800	no	
12/21/16	Newton	35	\$ 42,000	yes 15	\$18,000
12/28/16	Andover	100	\$ 120,000	no	
09/02/16	Manhattan	<del>10</del> 18	\$ 12,000	yes 8	\$9,600
10/10/16	Salina	<del>10</del> 42	<del>11,200-</del> \$12,000	yes 32	\$38,400
07/07/16	St. George	<del>12-</del> 60	\$ 14,400	yes 48	\$57 <i>,</i> 600
11/14/16	Wichita	22	\$ 35,200	no	
01/04/17	Hutchinson	<del>2</del> 20	\$ 2,400	yes 18	
02/01/17	Wichita	20	<del>16,000</del> \$32,000	no	
03/07/17	Arkansas City	4 3	\$ 1,600	yes 2	\$3,200
03/22/17	Park City	<del>2</del> 20	\$ 3,200	yes 18	\$28,800
05/03/17	Newton	7	\$ 24,000	no	
05/22/17	Wichita	<del>15</del> 21	\$ 24,000	yes 6	\$9,600
04/27/17	Shawnee	<del>46</del> 56	\$ 109,600	yes 9	\$23,200
01/02/15	Manhattan	7	\$ 8,400	no	
07/31/17	Pittsburg	20	\$24,000	no	
06/05/17	Emporia	4	\$ 6,400	no	
06/15/17	Lenexa	<del>36</del> 51	\$ 21,600	yes 42	\$100,800
07/01/17	Emporia	4	\$ 6,400	no	
11/10/17	Valley Falls	7	\$ 11,200	no	
11/03/17	Wichita	<del>8</del> 17	\$ 14,400	yes 8	\$12,800
12/06/17	Andover	<del>5</del> 51	\$ 8,000	yes 46	\$73,600
09/06/17	Newton	22	\$ 45,300	no	
12/04/17	Newton	1	\$ 1,200	yes 9	\$10,800
02/28/18	Topeka	θ 7	\$-	yes 7	\$11,200
09/23/18	Lawrence	<del>1</del> 7	\$ 1,500	yes 6	\$9,000
02/26/18	Valley Center	7	\$ 21,000	no	
04/13/18	El Dorado	5	\$ 9,000	no	

corrected

corrected corrected corrected

corrected corrected error corrected corrected

corrected corrected

missed on KGS-10 response

corrected

corrected corrected

corrected corrected

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-7



Question 1 (Prepared by Drew Torkelson)

For each of the building types identified in Exhibit A of the Complaint, (single family, duplexes, quads, greater than quads) what is the cumulative number of Westar customer units that were constructed under this program? *Response:* 

As of 12/20/2018 there were 1,924 units.

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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-8



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Year	Total Annual costs & Expenses	Cash Rebates	Ad	min/overhead	Adv/Promo	Ot	her Costs
2013	\$ 154,141	\$ 91,800	\$	58,891	\$ -	\$	3,450
2014	\$ 204,649	\$ 143,100	\$	58,099	\$ -	\$	3,450
2015	\$ 268,264	\$ 210,000	\$	54,814	\$ -	\$	3,450
2016	\$ 317,952	\$ 269,000	\$	45,502	\$ -	\$	3,450
2017	\$ 293,120	\$ 251,800	\$	37,870	\$ -	\$	3,450
5-yr total	\$ 1,238,126						

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-9



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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-10



Docket: [ 19-WSEE-061-COM ] Kansas Gas Complaint Requestor: [ Jim Flaherty ] [ Jim Flaherty ] Data Request: KGS-03 :: Rebate paid Date: 0000-00-00

Question 1 (Prepared by Drew Torkelson)

Has Westar ever paid a rebate to a developer or builder who did not chose to build all buildings within a subdivision as total electric with full heat pump split system as the primary heating source? If so, please provide the name of the developer and a description of the circumstances.

#### Response:

Yes. Some examples include the following: Stone Creek development in Derby; Paul Kelsey developer. Part of the way through the building process he chose to install gas in 14 homes. The developer was paid for the homes that were built with a full heat pump split system. No rebate was paid on the homes that had gas installed. Interlachen Development in Manhattan; Developer Zach Burton. After the original agreement, the developer chose not to install heat pumps, so the agreement was cancelled. No payments were made on this development. Bellerive development in Manhattan developer Andy Carson installed standard air conditioning with electric heat on 3 homes. The developer was not paid for the homes without a full heat pump split system.

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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-11

#### **BEFORE THE STATE CORPORATION COMMISSION**

#### OF THE STATE OF KANSAS

#### **DIRECT TESTIMONY**

OF

JAMES LUDWIG

WESTAR ENERGY

DOCKET NO. 08-WSEE-1041-RTS

1		I. INTRODUCTION
2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	Α.	James Ludwig, 100 N. Broadway, Suite 800, P. O. Box 208,
4		Wichita, Kansas, 67201.
5	Q.	BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?
6	Α.	Westar Energy, Inc. I am Executive Vice President, Public Affairs
7		and Consumer Services.
8	Q.	PLEASE DESCRIBE YOUR ELECTRIC UTILITY EXPERIENCE
9		AND YOUR EDUCATION.
10	Α.	I started at Westar in June 1989 as an Information Specialist. Later
11		that year, I was appointed Director, Government Affairs and served
12		in that capacity until mid-1995. From then until I resigned from
13		Westar in October 2001, I was Director, Regulatory Affairs. I
14		returned to Westar at the beginning of 2003 as Vice President,

1		Public Affairs. In March 2006, I became Vice President, Regulatory
2		and Public Affairs and served in that role until I assumed my current
3		position beginning July 2007. I graduated summa cum laude from
4		the University of Kansas in 1980 with two Bachelor of Arts degrees,
5		one in classical languages and another in history.
6		II. SUMMARY OF TESTIMONY
7	Q.	WHAT IS THE PURPOSE OF YOUR TESTIMONY?
8	Α.	I will describe Westar's progress in energy efficiency, conservation
9		and demand side management (DSM). I will also describe the
10		current status of Westar's development of advanced metering
11		infrastructure (AMI) and meter data management (MDM).
12		Hereafter, I refer to energy efficiency, conservation and demand
13		side management generically as energy efficiency, unless the
14		context calls for more precision. Westar accepts the definitions of
15		various species of energy efficiency adopted by the Commission in
16		the generic dockets (Docket Nos. 08-GIMX-441-GIV and 08-GIMX-
17		442-GIV). I will also briefly describe several improvements we
18		have made in customer service since our last rate case, when we
19		filed testimony on our initiatives to improve customer service.
20		Caroline Williams also addresses improvements and ongoing
21		initiatives in customer service within her area of responsibility.
22	Q.	HAS WESTAR SPECIFICALLY REQUESTED RECOVERY OF

23 ENERGY EFFICIENCY OR AMI/MDM EXPENDITURES IN THIS
24 RATE CASE?

.

Yes. However, the present costs associated with energy efficiency 1 Α. and AMI/MDM that we seek to recover in this case are modest 2 compared with our incremental capital investments in new 3 generation resources. Westar expects expenditures for energy 4 efficiency and AMI/MDM to grow, especially once our programs are 5 fully underway and the Commission has established guidelines for 6 the programs it wishes to encourage and establishes methods of 7 cost recovery for these activities. 8

9 Q. WHY THEN ARE YOU PROVIDING TESTIMONY ON THESE 10 TOPICS IF THE ASSOCIATED COSTS ARE STILL MODEST?

Energy efficiency is integral to Westar's business plan, and 11 Α. therefore it is important for us to bring it up in the context of a 12 request to increase our electric rates. Working together with our 13 14 customers to help them become wise energy consumers is important to us. In the next few years, our investment in rate base 15 will double in order to meet our customers' growing needs for 16 electricity and increasingly stringent environmental regulations. 17 18 These additions to rate base will obviously cause our rates to increase. Energy efficiency is a powerful way for our customers to 19 extract the most value they can from their energy expenditures in 20 21 an environment where not just their electricity but all energy costs 22 are escalating.

Many energy efficiency technologies can be deployed faster 1 and at lower cost than supply-side options. Accordingly, we view 2 energy efficiency as a likely addition, some may say alternative, to 3 building additional generation to meet customers' demands for 4 energy. For example, a well-designed demand response program 5 could be treated as a resource in Westar's dispatch order; the 6 demand response program would be triggered when it became the 7 most economic increment in the generation dispatch order to meet 8 customer demand. Another benefit of energy efficiency is that it 9 reduces greenhouse gas (GHG) emissions, first through direct load 10 reduction and second by deferring the need for new generation. If 11 we are entering a carbon-constrained future, which we believe is 12 likely, energy efficiency's value will rise. The virtues of energy 13 efficiency elevate it to a preferred option for electric utilities. Westar 14 is no exception. In our educational and communications plans, we 15 are promoting energy efficiency as a priority. It cannot answer the 16 entire electric resource need, either nationally or for our customers, 17 but it is an important step. Energy efficiency holds great promise. 18

Although they have many additional business applications
and benefits, AMI and MDM are necessary antecedents for broad
deployment of real-time pricing strategies and several extensive
DSM programs. Although still conjectural in many respects,
eventually AMI/MDM may become the foundation for a "smart grid,"

which has computer-programmed "intelligence" to take automatic 1 action on a transmission and distribution system, and can even go 2 3 "behind the meter" to help customers use electricity more wisely. As I will discuss in more detail later, Westar would like to begin a 4 5 substantial pilot of AMI/MDM later this year because certain benefits are not conjectural and are worth pursuing now. Before 6 going forward, we will afford the Commission an opportunity to 7 approve the pilot and indicate how it will be treated in rates. The 8 Commission will also recall that in the stipulation and agreement it 9 10 approved in Westar's docket on the predetermination of rate 11 treatment of Emporia Energy Center, we agreed to a real-time pricing (RTP) pilot. To better measure and verify the effects of an 12 RTP pilot, it is our preference to conduct this pricing pilot at the 13 14 residential and small commercial customer level as part of the 15 broader AMI/MDM pilot. AMI/MDM will facilitate better accuracy of 16 measurement and verification. Indeed, it is arguable that AMI/MDM 17 is a necessary antecedent to robust RTP.

### 18 Q. YOU JUST MENTIONED EDUCATIONAL AND COMMUNICA 19 TIONS PLANS. WHAT ROLE DO THEY PLAY?

A. Consumer education and communication are critical. Hence, in the
 beginning, customer education is at the top of our agenda to
 promote energy efficiency. Westar has developed a media plan –
 involving both broadcast and print – to educate customers about

the importance of energy efficiency and to motivate them to adopt
 energy efficient behaviors. That media educational plan is being
 implemented at the time of filing this rate case.

I emphasize that our media plan is not comprised of 4 promotional advertising, but rather broad consumer education to 5 prepare the way for consumer acceptance to inculcate the promise 6 of energy efficiency, make it sustainable in Kansas, and gain 7 acceptance of our specific energy efficiency initiatives. It is 8 9 appropriate and necessary, however, to make those pieces Accordingly, I hope the 10 attractive and interesting to viewers. 11 Commission finds as we do that these pieces present energy 12 efficiency in a favorable light and one suggestive of a spirit of 13 cooperation between customers and their utility. Without consumer 14 education, the promise of energy efficiency will not be attained, nor will it become sustainable. Westar also already has a program 15 16 called School Connections to offer schools, among other things, age-appropriate energy efficiency curricula. We have expanded 17 18 our efforts in schools in 2008.

Westar's website has energy efficiency pages to help
residential and commercial customers make wise energy decisions.
These website pages include "calculators" for customers to use to
estimate savings from many potential energy efficiency
investments, information for children and an energy efficiency

library for adults. Westar is also collaborating with other utilities,
environmental groups and the Kansas Energy Office to develop
consistent, accurate customer education materials. Westar has
also produced an instructional DVD for residential customers to
advise them how to make their homes more energy efficient. A
similar video is in production for commercial customers. Exhibit JL1 is a DVD of this video.

### 8 Q. WHAT CHALLENGES DO YOU FORSEE WITH REGARD TO 9 EDUCATING CUSTOMERS ABOUT ENERGY EFFICIENCY?

Although customers endorse energy efficiency and express a Α. 10 desire for it, little evidence is found to show they have curbed their 11 ever-increasing consumption of energy. Certainly national data 12 concerning electricity consumption shows little if any reduction in 13 the growth of demand for energy. The Energy Information 14 Administration (EIA) forecasts electricity consumption to increase at 15 an average annual rate of 1.3% through 2030. It is reasonable to 16 assume the electricity usage by Westar customers will largely 17 18 parallel this growth trend. The challenge we face in achieving reductions in energy usage - or even reductions in the rate of 19 growth - is not so much one of technology, but rather one of public 20 acceptance, consumer behavior and actual technology adoption. 21 For this reason, and probably others, opinions vary widely on 22 energy efficiency's potential effect on demand and savings 23

associated with it. Much depends on accurately predicting the
 vagaries of human behavior and, harder yet, changing consumer
 behavior.

Energy efficiency is not achieved merely by the actions of 4 electric utilities. To succeed, policymakers will have to align 5 incentives for utilities and their customers - and begin to take a 6 visible role in convincing the public that energy efficiency is a public 7 8 priority. This means serious consideration must be given to regulatory mechanisms to make energy efficiency a sustainable 9 business model for utilities. That includes determining the potential 10 11 of demand response options like real-time pricing. The cost of electricity, at least in Westar's case, is low relative to consumer 12 Moreover, some longstanding cost allocation and rate 13 income. 14 setting practices have served to disguise price signals and have sometimes maintained rates at artificially low levels. As a result, 15 consumers have had few prompts to change their behaviors - or 16 perceptions. Innovative ratemaking approaches for implementing 17 energy efficiency programs such as real-time or time-of-use pricing, 18 targeted incentives, incorporating DSM in rate base and decoupling 19 all merit Commission evaluation. These approaches are not 20 21 exclusive of one another – nor is this list exhaustive.

22 Customers have expressed a desire, in various ways, but 23 particularly in our customer satisfaction surveys, for Westar to help

1 them get more value out of their energy dollars. This phenomenon 2 appears to be counter-intuitive. Our customers seem to appreciate that as we help them consume less electricity, our profits fall and 3 4 their rates could increase. Nonetheless, they desire or even expect 5 that we, as the energy expert, can help them become more energy 6 efficient. We take this as a positive sign that may bode well for customer acceptance of a new regulatory policy that allows utilities 7 to earn on energy efficiency programs. 8

9 Technology now enables energy efficient practices that are 10 convenient to customers, practices that do not connote a pejorative 11 meaning of "sacrifice" or "self-denial." Westar faces requirements 12 for unprecedented investment in new sources of power to meet 13 growing electricity demands and in our "wires" infrastructure to 14 continue to provide reliable service. Given these investment requirements, it is imperative to pursue energy efficiency so 15 16 customers can make choices that enable them to extract more 17 value from their energy purchases. At national, state and local 18 levels of government, the policy environment is ripe for energy 19 efficiency initiatives, even those that may cause higher costs but 20 are deemed worthwhile to protect the environment. The wisest 21 energy choices may also lead to higher reliance on electricity than 22 on other energy sources.

1	III. CUSTOMER SERVICE IMPROVEMENTS
2 <b>Q.</b>	WHAT HAS WESTAR DONE TO IMPROVE CUSTOMER
3	SERVICE AND SATISFACTION SINCE YOUR 2005 RATE
4	CASE?
5 A.	Although my list is not exhaustive, the following are examples of
6	service improvements that have been especially well received by
7	our customers. Over time, we expect to observe improvements in
8	customer satisfaction, based on these and other customer service
9	efforts.
10	1. In April 2007, we began accepting bill payment by credit
11	card. Customer payment by this method has steadily
12	increased since we began. By April of this year, we had
13	received approximately 144,000 credit card payments,
14	averaging \$113 per payment.
15	2. We have provided our customers more options on our
16	interactive voice response system (IVR) and our website to
17	transact business and request services. Year-to-date, our
18	IVR system has handled slightly more than 50% of customer
19	calls, up from 43% in 2007. More and more customers are
20	selecting "self-care" options via IVR and resolving their
21	needs without the intervention of a customer service
22	representative. Likewise, customers performing web or fax
23	transactions have increased more than 13% year-to-date
24	over 2007. We expect that percentage to increase during

- the rest of 2008. From 2006 to 2007, these transactions
   increased 35%.
- 3. Customer use of our website for new educational material on
  energy matters, particularly on energy efficiency, continues
  to grow. Overall website traffic has increased more than 9%
  year-to-date over 2007. Visits to our Apogee Educational
  Energy pages have increased more than 30% year-to-date
  over 2007.
- 9 4. In December 2007, we changed our call center hours to 10 schedule more customer service representatives to be 11 available during peak periods for customer calls. Customer 12 service representatives are still available on a 24-hour basis 13 for emergencies.
- 14 5. In June 2006, we refined our account analysis of payment 15 history to avoid making unnecessary trips to customers to 16 shut off service for non-payment. This analysis allows us to 17 focus on accounts that are habitually unpaid, as opposed to those that are occasionally late in payment. From inception, 18 19 we have avoided nearly 60,000 truck trips and almost 45,000 20 mailings at an estimated savings of approximately \$380,000. 21 We have not adversely affected our collections, and we 22 believe we have avoided harming customer satisfaction by

1 avoiding disconnection notices being sent to 50% of our residential customers who, by our analysis, are likely to pay. 2 We also believe it is important to admit when we make 3 mistakes in customer service and to learn and apply lessons. To 4 that end, we are developing a thorough methodology and database 5 to analyze the root cause of customer dissatisfaction in order to find 6 7 ways to improve service in the future. What we learn will then be used to train employees how to deliver more satisfying service. We 8 expect to be able to begin this new initiative this summer. 9 10 IV. DESCRIPTION OF WESTAR'S ENERGY EFFICIENCY, **CONSERVATION AND DSM INITIATIVES** 11 12 Q. WHEN WESTAR FILED APPLICATIONS FOR PREDETER-MINATION OF RATE TREATMENT FOR EMPORIA ENERGY 13 14 CENTER, DOCKET NO. 07-WSEE-616-PRE, AND FOR ITS 300 MW WIND POWER INITIATIVE, DOCKET NO. 08-WSEE-309-15 16 PRE, WESTAR FILED TESTIMONY DESCRIBING FIVE AREAS 17 WHERE ENERGY EFFICIENCY AND DSM WERE BEING PURSUED. ARE THOSE PLANS STILL IN PLACE? 18 19 Α. Yes, with minor adjustments in the second and third initiatives, which had originally been premised on mandatory direct load 20 control (DLC). We believe that consumers are more likely to 21 22 participate in those programs if DLC is voluntary instead of

24 benefits from high efficiency electric equipment.

23

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mandatory, and even if they decline DLC, they will still realize

### 1 Q. PLEASE REMIND THE COMMISSION WHAT THOSE AREAS 2 ARE.

3 A. The areas are:

7

- residential and commercial DLC for central air conditioning,
   electric water heaters, swimming pool pumps, and other
   interruptible devices;
  - 2. high efficiency heat pump initiatives with voluntary DLC;
- 8 3. high efficiency residential and commercial water heating
  9 heat pump initiatives with voluntary DLC;
- 10 4. energy efficiency assistance to low-income households, and;
- 11 5. targeted energy audits to identify energy efficiency
  12 opportunities for commercial and large residential
  13 customers.

14Q.ARE THESE FIVE AREAS A COMPLETE LIST OF WESTAR'S15ENERGY EFFICIENCY, DSM AND CONSERVATION EFFORTS?

A. No. I will also discuss additional efforts and progress in this
testimony. As I have also discussed, consumer education is an
essential antecedent to almost any progress in energy efficiency,
DSM and conservation.

## 20Q.PLEASE DESCRIBE SOME OF YOUR PROGRESS ON THE21FIVE GENERAL AREAS DESCRIBED ABOVE.

A. Because the components of DLC and DSM programs are most
 amenable to rapid progress, we have focused our initial efforts
 here.

4 In April 2007, Westar issued a request to solicit proposals from vendors of DLC and DSM. Three firms responded May 10, 5 2007. The responses included one proposal to provide demand 6 7 response services for commercial and industrial customers. Two 8 included responses to install direct load control thermostats in residential customers' homes. After reviewing the initial responses, 9 in March we selected the preferred vendor for load control 10 11 thermostats and are currently in contract negotiations. On that 12 same day, we informed our commercial/industrial vendor to refresh and refine its proposal and indicated that we would re-issue the 13 14 request for proposals to that firm and additional vendors.

15 The proposal to provide demand response services to 16 commercial and industrial customers initially appears to be cost 17 prohibitive. We have not, however, abandoned this effort. Rather, 18 we are seeking alternatives that will be more cost effective and 19 have issued another request for proposals (RFP) to solicit more 20 competitive responses. For example, we plan to expand our efforts 21 to recruit customers for whom it is appropriate to sign on to our 22 existing interruptible service rider (ISR), which I describe in more 23 detail later. Since the mid-1980s, the ISR has been a successful

1 DSM technique at Westar. This expanded effort at more demand 2 response will be in addition to our existing interruptible program 3 discussed below. The actual annual costs and amount of peak 4 shaving from this initiative are still being determined. Another 5 alternative may be to alter our existing ISR to make it available to a 6 larger number of customers.

7 Based on preliminary analysis, the proposals to provide DLC 8 thermostats pass the five standard tests: RIM; TRC; participant; 9 societal; and utility. The load control thermostats typically have a 10 communications device that can be used to adjust the thermostat 11 during periods of peak demand in order to shave peak. The 12 thermostats are also programmable, allowing customers to 13 conserve energy year round. Upon installation, the technician will 14 teach the customer how to program the unit and will program the 15 thermostat based on the customer's preferred temperatures. 16 Additionally, the customer can use a simple, secure website to 17 make temperature adjustments. These features overcome an 18 obstacle of many off-the-shelf thermostats that are often never 19 programmed by the customer. Westar is currently testing the 20 thermostats in several employees' homes. Once satisfied that the 21 program will work, gain consumer acceptance and not harm 22 customer satisfaction, Westar wants to begin program deployment 23 this year.

1 We are also studying whether deployment of DLC thermostats should be done in conjunction with deployment of AMI. 2 The ideal situation would be where communications could be sent 3 to and received from DLC thermostats, integrated into AMI 4 5 technology, and actual peak shaving results from the thermostats measured and verified in real time by AMI meters. Our decision on 6 when we deploy the DLC thermostats will hinge on the timing of 7 technology that makes them compatible with AMI. I discuss AMI in 8 more detail later. 9

10 In our testimony filed in the Emporia Energy Center and wind 11 power predetermination dockets, we promised the Commission an opportunity to approve our initiatives before we launched them. 12 13 Accordingly, Westar has filed a request seeking the Commission's approval and for an accounting authority order to defer the 14 15 programs' costs for recovery in accordance with the KCC's rulings 16 in its generic dockets on energy efficiency. Assuming a conducive order being issued in time, we will deploy the DSM and DLC 17 18 programs yet this year.

## 19Q.HOW MUCH PROGRESS DO YOU BELIEVE IS POSSIBLE IN202008?

A. For the DLC thermostat program, unless we wait for AMI, we
expect to retain a firm to install 5,000 thermostats during the first 12
months. The number of installations possible this year depends on

when we gain Commission approval. Willing residential customers
would receive the thermostat and installation for free and would
benefit through the savings they derive by using less electricity
during peak periods and by programming the unit to use less
energy when the home or business is unoccupied.

6 Progress on DSM for our commercial and industrial 7 customers depends on the issues I have already discussed in my 8 previous answer, including the results of our renewed RFP process. 9 In concept, the program would permit Westar to reduce non-10 residential customers' non-essential energy needs at peak demand 11 times of the year. The customer incentive has not been worked out 12 at this time.

## 13Q.HOW WILL YOU MEASURE AND VERIFY RESULTS FROM THE14DLC THERMOSTAT PROGRAM?

In order to monitor our peak shaving results, we will randomly Α. 15 install recording meters on several homes that have the DLC 16 thermostat. This will allow us to follow a customer's load profile to 17 verify load reduction after thermostats are activated during peak 18 periods. We preliminarily estimate that on average each thermostat 19 installation will yield slightly more than 1 kW of demand response. 20 If we wait to deploy the DLC thermostats concurrent with 21 deployment of AMI, the AMI meters will record the actual load 22 reduction. 23

## 1Q.WHAT IS INVOLVED IN IMPLEMENTING PROGRAMS FOR2HIGH EFFICIENCY HEATING AND COOLING EQUIPMENT?

3 Α. Because of the relatively long lives of heating, ventilation and air 4 conditioning (HVAC) capital stock, the sizable investments involved 5 in making long-term decisions about HVAC equipment, and the 6 purchasing relationships involving builders, architects, contractors 7 and homeowners, implementing these programs requires much 8 more customer education, building of alliances and a longer 9 planning horizon. For example, when a homebuilder chooses to 10 install a particular kind of HVAC system, that choice may last up to 11 two decades, until the equipment fails. At the time the equipment 12 fails, likely on a hot summer day, the homeowner's urgent concern 13 is replacing it quickly, not what would be the most efficient and cost 14 effective equipment for the next 20 years. Rarely does a residential 15 customer replace fully functioning HVAC equipment, even if it is old 16 and inefficient, especially because the rates paid by customers are 17 low compared to income. We need to find ways to reach these 18 consumers well in advance of the replacement decisions as well as 19 at the moment of decision.

Effective programs to promote high efficiency equipment need to take these and many other factors into consideration. Convincing customers to purchase high efficiency equipment requires extensive consumer education, and we must develop

alliances with HVAC dealers, builders and architects. Some 1 customers are unaware of financial resources and tax incentives 2 available for investment in high efficiency equipment available 3 through government programs. Effective programs may need to 4 include financing packages, extended warranties, performance 5 guarantees, government grants, tax credits and other incentives. 6 To make more rapid progress, it may also be necessary to 7 encourage legislation or ordinances that require more energy 8 efficient building codes and standards for equipment and 9 10 appliances.

### 11 Q. IN LIGHT OF THESE CHALLENGES, WHAT PROGRESS HAS 12 BEEN MADE?

First, we have added extensive educational information to Westar's 13 Α. 14 website and have distributed other educational materials. Second, our experience has shown that our employees and retirees can be 15 effective educators for our customers. Most of them live in the 16 communities we serve at retail, and our customers often consult 17 them on energy matters. We launched an employee and retiree 18 program to offer rebates for them to install high efficiency HVAC 19 equipment. Those who use the program become "ambassadors" to 20 21 our customers. Even those who are not ready to replace their HVAC systems have become more conversant about the benefits 22 of high efficiency equipment by virtue of educational seminars we 23

are conducting for employees. An explanatory brochure was also
 sent to employees and retirees. Third, we have hired employees
 who are already developing alliances with HVAC dealers, builders,
 architects, real estate agents and others who can influence
 consumer choices of equipment.

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### Q. WHAT PROGRESS HAVE YOU MADE ON THE ENERGY EFFICIENCY PROGRAM FOR LOW-INCOME ASSISTANCE?

We are developing "weatherization kits" to be given to low-income 8 Α. 9 customers. These kits will have basic products such as compact fluorescent lights (CFLs), weather-stripping, caulking, insulation 10 wrap for water heaters, and other materials that can be used to 11 12 improve the thermal and energy efficiency of poorly insulated housing. Westar intends to recruit employees, retirees, and civic 13 14 and faith-based organizations to help distribute and install these 15 kits in the homes of low-income customers who are elderly or Westar has also has been engaged in constructive 16 disabled. meetings with state agencies and advocates for low-income 17 residents to find effective ways to address energy efficiency for 18 19 These groups are working to identify low-income customers. 20 homes in Westar's service territory in most need of weatherization and develop strategies to encourage landlords to make their rental 21 properties more energy efficient. 22

## 1 Q. ARE YOU DEVELOPING PROGRAMS IN ADDITION TO THE 2 FIVE PROGRAMS ENUMERATED ABOVE?

3 A. Yes.

4 1. We continue to evaluate ways we might modify or change the way we operate our own systems to improve energy 5 efficiency. (Given the size and scope of our own system, 6 7 even modest improvements in efficiency have the potential to create greater opportunities for energy efficiency than we 8 can ever hope to achieve with some of our customer-9 focused initiatives.) For example, in February 2008, the 10 11 Kansas Department of Health and Environment approved Westar's application for a permit in which, among other 12 13 things, we had sought permission to improve Jeffrey Energy 14 Center's thermal efficiency and modestly increase its output. 15 Although this is a longer-term goal and the outcome is not certain, we can begin the engineering analysis to tell 16 whether it is feasible. We are also seeking ways to improve 17 18 the efficiency of our transmission and distribution systems. 19 An example is the use of infrared imaging to inspect 20 distribution equipment. These inspections not only can 21 detect likely failures before they occur (clearly a benefit to customer satisfaction), but we are also able to identify and 22 23 change out equipment that is causing excessive line losses.

Our transmission department plans to rewire many sections
 of our oldest transmission lines. Besides improving
 reliability, these new conductors will reduce line losses, thus
 improving efficiency.

2. In order to lead by example, Westar also recently adopted a 5 policy to adhere whenever possible to the LEED standards 6 7 when it builds a new office facility or makes major renovations to an existing office space. LEED stands for 8 Leadership in Energy and Environmental Design, also 9 10 referred to as "Green Building Rating," and designates the 11 state-of-the art in energy efficient, environmentally sound 12 For instance, we are renovating and construction. 13 expanding Westar's service center in Lawrence to standards 14 that will qualify for LEED certification.

15 As I discuss in more detail below, Westar has distributed 3. 16 thousands of CFLs, and has incorporated in its request for 17 an accounting authority order under the category of 18 consumer education an initiative to promote their use among 19 customers. Comparatively low-watt CFLs produce as much 20 light (lumens) as higher-watt incandescent bulbs. CFLs 21 produce 60 lumens per watt, while incandescent bulbs 22 produce only 15. For example, a 15-watt CFL produces 900 23 lumens, the same as a 60-watt incandescent bulb. By
1	simply replac	ing their	incande	scent	bulbs	with	CFLs,
2	customers car	make su	bstantial p	orogres	s in be	coming	, more
3	energy-efficier	t consur	ners. In	additi	on, the	lowe	r heat
4	output of CFLs	can redu	ce air con	ditionir	ng load.		

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4. In accordance with the Commission-approved agreement in the Emporia Energy Center docket, Westar has discussed with the KCC staff concepts for introducing a real-time pilot program. Mr. Rohlfs discusses this pilot in his testimony.

9 Price signals are among the most effective means of stimulating energy efficient and DSM behaviors. Although 10 11 price elasticity may be muted because of Westar's relatively low rates and because our customers' electricity bills have 12 steadily dropped as a percentage of their income, we are 13 nonetheless committed to testing real-time pricing. If real-14 time pricing demonstrates significant price elasticity among 15 our customers, then we can offer (or the Commission may 16 require) widespread real-time pricing tariffs. On the other 17 hand, if most customers participating in the pilot do so 18 19 because their circumstances make it nearly certain they will 20 benefit by doing nothing except opting into the program, then the pilot will fail. (Economists sometimes refer to such 21 22 consumers as "free-riders." These are customers who 23 already have an off-peak demand profile and would shift little

or no demand because of the pricing plan.) Even if we do not gain energy efficiency by price signals, we may still attract enough customers to at least be able to accomplish an appreciable demand response, and thereby defer the need to build additional peaking generation.

6 Westar, like many utilities in the United States, is a 7 "summer peaking" utility, meaning that demand is highest 8 during hot summer weather. Because we must size our 9 resources to meet peak demand, those same resources may 10 go unused during off-peak periods. By carefully designing 11 rates we can encourage customers to reduce their use 12 during times of peak demand, which keeps investment 13 down, but we also can encourage off-peak use, which allows 14 more efficient use of our facilities and keeps our unit costs 15 lower. Later, I discuss what Westar has done historically in 16 rate design to encourage our customers to use electricity 17 efficiently.

5. Westar is seeking to join with several local units of
government, neighborhood associations and not-for-profit
organizations to promote consumer education on energy
efficiency.

6. As I have mentioned and will discuss again later, Westar is
conducting a business case for AMI and MDM. Although it

has many other additional business applications and
 benefits, AMI/MDM is a necessary antecedent for broad
 deployment of time-of-use pricing strategies and several
 extensive DSM programs.

5 Q. IN THE WIND POWER PREDETERINATION FILING, YOU TESTIFIED ABOUT THE ACTIVITIES OF WESTAR'S ENERGY 6 7 EFFICIENCY AND CONSERVATION TASK FORCE AND HOW THE CREATION OF AN ENERGY EFFICIENCY DEPARTMENT 8 9 HAD SUPERCEDED IT. PLEASE UPDATE THE COMMISSION 10 **EFFICIENCY** ON THE STATUS OF THE ENERGY 11 DEPARTMENT.

12 Α. When I assumed my current position in July 2007, one of my first 13 actions was to establish an energy efficiency department at Westar, 14 formalizing and enhancing many of the functions previously 15 undertaken by the Energy Efficiency and Conservation Task Force. 16 Hence, the energy efficiency department was not created from thin 17 air or a radical departure from our usual business. Rather, it was a 18 natural development borne of our customers' expectations, 19 technological advances, long-term investment planning, and public 20 policy and environmental concerns.

I hired Randy Degenhardt to be the director of the
department. He has more than 30 years of experience at Westar,
with extensive experience in customer service, energy efficiency,

Employee Education School Energy Efficiency Education Program

- 1 conservation and DSM. He has been instrumental in administrating
- 2 Westar's long-standing demand management and response efforts
- 3 and in advising customers about tariffs that encourage the wise use
- 4 of electricity. I briefly discuss those efforts and rates below.
- 5 Mr. Degenhardt has hired the department staff. Below are 6 both functional and organizational charts.



**Operating Cost Program** 

#### ENERGY EFFICIENCY DEPARTMENT FUNCTIONAL CHART

#### ENERGY EFFICIENCY DEPARTMENT ORGANIZATIONAL CHART



# 1Q.PLEASE UPDATE AND SUMMARIZE THE ACCOMPLISHMENTS2IN THE AREA OF ENERGY EFFICIENCY, DSM AND3CONSERVATION AND THE 2008 GOALS OF WESTAR'S4ENERGY EFFICIENCY DEPARTMENT.

5 A. The table below enumerates the accomplishments of both the 6 Energy Efficiency and Conservation Task Force and Energy 7 Efficiency Department to date, plus lists goals to be accomplished 8 yet this year.

9 The timeline below indicates both the sequence of customer 10 education efforts and deployment of energy efficiency, DSM and 11 conservation initiatives we want to accomplish this year.

Status	Expected Timing	Programs and Initiatives
	June 2006-June 2007 COMPLETED	Internal energy efficiency and conservation task force
	July 2006 COMPLETED	Consultant used to research DSM programs and potential impacts of this overall initiative
	Nov. 2006 COMPLETED	Appliance saturation survey
	Sept./Oct. 2006 COMPLETED	Review and select website service that provides energy efficiency and DSM tools
	Oct./Nov. 2006 COMPLETED	Review and revise Westar Energy's construction and remodeling program for Westar facilities
Ø	June/Dec. 2006 COMPLETED	Implement dealer heat pump pilot program in Wichita and Topeka
Ø	May 2007 COMPLETED	Employee/Retiree heat pump rebate program implemented
Ø	July 2007 COMPLETED	Approval to proceed with energy efficiency focus and programs and create energy efficiency department
	May 2007 COMPLETED	Energy Efficiency presentations for school classrooms
	October 2007 COMPLETED	Design functional energy efficiency organization and hire management team
	Nov. 2007/Ongoing COMPLETED	Mini employee smart thermostat pilot program

V	February 2008	Finalize Energy Efficiency department staff
	COMPLETED	
M	Sept. 2007/Ongoing	Energy Efficiency customer education and speakers bureau – home shows
	COMPLETED	
	Nov. 2007/Ongoing	Commercial Demonstration project (one project to date)
	April 2008	Employee/Retiree Heat pump referral program
	April 2008	Builder new home heat pump program
	April 2008	Heating/cooling contractor heat pump program
	April 2008	Employee/Retiree CFL Program
	Oct. 2008	Customer CFL program
	Oct. 2008	Low Income/Senior energy audit program
	Aug./Sept. 2008	Residential smart programmable thermostat load control company-wide employee pilot program (pending KCC approval)
	Oct. 2008	Residential smart thermostat load control customer program (pending KCC approval)
	July/Aug. 2008	Commercial / Industrial Direct Load control (pending KCC approval)

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#### DISCUSSION OF WESTAR'S LONGER-STANDING EFFORTS IN THE AREA OF ENERGY EFFICIENCY AND CONSERVATION

#### Q. WHAT HAS WESTAR HISTORICALLY DONE TO ENCOURAGE

- ITS CUSTOMERS TO USE ENERGY EFFICIENTLY?
- 5 A. We have proposed and implemented tariffs designed to encourage
  - the efficient use of energy. This is accomplished primarily through

1 the use of summer/winter pricing differences. For example, the 2 winter residential rate encourages wise use of energy, particularly 3 for customers who are willing to supplement natural gas space 4 heating with high-efficiency add-on electric heat pumps. The 5 summer residential rate is higher than the winter rate thereby 6 encouraging energy conservation during those months when 7 demand for electricity is highest. The non-residential rate 8 schedules have seasonally differentiated prices and also use 9 demand ratchets to encourage off-peak usage and provide an 10 incentive to avoid establishing high peak demands in the summer 11 period. Pricing of the overall cost of energy designed to encourage 12 the wise use of energy can be found throughout Westar's tariffs.

13Q.DOESWESTARHAVEANINTERRUPTIBLESERVICE14PROGRAMTHATALLOWSCUSTOMERSTOACCEPT15INTERRUPTIONSINTHEIRSERVICEINEXCHANGEFOR16LOWER PRICES?

17 A. Yes.

#### 18 Q. HOW DOES THIS REDUCE PEAK DEMAND?

A. Westar has an active interruptible program with 73 customers
 participating. The program is administered through clauses in
 special contracts and three rate schedules approved by the
 Commission for large industrial customers. We typically realize a
 system peak demand reduction of approximately 200 MW as a

1 result. We called on our interruptible customers four days in 2 summer 2007 during peak conditions. Peak reduction during the hours of interruption on those days ranged from 201 MW to 206 3 In connection with this long-standing demand response MW. 4 historically, we have had the option to call on 5 program, 6 cogeneration units of two industrial retail customers during peak 7 periods.

REQUIRE THE COMMISSION MUNICIPAL AND 8 Q. CAN 9 COOPERATIVE UTILITIES TO IMPLEMENT THE SAME TYPES ENERGY EFFICIENCY AND DEMAND REDUCTION OF 10 PROGRAMS THAT WESTAR HAS IMPLEMENTED AND PLANS 11 **TO IMPLEMENT?** 12

As the Commission noted in the energy efficiency docket, its 13 Α. 14 jurisdiction over retail rates of municipal and small cooperative utilities is limited. As a result, it is not likely that the Commission 15 could require municipal and small cooperatives to implement such 16 programs. However, Westar engages in wholesale business with 17 many Kansas municipal utilities and rural electric cooperatives, and 18 19 plans, whenever practical, to invite those same wholesale 20 customers to participate in our energy efficiency programs. For 21 example, though it will not be practical to include them in a retail 22 real-time pricing program, they could participate in a Westar DLC thermostat program or in several Westar demand response 23

initiatives, provided they reimburse Westar for their allocable costs
 and agree to the terms the Commission sets forth for the programs.
 If their costs and contribution to Westar's margins match those
 borne by our retail customers, we will avoid any cross subsidization.

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#### VI. DISCUSSION OF AMI/MDM

# Q. YOU HAVE MENTIONED AMI/MDM SEVERAL TIMES. WHY DO 8 YOU BELIEVE IT IS AN IMPORTANT TOPIC NOW?

9 A. Westar is conducting an extensive business case study on 10 AMI/MDM. Although much is left to be done to complete our study, 11 these emerging technologies hold promise for better service and 12 more effective energy efficiency, DSM and conservation for our 13 customers.

Advanced meter reading (AMR) has come a long way since 14 15 Westar ventured into the technology fifteen years ago. Our initial AMR installations allowed a motor vehicle driving slowly through a 16 17 neighborhood to receive a signal from a meter giving a reading. It 18 was passive. The new generation of technology - AMI - is twoway communication technology that engages the consumer for the 19 first time, offering many more options for customizing billing, 20 controlling usage by triggering DLC systems, and eventually 21 providing real-time information on pricing. A companion technology 22 23 - meter data management system (MDM) - stores time-stamped

consumption data and additional data gathered by automated
 meters.

# Q. WILL CUSTOMERS BE THE ONLY BENEFICIARIES OF AMI/MDM?

A. Not at all. To name just a few, AMI/MDM offers these inherent
benefits to each stakeholder:

Regulators	•	Ability to precisely monitor and evaluate effects of energy efficiency initiatives (real-time pricing or demand response programs)
Customers	• • • •	Choice of date to be billed Option for twice-a-month billing Pre-payment for electricity (and alerts for approaching limit) Remote adjustment of thermostats over the Internet Review usage patterns
Utility managers	•	Remote meter reading (with no meter readers in the field) Remote service connection and disconnection Faster restoration of service from outages and better intelligence about operating conditions

Although they have many additional business applications
and benefits, AMI and MDM are necessary antecedents for broad
deployment of real-time pricing strategies and several extensive
DSM programs. Eventually AMI/MDM becomes the foundation for
a "smart grid," which has computer-programmed "intelligence" to

1take automatic action on a transmission and distribution system,2and can even go "behind the meter" to help customers use3electricity more wisely. Although the concept of a "smart grid" is4admittedly conjectural, we believe that the benefits listed in the5table above can be realized with currently available technology, and6therefore a fairly substantial, robust demonstration pilot of7AMI/MDM is appropriate.

#### 8 Q. PLEASE SUMMARIZE THE STATUS OF WESTAR'S AMI/MDM 9 BUSINESS CASE ANALYSIS.

A. The table below summarizes our progress to date and indicates the
next steps, including a pilot program, and, assuming our analysis
shows it is worthwhile, our preferred timing for full deployment.
This timeline is forward-looking and subject to change, contingent
on continuing evaluation.

Advanced Metering Infrastructure (AMI) and Meter Data Management System (MDMS)				
Status	Expected Timing	Key Initiatives		
	April / September 2007	Phase I		
	COMPLETED	High Level Business Case		
	COMPLETED	Approval for Phase II		
	Sept. 2007 / July 2008	Phase II		
ত	COMPLETED	Technical Requirements		
M	COMPLETED	Requests for Proposals		
	In progress	Evaluate RFPs		
	In progress	Recommendation to Officers		
	In progress	KCC Updates and Approval		
	2008 / 2009	Phase III		
		Pilot Implementation		
	2009/2012	Phase IV		
		Full Deployment (If deemed beneficial)		

#### VII. CONCLUSION

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#### Q. DO YOU HAVE ANY CONCLUDING COMMENTS?

A. Yes. On October 10, 2007, the Commission issued an order in its
generic docket on energy efficiency in which it recognized that
Kansas' two largest electric utilities already have energy efficiency
programs under way or planned. We are pleased the Commission

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wishes to promote energy efficiency through a collaborative process among utilities, consumers and government agencies.

Clearly, the Commission has ample authority over investor-3 owned utilities to approve energy efficiency programs and adopt 4 innovative ratemaking mechanisms, including increases in rates of 5 6 return or other incentives, to advance the interests of both customers and utilities. Given the Commission's express findings 7 and clear statements of intention, it appears to us that no statutory 8 9 hindrances exist. Westar has participated actively and constructively in the two parallel investigations the Commission has 10 11 initiated to evaluate costs and benefits of energy efficiency 12 programs and to examine how the Commission will address ratemaking treatment of energy efficiency programs. 13 Now as 14 electric rates and other energy costs are increasing, we believe the 15 time is right to vigorously pursue energy efficiency in a collaborative process with the Commission and our customers under a regulatory 16 framework that allows energy efficiency to become a sustainable 17 business activity for Kansas utilities. 18

19 **Q. THANK YOU.** 

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-12

Exhibit JLB-12 1 2010.11.10 16:01:36 Kansas Corporation Commission /S/ Susan K. Duffy

#### **BEFORE THE STATE CORPORATION COMMISSION**

#### OF THE STATE OF KANSAS

**DIRECT TESTIMONY** 

STATE CORPORATION COMMISSION

OF

NGV 1 0 2010

JAMES LUDWIG

**WESTAR ENERGY** 

Juan They

DOCKET NO. 11-WSEE-377-PRE

1		I. INTRODUCTION
2	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
3	Α.	James Ludwig, 100 N. Broadway St., Suite 800, Wichita, Kansas.
4	Q.	BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?
5	Α.	Westar Energy, Inc. I am Executive Vice President, Public Affairs and
6		Consumer Services.
7	Q.	PLEASE DESCRIBE YOUR ELECTRIC UTILITY EXPERIENCE AND
8		YOUR EDUCATION.
9	Α.	I started at Westar in June 1989 as an Information Specialist. Later that
10		year, I was appointed Director, Government Affairs and served in that
11		capacity until mid-1995. From then until I resigned from Westar in
12		October 2001, I was Senior Director, Regulatory Affairs. I returned to
13		Westar at the beginning of 2003 as Vice President, Public Affairs. In

March 2006, I became Vice President, Regulatory and Public Affairs
 and served in that role until I assumed my current position in July 2007.
 I graduated summa cum laude from the University of Kansas in 1980
 with two Bachelor of Arts degrees, one in classical languages and
 another in history.

6

#### II. SUMMARY OF TESTIMONY

#### 7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

8 Α. We understand that the process of developing energy supply plans 9 needs to take into consideration the effects on demand of our efforts to 10 encourage energy efficiency and conservation. And it appears that the 11 legislature in enacting K.S.A. 66-1239 – the "predetermination" statute – 12 came to the same conclusion. Thus, K.S.A. 66-1239 requires that, as a 13 condition to receiving predetermination of the rate treatment for a 14 proposed generation addition or power purchase agreement, we submit 15 a description of our conservation measures and demand side 16 management (DSM) efforts.

17 The purpose of my testimony is to describe Westar's recent 18 developments in energy efficiency, conservation and demand 19 management and briefly summarize past efforts that are still in place. I 20 discuss the policy benefits of our proposed wind projects and how 21 Westar's strategy incorporates the requirements of recent Kansas law 22 to increase the amount of renewable-sourced generation on our system 23 into our business plan. Finally, I discuss federal legislation on 24 renewable energy and other environmental concerns.

#### III. DESCRIPTION OF WESTAR'S ENERGY EFFICIENCY, CONSERVATION AND DSM INITIATIVES

- Q. PLEASE GIVE A BRIEF DESCRIPTION OF WESTAR ENERGY'S
   ENERGY EFFICIENCY DEPARTMENT.
- 5 Α. Westar formed its Energy Efficiency Department in 2007. I hired Randy 6 Degenhardt to be the director of the department. Mr. Degenhardt has 7 more than 30 years of experience with Westar, with extensive 8 experience in customer service, energy efficiency, conservation and 9 DSM. He has been instrumental in administrating Westar's long-10 standing demand management and response efforts and in advising 11 customers about tariffs that encourage the wise use of electricity. 12 discuss those efforts and rates below.
- 13 The Energy Efficiency Department has a staff of 13 employees. 14 Our three areas of emphasis within the department are consumer 15 services, demand side management and trade and ally partnerships.

Q. DO YOU HAVE ANY ENERGY EFFICENCY OR DSM PROGRAMS
 APPROVED BY THE KANSAS CORPORATION COMMISSION FOR
 COST RECOVERY?

- 19 A. Yes.
- 20 Q. WHAT ARE THE PROGRAMS?
- A. The programs are:
- WattSaver (Docket No. 09-WSEE-636-TAR) a programmable
   thermostat/direct load control program;

- Building Operator Certification (Docket No. 09-WSEE-738-MIS) –
   an educational series for facility managers;
- 3 3. Energy Efficiency Education (Docket No. 09-WSEE-986-ACT);
  4 and
- 4. Energy Efficiency Demand Response (EE DR) Program (Docket
  No. 10-WSEE-141-TAR) a program for large energy users able
  to reduce their electrical load very quickly, that entices them to
  do so when conditions on our system warrant it (i.e., "load
  shedding").
- 10 Q. PLEASE DESCRIBE WATTSAVER.
- 11 Α. Through WattSaver, residential and small commercial customers have 12 the opportunity to participate voluntarily in a programmable thermostat 13 The program helps customers save money, increases program. 14 customer satisfaction, and helps Westar effectively manage summer 15 peak loads. As participation increases, WattSaver has the potential to 16 help delay building additional distribution infrastructure and generating 17 plants.
- Program participants receive installation of a programmable thermostat, a 12-point inspection of their heating/cooling system, access to an online energy management system, plus maintenance of the thermostat while enrolled in the program at no charge. The thermostat contains a communication chip that enables customers to access a free online program with which they can remotely change their

thermostat settings from any computer with Internet access. With this
 type of manageability at their fingertips, customers can fine-tune their
 energy usage to reduce year-round heating and cooling expenses.

4 In exchange for Westar providing this service, customers allow 5 us – on occasion – to cycle their air conditioning compressors remotely. 6 This will happen no more than 90 hours per cooling season, typically on 7 the hottest days during the summer when peak load is at its highest, 8 during periods of operational instability (e.g., overloaded circuit), or 9 based on economic reasons (e.g., if, based on fuel and purchased 10 power costs in our Retail Energy Cost Adjustment, it would cost our 11 customers less to implement the program than to buy power off-system, 12 we opt for the least-cost option to our customers). Customers have the 13 option to "opt out" of the program one day per month to accommodate 14 vacations, summer gatherings, or any other reason.

15 In the event a customer no longer wants to participate in the 16 program, we will, at no charge to the customer, remove the 17 programmable thermostat and reinstall the customer's previous unit 18 (which will be left with the customer).

WattSaver became available to customers in September 2009.
More than 12,000 customers have signed up for the program. This year
was our first cycling season with the thermostats installed. We cycled
thermostats five times for a total of 12 hours to decrease load on our
system.

# 1Q.PLEASE DESCRIBE THE BUILDING OPERATOR CERTIFICATION2PROGRAM, ITS PROGRESS AND ITS CURRENT STATUS.

3 Α. Westar offers to any building operator employed by one of our commercial or industrial customers the opportunity to participate in the 4 5 Building Operator Certification Program (BOC). BOC is a licensed 6 program offered through the Midwest Energy Efficiency Alliance 7 (MEEA). MEEA serves as the regional coordinator and facilitator of all 8 components of BOC programs throughout the Midwest. The program is 9 designed to achieve measurable, sustainable energy savings by 10 properly training building operators and to reduce system peak load 11 (through coincidental peak reductions) to help defer the need for 12 additional capacity.

13 BOC is a nationally recognized competency-based training and 14 certification program for building operators designed to improve the 15 energy efficiency of commercial and industrial buildings. Operators 16 earn certification by successfully completing a series of training 17 sessions, in-class exams, and project assignments (completed within 18 their respective facilities). BOC certification provides a credential for 19 the building operators' professional development and provides 20 employers a way to identify skilled operators.

21 The BOC offers two levels of certification. Level I emphasizes 22 energy-efficient building maintenance practices. Level II stresses 23 advanced equipment troubleshooting and preventative maintenance

1 and offers elective courses to accommodate the varying needs of 2 participants. Qualified instructors lead interactive classroom and group 3 discussions. With practical projects, participants are able to apply the 4 tools and methods taught in class to their own facility, constructing 5 functional records for electrical systems, heating, ventilation and air 6 conditioning (HVAC) operations, lighting levels and controls, and annual 7 profiles of energy consumption. Upon completion of their training, 8 participants have in-depth reference manuals, as well as access to 9 BOC's wide network of participants, experts, and resources to leverage 10 for troubleshooting, best practices, and advice.

Participants pay program tuition fees directly to MEEA and, upon
 successful certification, Westar reimburses a portion of the tuition to the
 paying party.

14 Our first BOC course began in November 2009. We have 15 completed two Level I courses and have three more under way with 16 another beginning in October. In 2011, we will begin two more Level I 17 courses and two Level II courses.

# 18 Q. PLEASE DESCRIBE THE ENERGY EFFICIENCY EDUCATION 19 PROGRAMS.

A. We designed our energy efficiency education programs to raise
 awareness about electricity consumption, and to educate our customers
 regarding how they can adopt tools and take actions to use electricity
 more efficiently. Education programs also support and help to establish

a foundation for other energy efficiency and demand side management
 programs.

Westar takes a multi-faceted approach to educating customers
about energy efficiency. Program offerings include:

Energy Efficiency for Education – We designed this program for 5 6 school-age youths to raise awareness of the efficient use of 7 energy among our youngest consumers and provide age 8 appropriate tips for how they can save energy. Our trained 9 representatives provide presentations and age-appropriate 10 lesson plans for teachers. For example, we provide students 11 from kindergarten to fourth grade a diary with stickers to place on 12 each weekday as they take actions that save energy. Students 13 in grades five to 12 perform an assessment on their homes, 14 looking at items such as window orientation and number of 15 panes, age of heating and cooling equipment, sealing of duct 16 work and thermostat settings. The projects meet state education 17 standards as well. Under this program, teachers and schools 18 may also earn grants for energy efficiency lesson plans and 19 projects they submit. From the inception of the program in 20 August 2009 through June 2010, the program has reached about 21 4,500 students. Program participation continues at a steady rate 22 as the 2010-2011 school year gets under way.

1 Speaker's Bureau – We designed this program to reach 2 community groups and customers regarding the efficient use of 3 It is similar to the Energy Efficiency for Education energy. 4 program in that our employees make presentations and provide 5 information to the group requesting a speaker through Westar. 6 The presentations include discussion points on how energy is 7 produced, plus a variety of easy to implement low-cost and no-8 cost ways to save energy. Specialized versions of the 9 presentation have been turned into classes for first-time 10 homebuyers and homeowners looking to take on home 11 improvement projects to improve energy efficiency. From August 12 2009 through June 2010, we reached about 4,500 people 13 through our presentations. The program is popular among 14 customers. We are continuing to identify special audiences to 15 which we can tailor the material and educate them on energy 16 efficiency.

Real Estate Professional Certification – This program provides
 training for real estate professionals (typically agents and
 appraisers) to understand, identify, assess and sell the energy
 efficiency features of a home. The program has been designed
 to fulfill four hours of required continuing education for licensed
 real estate agents. We have given this class 15 times reaching
 more than 150 professionals.

- Home Shows This program provides attendees at local home
   shows with information on the efficient use of energy and
   promotes environmental awareness. Westar employees discuss
   energy efficiency concerns of attendees and distribute energy
   efficiency literature. We have already reached about 20,000
   people through participation in these events.
- 7 Save A Watt, Save A Lot – This program raises awareness 8 among office workers about the efficient use of energy and how 9 small things can add up to large savings. We started this 10 program in our own facilities through the distribution of a number 11 of printed flyers to encourage our employees to take steps to 12 save energy at work. We found the principles are equally 13 applicable to our customers. The flyers are designed to remind 14 employees that simple energy efficient actions around the office 15 such as turning off their computers when they go home at night 16 result in energy savings. We continue to offer lunch-time 17 seminars to employees and reinforce the messages from this 18 campaign and to educate them about saving energy at home. 19 We are currently taking a scaled-down version of our trade show 20 booth to all locations in the company to maintain awareness of 21 energy efficiency.
- Multi-media education We also use mass media and other
   media, such as the Internet and direct mail to reach larger

1 audiences with energy efficiency educational messages. Our 2 web calculators allow consumers to estimate the energy saving 3 (or cost) of various improvements or purchases. Our calculators 4 have had more than 100,000 visits. Direct mail was an important 5 part of our year-long project in Colwich, Kansas, where we 6 engaged an entire town in energy efficiency education through 7 public events, a weatherization project and comparative use 8 letters. We worked with the Climate and Energy Project to 9 promote an energy-saving competition among Kansas towns in 10 2009-2010. We continue to look for opportunities that fall outside 11 the other structured education programs.

12 All of Westar's programs use brochures and a variety of printed 13 material and appropriate promotional items to convey messages and 14 support education programs.

### 15 Q. PLEASE DESCRIBE THE ENERGY EFFICIENCY DEMAND 16 RESPONSE PROGRAM RIDER.

A. Westar's Energy Efficiency Demand (EE DR) Response Program Rider
supplements, enhances and expands Westar's long-established
demand response programs for commercial customers. Westar has
offered those programs through three approved rates schedules or
riders. They are: a.) the Generation Substitution Rate Schedule; b.)
the Interruptible Contract Service Rate Schedule; and c.) the
Interruptible Service Rider.

1 The EE DR Program Rider enhances Westar's existing demand 2 response programs and provides additional benefits to the system 3 through use of a reduced notification period – as short as 10 minutes – 4 to participants on this program to shed load. It is designed for Westar's 5 largest users of energy that can shed load guickly. This enhancement 6 over Westar's existing demand response programs will assist Westar in 7 responding to emergency system conditions affecting its ability to 8 provide efficient and sufficient service to customers.

9 One customer is enrolled in this new program, and we are 10 discussing participation with other qualified industrial and commercial 11 customers. The currently enrolled customer has contracted to provide 12 95 MW of peak reduction. Westar initiated curtailment four times under 13 our demand response programs in 2010. Three curtailments were due 14 to peak conditions, and one was a local transmission loading issue. 15 During the transmission event, the customer in this program was the 16 only one curtailed.

17Q.DOESWESTARHAVEANYOTHERENERGYEFFICIENCY18PROGRAMS PENDING BEFORE THE COMMISION?

- 19 A. Yes. One additional program is pending before the Commission.
- 20 Q. PLEASE DESCRIBE THAT PROGRAM.
- A. Westar filed its SimpleSavings program for consideration on June 4,
  2010 in Docket No. 10-WSEE-775-TAR.

2		partnership with the Efficiency Kansas revolving loan program.
3		Efficiency Kansas, developed by the State Energy Office, is designed
4		to:
5		1. Produce cost-effective, firm energy savings,
6		2. Address efficiency improvements in a comprehensive manner
7		using sound building science principles,
8		3. Implement the most cost-effective programs in a logical
9		sequence to maximize the energy savings per dollar spent, and
10		4. Target customers residing in structures most in need of efficiency
11		improvements.
12		Westar will use commercially reasonable efforts to identify
13		homes needing energy efficiency improvements in compliance with the
14		proposed SimpleSavings Program Rider as filed with the Commission
15		and in compliance with the Program Manual of the Efficiency Kansas
16		revolving loan program.
17		The Commission proceeding for this program is under way with
18		an order required by no later than January 31, 2011.
19	Q.	DOES WESTAR HAVE ENERGY EFFICIENCY INITIATIVES IN
20		ADDITION TO THOSE APPROVED OR PENDING BEFORE THE
21		COMMISSION?
22	Α.	Yes.
23	Q.	WHAT ARE THEY?

Westar's SimpleSavings Program is a meter-based program in

1

1 Α. SmartStar is a smart grid demonstration project in Lawrence, Kansas, 2 that will include energy efficiency among the customer benefits. We 3 also have programs that focus on educating trade allies such as heating 4 and cooling contractors and home builders on the benefits of high-5 efficiency HVAC equipment and of more energy efficient building 6 practices.

#### 7 Q.

#### PLEASE DESCRIBE SMARTSTAR.

Α. 8 In August 2009, Westar filed an application for an American 9 Reinvestment and Recovery Act funding grant for the SmartStar 10 Lawrence project. The project cost is projected to be slightly less than 11 \$40 million and will be eligible for about 50% in grant funding. On 12 March 30, 2010, Westar and the U.S. Department of Energy reached 13 agreement concerning funding of the SmartStar Lawrence project.

14 The objective of SmartStar Lawrence is to confirm the benefits of 15 a smart grid for customers and Westar prior to a larger deployment. 16 Westar will validate business case assumptions, determine customer 17 preferences and acceptance, identify the best communication 18 strategies, and establish new business processes. The intent is to 19 provide data from real world application of the technology and to help 20 determine best business processes before we make larger investments.

21 Operationally, Westar believes the project will allow us to gain 22 invaluable experience in operating a smart grid environment and 23 integrating other initiatives such as renewable energy, energy efficiency

technologies and demand management. This macro approach to the
 electric system will ultimately be what makes the system "intelligent"
 and able to meet the general vision of the smart grid.

The project will result in the installation and integration of the IT infrastructure required for system-wide smart grid implementation. Once in place, this infrastructure will position Westar for a much simpler, less expensive and more rapid expansion of the smart grid at the appropriate time.

9 Q. HOW MANY CUSTOMERS WILL BE INVOLVED IN THE 10 SMARTSTAR PROJECT?

11 Α. All of our customers in Lawrence consisting of 48,000 meter locations 12 and a population of more than 90,000 people will be involved in the 13 project. With a very customer centric approach, Westar intends to use 14 the project to test many new customer service options. As the 15 technology supports multiple communication mediums, customer 16 feedback will be used extensively to refine and improve service 17 offerings. Westar views the SmartStar Lawrence project as a significant 18 step toward ensuring our ability to meet customer expectations in the 19 future.

# 20Q.PLEASEDESCRIBETHEMETERTECHNOLOGYFOR21SMARTSTAR.

A. All of our customers in Lawrence will receive the next generation of
 metering known as Advanced Metering Infrastructure (AMI), a

1 foundational block to building the intelligent smart grid network. AMI is 2 the primary customer facing portion of the smart grid and completes the 3 energy pathway of generation to transmission to distribution to 4 The smart grid is an advanced two-way communication customer. 5 environment with the ability to deliver many benefits to both the 6 customer and company. While advanced technology is obviously 7 required, the smart grid is really about information that can help Westar 8 and our customers manage energy delivery and consumption better.

9 Q. WHAT ARE SOME OF THE KEY CUSTOMER BENEFITS OF THE 10 SMART GRID RELATED TO ENERGY EFFICIENCY?

A. For the customer, the smart grid offers unsurpassed access to detailed
energy usage, cost, comparative data and other energy efficiency tools.
The smart grid will let customers make more informed choices on how
they use electricity. It will provide a basis for multiple new products and
services that may help customers reduce energy costs.

In connection with SmartStar, Westar is creating a customer
services roadmap that customers will find motivating and empowering.
Through a secure web portal, customers will be able to see current
energy usage information, set personal profiles for the types of energy
information they wish to receive and choose the types of programs in
which they want to participate. Key customer benefits will include:

- Energy Usage Information customers will be able to navigate
   between time frames such as daily interval, month and billing
   period to view energy use.
- Energy Cost customers will be able to see their billing to date
  with the same flexible and intuitive interface as usage.
- Push Services customers will be able to choose to receive alerts and summaries via e-mail and text (SMS). These alerts can include actual cost trend to a pre-set budget amount, on-going energy use summaries and also include outage and restoration notifications.
- Comparative Analysis customers will be able to view cost and
   usage compared to similar periods in the past and see how they
   compare to others with similar home and area profiles.
- Energy Efficiency Tools and Analysis customers will be able to
   receive personalized tips and tools for energy efficiency and
   conservation.
- Continuing New Offerings as customer acceptance and
   preferences are better identified, new services will continue to be
   offered and existing ones improved.
- The smart grid will also support the accommodation of renewable and other distributed generation including Plug-in Hybrid Electric Vehicles. Important to all Kansans, the smart grid will be able to integrate multiple sources of energy, including wind power, into the

- power grid in ways that optimize renewable energy and other green
   energy alternatives.
- 3 Q. WILL ANY OF THE PROGRAMS ENABLED BY AMI METERS 4 ADDRESS PEAK DEMAND?
- A. SmartStar will enable a variety of new service rate structure options for
  customers. These options can support dynamic pricing, which targets
  peak reduction. Westar plans to initiate multiple pilot programs to test
  the effectiveness of different rate structures for curbing electricity
  demand during peak times. During this pilot phase all of these rate
  structures would be voluntary.
- 11Q.ARE OTHER PILOT PROGRAMS PLANNED AS PART OF THE12SMARTSTAR PROJECT THAT RELATE TO ENERGY EFFICIENCY13OR REDUCING PEAK DEMAND?
- A. Yes. Westar is considering pilot programs to test the effectiveness of
   home energy management devices that enable customers to track the
   energy use of individual items and control these items either using their
   preferred manual settings or automated settings based on things such
   as time of day or pricing signals. These programs would be voluntary.
- 19Q.HAS WESTAR BEGUN EDUCATING CUSTOMERS ABOUT THE20SMARTSTAR PROJECT?
- A. Yes. Westar understands that for the SmartStar project to be
   successful customers must understand the benefits and tools that will
   be enabled by the project. Westar has been attending community

events and giving presentations to begin educating consumers about
 SmartStar. These efforts will increase in frequency, and we will begin a
 media education campaign in order to reach a wide audience regarding
 SmartStar and its benefits.

5 6 Q.

#### WILL CUSTOMERS OUTSIDE THE SMARTSTAR PROJECT AREA EXPERIENCE BENEFITS?

A. Yes. These benefits will primarily fall in one of two areas best
described as lessons learned from the project and technology
enhancements that will serve all of Westar's customers.

10 For the first, while more difficult to quantify, a primary objective of 11 the project is to understand better what types of customer programs 12 and services will be well received and will in fact provide value to both 13 customers and Westar. We will also learn more about the types of 14 business process changes that will have to be made to support and 15 realize full advantage from a smart grid environment. As a result, 16 Westar will be in a better position to determine further deployment 17 strategies and the type of programs that should be made available that 18 will deliver the guickest and most value. The result is more sound 19 financial stewardship of our efforts in this area.

In regard to technology enhancements, approximately \$26
 million of the \$40 million project cost is for technology infrastructure
 upgrades. These upgrades will serve all Westar customers and include
 an advanced outage management system, a customer web portal and

an improved meter data management system. While it is true that there
 are specific benefits to customers with smart meters, improved system
 operations such as enhanced outage restoration and customer access
 to information will benefit all customers.

5

6

Q.

#### WHAT IF CUSTOMERS DO NOT PARTICIPATE IN SMART METERING PROGRAMS. ARE THERE STILL BENEFITS?

The investment in smart meters, meter data management 7 Α. Yes. 8 systems, advanced distribution equipment and smart grid enabled 9 outage management systems will still deliver value even if not all of our 10 customers are interested in participating in new programs. Smart 11 metering itself offers remote meter reading, remote turn on and turn off 12 capabilities – which we will explore using for standard orders such as a 13 college rush period - voltage reporting and both momentary and 14 sustained outage reporting.

15 The system intelligence provided by smart grid technology will 16 save meter reading and service expenses. And the other information 17 provided can help us recognize and address problem areas possibly 18 helping us to prevent an outage. When outages do occur, smart grid 19 technology can help us to determine more guickly their extent and 20 probable cause enabling faster service restoration. Advanced 21 distribution line equipment can recognize operational problems, provide 22 automated switching and reporting and minimize outage extent and 23 length.

With regard to renewable generation sources, the smart grid will
 be better able to integrate renewable energy, such as our wind farms,
 onto the grid allowing greater of use of those generation sources than is
 currently possible.

Q. YOU INDICATED THAT THE SMART GRID WILL PROVIDE WESTAR
 WITH "REMOTE TURN ON AND TURN OFF CAPABILITIES." WILL
 THAT AFFECT THE WAY IN WHICH THE COMPANY APPLIES ITS
 TARIFFS TO CUSTOMERS THAT FAIL TO PAY THEIR BILLS?

9 Α. Remote turn on and turn off capabilities will allow us to effect service 10 termination without a visit to the premises if we desire. However, even 11 with that ability, we may choose to make service terminations for non-12 payment in person because such visits provide us our best 13 opportunities to obtain payment from delinquent customers. In any 14 event, even with the new capabilities provided by the smart grid, service 15 will only be initiated or terminated pursuant to our approved tariffs and 16 general terms and conditions.

# 17Q.WHATPROGRAMSDOYOUHAVETOEDUCATEHVAC18PROFESSIONALS AND BUILDERS?

A. We have developed direct relationships with HVAC professionals and
 builders to engage them in an ongoing discussion about the benefits of
 high-efficiency equipment and of building practices that improve the
 thermal envelope and, thus, the energy efficiency of homes. As part of
 this program, we provide financial incentives, brochures and other
- educational materials these trade allies can use when educating
   consumers about heat pumps, lighting, insulation, and related matters.
- Q. WHY HAVE YOU SELECTED THIS APPROACH TO WORKING WITH
   4 HVAC PROFESSIONALS AND BUILDERS?
- Α. 5 This program supplements our direct-to-consumer education. Decisions 6 to replace HVAC equipment are often made under the exigencies of the 7 moment when much needed air conditioning equipment fails on a hot 8 summer day. At such times, customers will often look to a trusted 9 professional for a quick solution. Similarly, whether building or 10 purchasing a new home, customers typically look to the professionals 11 with whom they have established some trust and a relationship for 12 guidance regarding building choices that affect the efficiency of the 13 home.

## 14Q.DOES WESTAR HAVE PROGRAMS OR POLICIES IN PLACE TO15"LEAD BY EXAMPLE" FOR ENERGY EFFICIENCY?

A. Yes. As mentioned before, our "Save A Watt, Save A Lot" program
aims to encourage energy savings in our offices. In addition to this,
early in the operation of our Energy Efficiency Department, we
established programs to encourage employees to save energy at home.

20 Our experience has shown that our employees and retirees can 21 be effective educators of our customers. Most of them live in the 22 communities we serve at retail, and our customers often consult them 23 on energy matters. We launched an employee and retiree program to

offer rebates for them to install high efficiency HVAC equipment. Those
who use the program become "ambassadors" to our customers. Even
those who are not ready to replace their HVAC systems have become
more conversant about the benefits of high efficiency equipment by
virtue of educational seminars conducted for employees when we
launched the program.

With the success of this program, we added a companion program that provides rebates to employees and retirees for the purchase of EnergyStar-qualified energy efficient lighting. As federal laws and retail product lines change, many consumers are finding purchasing new light bulbs takes more forethought that in the past. Our lighting rebate program and accompanying literature has helped us educate employees who in turn spread the message to our customers.

14 Westar also adopted a policy to adhere to the Leadership in 15 Energy and Environmental Design (LEED) standards when practical 16 when it builds a new office facility or makes major renovations to an 17 existing office space. LEED is also referred to as "Green Building 18 Rating" and designates the state-of-the art in energy efficient, 19 environmentally sound construction. In one example of our leadership 20 in this area, Westar renovated and expanded its service center in 21 Lawrence and earned LEED Silver certification.

22 Westar's operations leadership continues to identify projects to 23 improve system efficiency. This year Westar completed a project to

provide a major 345 kV tie across the west end of our system from
 Wichita to Salina that will help the company fulfill energy needs more
 efficiently.

4 5

### IV. DISCUSSION OF WESTAR'S LONGER-STANDING EFFORTS IN THE AREA OF ENERGY EFFICIENCY AND CONSERVATION

6

7

Q.

### WHAT HAS WESTAR HISTORICALLY DONE TO ENCOURAGE ITS CUSTOMERS TO USE ENERGY EFFICIENTLY?

8 Α. We have proposed and implemented tariffs designed to encourage the 9 efficient use of energy. We accomplish this primarily through the use of 10 summer/winter pricing differences. The summer residential rate is 11 higher than the winter rate thereby encouraging energy conservation 12 during those months when demand for electricity is highest. The non-13 residential rate schedules have seasonally differentiated prices but also 14 use demand ratchets to encourage off-peak usage and provide an 15 incentive to avoid establishing high peak demands in the summer 16 period. Pricing of the overall cost of energy designed to encourage the 17 wise use of energy can be found throughout Westar's tariffs.

### 18 Q. DOES WESTAR HAVE AN INTERRUPTIBLE SERVICE PROGRAM

## 19 THAT ALLOWS CUSTOMERS TO ACCEPT INTERRUPTIONS IN

### 20 THEIR SERVICE IN EXCHANGE FOR LOWER PRICES?

21 A. Yes.

### 22 Q. HOW DOES THE PROGRAM WORK?

A. Westar has an active interruptible program with 83 customers
participating. We administer this program through clauses in special

1 contracts and three rate schedules approved by the Commission for 2 large industrial customers. We called on our interruptible customers 3 three days this summer during peak conditions. Peak reduction during 4 the hours of interruption on those days ranged from 105 MW to 155 5 MW. These reductions are in addition to the 95 MW available through 6 the EE DR program discussed above. Another component of this long-7 standing demand response program is an option for us to call on 8 cogeneration units of two industrial retail customers during peak 9 periods.

- 10V.PUBLIC POLICY CONSIDERATIONS AFFECTING WESTAR'S WIND11GENERATION INITIATIVE AND WESTAR'S CAPACITY SUPPLY12PLAN
- 13Q.PLEASE DESCRIBE LEGISLATIVE DEVELOPMENTS WITH14REGARD TO RENEWABLE RESOURCES.
- A. During the 2009 Kansas legislative session, Senate Substitute for
   House Bill 2369 was passed by both chambers and signed into law by
   Governor Parkinson. As summarized by the Kansas Legislative
- 18 Research Department,

19 The bill enacts the Renewable Energy 20 Standards Act that requires electric public utilities, 21 except municipally owned electric utilities. 22 generate or purchase specified amounts of electricity 23 generated from renewable resources. The Kansas 24 Corporation Commission (KCC) is given broad authority to adopt rules and regulations implementing the 25 26 standards and establishing enforcement mechanisms 27 including administrative fines.

28 Renewable energy may be generated by wind; 29 solar thermal sources; photovoltaic cells and panels;

1	dedicated crops grown for energy production;				
2	cellulosic agricultural residues; plant residues;				
3	methane from landfills or from wastewater treatment;				
4	clean and untreated wood products such as pallets;				
5	existing hydropower; new hydropower, not including				
6	pumped storage, that has a nameplate rating of 10				
7	megawatts or less; fuel cells using hydrogen produced				
8	by one of the other renewable energy resources; and				
9	other sources of energy, not including nuclear power,				
10	that become available after enactment of the bill and				
11	that are certified as renewable under rules and				
12	regulations of the KCC.				
13	The renewable portfolio requirement requires				
14	utilities to obtain net renewable generation capacity				
15	constituting at least the following portions of each				
16	affected utility's peak demand based on the average of				
17	the three prior years:				
18	<ul> <li>10 percent for calendar years 2011 through</li></ul>				
19	2015;				
20	<ul> <li>15 percent for calendar years 2016 through 2019;</li></ul>				
21	and				
22 23	<ul> <li>20 percent for each calendar year beginning in 2020.</li> </ul>				
24 25 26	Renewable energy credits may only be used to meet a portion of the requirement in 2011, 2016, and 2020, unless otherwise authorized by the Commission.				
27	Each megawatt of eligible renewable capacity				
28	installed in Kansas after January 1, 2000, will count				
29	as 1.10 megawatts for purposes of compliance with				
30	the renewable energy requirement. The capacity of				
31	any systems interconnected with the affected utilities				
32	under the Net Metering and Easy Connection Act (also				
33	part of the bill) or the parallel generation statute will				
34	count toward compliance with the renewable energy				
35	requirement.				
36 37 38	The KCC is required to allow affected utilities to recover reasonable costs incurred by the utilities to meet the requirements of the Act.				
39	2009 Summary of Legislation, Legislative Research Department, at 44 (June				
40	2009).				

### 1 Q. HAS CONGRESS TAKEN ANY ACTION THAT AFFECTS WESTAR'S

### GENERATION PLANNING?

2

A. No. While both houses of Congress have considered bills that could
affect generation planning by either requiring reductions in carbon
emissions or imposing a renewable generation requirement, no bill has
passed to date. Action by Congress on either of these matters could
impact our plans in the future.

## Q. HAS ANY FEDERAL AGENCY ADDRESSED GREENHOUSE GAS (GHG) EMISSIONS?

Α. 10 Not yet but that process is underway. In an April 2, 2007 decision in 11 Commonwealth of Massachusetts v. Environmental Protection Agency, 12 the U.S. Supreme Court ruled 5 to 4 that the Environmental Protection 13 Agency (EPA) violated the Clean Air Act by improperly declining to 14 regulate GHG emissions from mobile sources. The Court ruled "EPA 15 has offered no reasoned explanation for its refusal to decide whether 16 greenhouse gases cause or contribute to climate change" and that the 17 EPA "identifies nothing suggesting that Congress meant to curtail the 18 EPA's power to treat greenhouse gases as air pollutants." This opinion 19 cleared the way for EPA to regulate GHG emissions.

In response to the Court's ruling, EPA has drafted and approved
the Tailoring Rule, which allows for the regulation of GHG emissions.
Any new power plant construction or modifications must apply for a
permit that specifies the Best Available Control Technology (BACT) and

energy efficiency measures the utility will take to control GHG
 emissions. EPA Region VII in Kansas City is expected to provide
 specific guidance on these matters in soon.

4 Q. HOW DO THE RES REQUIREMENTS IMPOSED BY KANSAS LAW 5 AFFECT WESTAR'S CAPACITY SUPPLY PLAN?

A. Westar is depending on wind power to meet nearly all its RES
requirements. However, the Southwest Power Pool (SPP), our official
reliability organization, credits little capacity to wind power because of
its intermittent, unpredictable dispatchability. Consequently, we count
only about five percent of our wind turbines' nameplate capacity in our
long-term capacity supply plan.

12 Q. DOES WIND POWER'S LOW ACCREDITED CAPACITY CONCERN

13 YOU OR UNDERMINE WESTAR'S LONG-TERM CAPACITY SUPPLY

14 **PLAN?** 

A. No. As Table 1 shows, our current capacity supply plan indicates we do
not need additional generating capacity over the next 10-year planning
horizon, either to meet our customers' needs or to comply with SPP's
requirement for load-serving entities to carry a 12 percent capacity
margin.



## Table 1 – Forecast Capacity Margin2010 through 2019

We also have ample natural gas fired generating resources to "fill
 in the gaps" of variable wind generation.

3 Q. WHAT IS THE BASIS OF WESTAR'S FORECAST SYSTEM PEAK

### 4 **RESPONSIBILITY SHOWN IN TABLE 1?**

A. The forecast was made using the model that was jointly developed by
Westar and Staff and is discussed in the testimony of Paul Dietz.

7 Q. YOU INDICATE THAT WESTAR DOES NOT EXPECT TO ADD NEW

8 GENERATION IN THE NEXT 10 YEARS. IF THAT IS THE CASE,

9 WHY DOES TABLE 1 SHOW THAT WESTAR'S TOTAL SYSTEM

10 CAPACITY INCREASES FROM 6291 MW IN 2010 TO 6504 MW IN

- 11 **2019?**
- A. The table shows the total capacity that Westar expects to have
  available to serve its requirements customers basically, retail

1 customers and wholesale full requirements customers. The amount of 2 capacity Westar has available to serve those customers can be - and 3 within the 10-year planning horizon is – affected by other factors than 4 construction of new generation. Over the 10-year planning horizon 5 shown in Table 1, Westar's available capacity is expected to be affected 6 by uprates to Wolf Creek, the retirement of some older steam units, and 7 the termination of several capacity sales. The result of these changes 8 is that in 2019, Westar expects to have more capacity available to serve 9 its native load customers than it does currently.

# 10Q.WHAT IF THE ECONOMY RECOVERS QUICKLY AND LOAD11GROWTH OCCURS FASTER THAN YOU HAVE ASSUMED IN YOUR122010 CAPACITY SUPPLY PLAN?

A. Our capacity supply plan is a dynamic process, and we know that some of today's assumptions are likely to change and results in subsequent updates. Nonetheless, we are confident we would have enough lead time to bring new natural gas generation on line if circumstances warrant. Natural gas is the most likely type of generation we will need next. It would also be possible for us to purchase capacity in the wholesale market if necessary.

We could also meet a portion of our peak needs through demand reductions that are not reflected in Table 1. Possible sources of demand reduction not reflected in Table 1 include projected demand reductions of approximately 100 MW from our WattSaver and

BOC programs by 2015. Additionally, we could realize demand reductions through the participation by a few more of our large industrial and commercial customers in our longstanding interruptible service programs. For all of those reasons, together with current projections in our 2010 capacity supply plan, we are confident that we will meet our customers' needs and our SPP obligation.

Q. 7 YOU POSSIBLE ADMIT TO UNCERTAINTY ABOUT CONGRESSIONAL ACTION AND YOU HAVE INDICATED THAT 8 9 WESTAR'S CAPACITY SUPPLY PLAN IS DYNAMIC. NOT 10 STATIC, AND CHANGES OVER TIME. HOW SHOULD THE 11 COMMISSION REGARD THESE **UNCERTAINTIES** AS IT 12 CONSIDERS WESTAR'S REQUESTS REGARDING WIND POWER IN THIS DOCKET? 13

14 Α. We acknowledge those uncertainties, and others. But even in the face 15 of uncertainty and the current economic downturn, demand for 16 electricity in Kansas and nationally is still projected to grow. To meet 17 our customers' needs, Westar has undertaken a transitional strategy, 18 the hallmarks of which are flexibility and adaptability. In the years 19 ahead, during the horizon of our forecast, it is most likely that hindsight 20 will show some times when our capacity and DSM decisions seemed 21 right, and other times when they seemed wrong.

Take as an example our current position on building a new coal plant. At the end of 2006, we announced that Westar was indefinitely

1 deferring commitment to construct a new pulverized coal (PC) unit because costs for coal generation were escalating so rapidly that the 2 3 narrowing cost differences between PC baseload generation and other 4 kinds of generation were making the most advantageous economic Since then, the concerns and policy 5 choice harder to discern. 6 discussions regarding GHGs have intensified, and costs to construct 7 PC plants have continued to escalate. Opposition to new coal plants will 8 cause delays, and hence, cost over-runs.

9 Because we started early enough in evaluating sites for 10 additional PC baseload capacity, we can take a different course, at 11 least for a while. Hindsight today makes it appear we were right. But 12 we readily admit that if costs for generating fuels other than coal spike and GHG emission limits never come to pass, hindsight at some 13 14 specific time in the future could suggest that we were wrong. We 15 continue to keep our options open with respect to a new PC plant, but in 16 the context of our transitional strategy, we are studying emerging, but 17 yet unproven coal technologies that pollute less and observing efforts to 18 rejuvenate the nuclear power industry. At some point, our customers 19 will need new baseload capacity.

### 20 Q. HOW WILL WESTAR DEFER ADDING BASELOAD CAPACITY AND 21 CONTINUE TO MEET ITS CUSTOMERS' ELECTRICITY NEEDS?

A. This question gets to the heart of Westar's transitional strategy. Our
 strategy is to bridge the gap, meet customer demand and satisfy

1 environmental concerns with a combination of energy efficiency and 2 DSM, adding wind generation to our system, adding new combustion turbines that can both meet peak demand and compensate for the 3 4 intermittent nature of wind, and enhance the transmission network in 5 Kansas. This strategy pushes out the need for baseload capacity, at 6 least for a few years. Another transitional component of our strategy 7 would be to determine over the next few years whether some of the 8 projected need for additional peaking capacity should instead be 9 combined cycle intermediate capacity.

10 It is in this context of a flexible, adaptive strategy that the
11 Commission should consider our requests for wind power in this docket.
12 It is a strategy that:

- acknowledges our or anyone else's limited ability to predict the
  future accurately;
- avoids a "win-or-lose-all" wager to a single predicted outcome
  (for example, committing now to building several large PC or
  nuclear plants or counting on a nascent technology);
- increases diversity of electricity supply;
- 19 respects environmental concerns;
- uses an abundant renewable Kansas resource, i.e., wind;
- results in higher, but still reasonable electric rates;
- spurs investment in much-needed high capacity transmission
  lines; and,

- advances the State's renewable energy policy with properly sited
   wind generating facilities.
- 3 Q. THANK YOU.

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

## Exhibit JLB-13

18/ SI STATE CORPORATION COMMISSION **BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS** 

In the Matter of a General Investigation Into Incentives for Fuel Switching.

Docket No. 09-GIMX-160-GIV

2010.09.28 16:10:32

### NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

COMES NOW the Staff of the State Corporation Commission of the State of Kansas

) )

(Staff and Commission, respectively) and files its report and recommendation in the above-

captioned docket.

WHEREFORE Staff requests the Commission consider its report and recommendation

and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,

Dana-Bradbury, No. 119

Litigation Counsel Kansas Corporation Commission 1500 S.W. Arrowhead Road Topeka, KS 66604 Phone: (785) 271-3196 Fax: (785) 271-3167

Exhibit JLB-13

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Kansas Corporation Commission

### Second Staff Report and Recommendation

#### **Executive Summary**

Staff filed its initial Report and Recommendation (Report) in this docket on April 13, 2009. Staff files this Second Staff Report and Recommendation (Second Report) to update the Commission on activity in the docket and on information related to fuelswitching issues that has become available. Staff provides a summary of the comments file by parties in response to its Report as Attachment A. Additionally Staff provides summaries of representative examples of information that have become available since the Commission last heard from parties in this docket. Finally, Staff provides recommendations for moving toward resolution of this docket.

At the time of Staff's initial Report, parties focused comments on incentives for fuel-switching in the context of energy efficiency programs. While the context for fuelswitching is much larger, Staff recommended the Commission limit its decisions in this docket to incentives in energy efficiency programs since parties had not fully addressed other issues related to fuel-switching. In this Second Report, Staff reiterates its recommendations related to energy efficiency programs. In addition, Staff suggests that the Commission seek additional comment on incentives to developers/builders and equipment dealers and comments on line-extension policies utilized by utilities if it wishes to address these issues at this time. However, Staff notes that the effectiveness of all of these incentives or attempts to influence fuel-choice will be muted by the Commission's decisions to alter rate design by eliminating the declining block rate structures. Staff also provides a discussion of the movement in some areas to proactively encourage fuel-switching from electricity to natural gas and the use of full-fuel-cycle analysis<sup>1</sup> to determine the cost-effectiveness of various equipment options.

In summary, Staff recommends the following:

- Staff recommends that the Commission make a determination in this docket regarding the use of incentives in energy efficiency programs, incentives to developers/builders and equipment dealers, and regarding line extension policies.
  - -- Incentives in energy efficiency programs can be addressed with the information already filed by interested parties. However, the Commission may wish to have parties update the record.
  - -- Incentives offered to developers/builders, equipment dealers, and line extension policies, can only be addressed if the Commission requests additional comments from parties. If the Commission decides to move forward on these issues, Staff suggests the parties file additional comments on these issues.
- Staff suggests that the Commission is already making progress on rate design and has clearly stated in various forums that it wishes to move forward with rate design changes. Additionally, the Commission has an informal rate design project underway. Thus, Staff does not believe rate design needs to be addressed in this proceeding – except to recognize that rate design changes have some effect on whether other means of attempting to encourage fuel-switching will be successful.

<sup>&</sup>lt;sup>1</sup> The "full-fuel-cycle" or "source-to-site" analysis examines all energy consumed from the point of extraction or production through generation or conversion, transmission, distribution, and the end-use.

Finally, Staff recommends that the Commission should not pursue a policy to
proactively encourage use of natural gas over electricity. Staff suggests that, at
this time, the Commission maintain its definition of energy efficiency as
encouraging site efficiency of the particular fuel used for a particular end-use.
Additionally, maintaining this definition will allow the Commission to preserve
its current benefit-cost analysis for energy efficiency programs at least until the
DOE makes progress in adopting the recommendation of the NAS Letter Report
to incorporate source-to-site analysis. The Commission can then build upon the
experience of the DOE if the Commission determines that source-to-site analysis
should be incorporated into benefit-cost analysis at a later date.

### **Background**

Staff filed its initial Report in this proceeding on April 13, 2009. As indicated in Staff's prior Report, there are several appliances and types of mechanical equipment that can be powered by either natural gas or electricity. When these sources of power are provided by distinct utilities, competition for the customer's load develops and fuelswitching concerns arise. It is in this environment that a utility has an incentive to attempt to influence the customer to choose appliances and mechanical equipment powered by the energy source it provides – to encourage fuel-switching. These attempts to influence customer behavior can be made through line extension discount policies, equipment rebate offers, rate design, etc. These incentives can distort the efficient allocation of resources. Utilities have questioned whether acting on this incentive is

Exhibit JLB-13 5

appropriate in regulated industries and whether the Commission should develop policies to govern these activities.

The specific issue of whether energy efficiency programs should be fuel-neutral was raised in Docket No. 08-GIMX-442-GIV where the Commission was considering policy goals, the benefit-cost framework, and the evaluation scheme to be applied to energy efficiency programs. This proceeding was initiated in response to those concerns. Staff's prior report noted that the issue of fuel-switching incentives was also raised in Docket Nos. 08-KCPE-581-TAR and 08-KCPE-848-TAR which addressed energy efficiency program proposals of Kansas City Power & Light (KCPL). The Commission was able to review these programs without taking up the fuel-switching incentive issue. The program at issue in Docket No. 08-KCPE-581-TAR was denied by the Commission for reasons other than the potential for fuel-switching. Thus, the Commission did not need to move forward to address fuel-switching incentives in that docket. In Docket No. 08-KCPE-848-TAR, the program was approved and it was determined that the incentives offered through the program were fuel-neutral. Again, the Commission did not need to move forward to address the merits of fuel-switching incentives in this docket. However, the Commission did determine that the issue should be addressed through a general investigation and opened Docket No. 09-GIMX-160-GIV.

In the Report, Staff informed the Commission that all parties agreed that the Commission had the jurisdiction and authority to establish policy directing a utility's endeavors to encourage fuel-switching behavior. While one party cautioned that the Commission's jurisdiction and authority was not unlimited, Staff suggested the Commission is well aware of the limits on its authority and will navigate the fine line

between providing the greater guidance that nearly all parties have requested in their

comments and overreaching into utility management. Staff recommended that with

consensus on the matter of jurisdiction and authority the Commission could proceed to

determine whether it is in the public interest to develop fuel-switching policies.

To aid in determination of whether it would be in the public interest to develop

fuel-switching policies, the Commission requested comment on the following questions:

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

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? If so, please elaborate and provide citations.

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.

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

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

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?<sup>2</sup>

In its Report, Staff noted that while the Commission did not limit the discussion

of incentives for fuel-switching to the energy efficiency context, the parties to the

proceeding targeted their comments about fuel-switching policy to energy efficiency.

Because the parties limited their discussion of the issue, Staff's recommendation in its

<sup>&</sup>lt;sup>2</sup> Order Initiating investigation and Assessing Costs, Docket No. 09-GIMX-160-GIV, September 29, 2008, paragraph 14.

Report was also limited to the area discussed in comments. In its recommendation, Staff

stated:

It is evident from the varied recommendations of the parties and from the research cited that there is no clear consensus on fuel-switching policy. Staff has recommended that the Commission address this issue by reviewing its goals for energy efficiency and then address fuel-switching in a manner consistent with those goals. Throughout its 442 Order, the Commission details its goals and if examined closely all have a common theme. The Commission consistently indicates that energy efficiency should be considered a resource to meet present and future demand, have the potential to mitigate CO2 emissions, achieve energy and demand reductions, and be cost-effective. Thus, any fuel-switching policy or guidance determination by the Commission should be consistent with these broad themes.

At first blush a source-to-site evaluation would seem to be a reasonable approach if the Commission's goal is to reach the most efficient outcome at an end-user location rather than a more efficient outcome at an end-user location. However, even if consistent with the Commission's goals, the source-to-site evaluation is difficult and fraught with estimation difficulty. The AGF report, "Public Policy and Real Energy Efficiency: Assessing the Effects of Federal Policies on Energy Consumption and the Environment," notes that there are many barriers to implementing the source-to-site analysis. The report acknowledges that most federal energy efficiency programs examine only site energy for evaluating efficiency rather than the full fuel cycle. There does not appear to be an "off-the-shelf" application that can be used for Kansas and it seems likely that energy efficiency programs would be on hold for quite some time as parties argued the merits of studies. Given the cost and technical difficulties of developing a model or study to conduct a source-to-site evaluation and the inevitable controversy surrounding attempts to develop such a model, Staff does not recommend the Commission follow this approach at this time.

As mentioned in the AGF Report discussed above, most federal energy efficiency programs examine only site energy for evaluating efficiency. Staff suggests that *more* efficient use of resources at the end-user location is consistent with the energy efficiency goals stated by the Commission. It is also consistent with the National Action Plan for Energy Efficiency definition of energy efficiency provided earlier. Improved site efficiency can be accomplished without a controversial source-to-site evaluation and without promoting fuel-switching; therefore, a policy prohibiting fuel-switching incentives would not be inconsistent with the Commission's goals.

Staff notes that Mr. Rich Sedano advised the OCC to meet its efficiency goals by approving programs that do "not bias the customer toward either fuel but enable[] the customer to choose efficient end use with a fuel that the customer prefers."66 The OCC was also cautioned to evaluate each efficiency program to determine whether it is really a load building or promotional program. The OCC has determined that energy efficiency programs should not include programs or measures that "promote" fuel-switching from electricity to natural gas or from natural gas to electricity. The OCC also stated that in the case of new construction, incentives cannot be offered to customers or builders for the use of specific equipment unless that equipment uses a renewable resource. The APSC has indicated that energy efficiency programs that have not already been approved by the commission cannot include fuel-switching or load building incentives. The APSC indicates that energy efficiency programs should be fuel neutral. However, neither the OCC nor the APSC provide specific direction on how energy efficiency programs incorporating some type of incentive will be evaluated to determine whether the incentive encourages fuel-switching.

Staff suggests the Commission find that energy efficiency programs should be designed in a manner that does not bias an end-user toward a particular fuel but allows the end-user to make an efficiency improvement at the end-user location. Clearly, this would allow an electric utility to offer an incentive to an end-user with an existing heat pump to invest in a more efficient heat pump or a natural gas utility to offer an incentive to an end-user with an existing natural gas fueled furnace to install a higher efficiency gas furnace.

This policy may require additional clarification for evaluating a program utilizing the whole structure approach to energy efficiency. An audit is typically conducted and the auditor makes recommendations to the end-user regarding efficiency improvements that can be made. Frequently, these audits contain a comparison of energy cost between replacement with a higher efficiency natural gas furnace and a heat pump. The Commission will need to address whether utilities or auditors working on their behalf should be permitted to offer consumers information regarding the relative cost of a heat pump and natural gas furnace as part of an energy efficiency program. Staff suggests this issue could be addressed by requiring use of auditors independent of the utility with no financial relationship that might influence the analysis of the auditor. However, it should be noted that if an end user with an existing natural gas fueled furnace opts to replace that unit with a high efficiency heat pump, this could be viewed as load building. This load increase would occur in off peak periods and the peak usage may be reduced but, the installation of a high efficiency heat pump in this instance may not lead to a total reduction in electric use at the site. Regarding incentives offered in whole structure programs, the Commission could find that a utility would not be permitted to offer a specific incentive for replacing a piece of existing equipment that is fuel biased but could offer a general incentive to encourage energy efficiency improvements to insulation, the building envelop, or other items that either increase total site efficiency or efficiency for the specific fuel supplied by the utility.<sup>3</sup>

### Information Available Subsequent to Staff's Initial Report and Recommendation

Subsequent to the filing of Staff's Report, parties were invited to file additional

comments concerning Staff's recommendations on May 29, 2009, and reply comments

on June 12, 2009. A summary of those comments is attached to this report as

Attachment A.

Additionally, further industry research and Commission investigations have been

conducted. In May 2009, the National Academies of Science (NAS) released a Letter

Report on May 15, 2009, to the Department of Energy's Office of Energy Efficiency and

<sup>&</sup>lt;sup>3</sup> Notice of Filing Staff Report and Recommendation, Docket No. 09-GIMX-160-GIV, April 13, 2009, pages 24-28.

Renewable Energy (DOE/EERE) providing results of a study evaluating whether site (point-of-use) or source (full-fuel-cycle)<sup>4</sup> measures of energy efficiency lead to better achievement of energy conservation goals for appliances.<sup>5</sup> Also, the National Regulatory Research Institute (NRRI) published a Report in May 29, 2009, on electric-to-gas fuel substitution.<sup>6</sup> These reports provide additional information about encouraging one source of fuel over another based on achieving the most efficient outcome. Additionally, the Pennsylvania Public Utility Commission (PAPUC) has formed a Fuel Switching Working Group (FSWG).<sup>7</sup> The FSWG filed a Staff Report on April 30, 2010, indicating that the group could not reach a "true consensus on any of the topics raised [but] participants could accept positions other than their preferred position."<sup>8</sup> PAPUC Staff filed the FSWG Staff Report providing a summary of the comments of parties, a summary of the FSWG discussions and making a Staff recommendation for Commission action. Subsequently, the PAPUC adopted its Staff's recommendations.<sup>9</sup> Finally, the American Gas Association provided an Energy Analysis paper, "A Comparison of Energy Use, Operating Costs, and Carbon Dioxide Emissions of Home Appliances" on October 20, 2009 (AGA Paper). This paper provides an analysis of full-fuel-cycle affects on the relative efficiency of natural gas and electricity (and other fuel sources) for fueling various appliances. This is not an exhaustive list of information that has become available but is representative of various positions on fuel-switching.

<sup>&</sup>lt;sup>4</sup> The "source" or "full-fuel-cycle" analysis examines all energy consumed from the point of extraction or production through generation or conversion, transmission, distribution, and the end-use. <sup>5</sup> http://www.nap.edu/catalog/12670.html (*Letter Report*)

<sup>&</sup>lt;sup>6</sup> Costello, Ken, "Electric-to-Gas Substitution: What Should Regulators Do?" National Research Regulatory Institute, May 29, 2009. (*NRRI Report*)

 <sup>&</sup>lt;sup>7</sup> <u>http://www.puc.state.pa.us/electric/docs/Act129/FSWG\_Staff\_Report042910.doc</u> (FSWG Staff Report)
 <sup>8</sup> Id., page 3.

<sup>&</sup>lt;sup>9</sup> <u>http://www.puc.state.pa.us/electric/docs/Act129/FSWG\_Report-SL052110.doc</u> (*PAPUC Secretarial Letter*)

*A)* NAS Letter Report The NAS Letter Report contained several recommendations for the DOE/EERE.

When more than one fuel source is used or a choice in fuel source is available for an appliance, the NAS recommended that DOE/EERE consider beginning a transition from using site analysis to full-fuel-cycle analysis of energy efficiency. Currently, DOE/EERE compares the efficiency of appliances by comparing energy consumed (electricity, natural gas, propane, and/or fuel oil) at the site or point of use of the appliance. The Letter Report notes that:

The appliance standards program is not meant to favor one energy source or technology over another (and the committee saw no evidence that it has done so) but instead to leave decisions about such matters to government policy and/or the market. For that reason, and for the benefit of the consumer purchasing an appliance, the results of the DOE/EERE'S appliance testing and standards setting are expressed in terms of estimated annual operating costs, annual energy usage, and the cost range of similar models.<sup>10</sup>

The Letter Report points out that although the site measure allows easy comparison of the operating efficiency of one appliance over another it gives an incomplete picture of energy use. The picture is incomplete because it does not take into account the ". . .time and energy needed to mine, process, and transport the primary fuel to a generating plant; the energy used at the generating plant; and the energy used in delivering electricity or fuel to the site of operation of an appliance." Accounting for these factors would produce a more complete comparison of efficiency. However, the NAS noted that though there are uncertainties in all data used for evaluating efficiency and ". . . [s]omewhat greater uncertainties exist in the data currently available to estimate full-fuel-cycle energy

<sup>&</sup>lt;sup>10</sup> Letter Report, page 4.

consumption . . . "<sup>11</sup> Thus, the Letter Report recommended a gradual transition to fullfuel-cycle energy consumption analysis to improve the quality of information provided to consumers as the quality of data collection improves.

### B) NRRI Report

The NRRI Report discusses the merits of electric-to-natural gas substitution. The author, Mr. Ken Costello, suggests that he ". . .views electric-to-gas substitution as a consumer activity."<sup>12</sup> However, Mr. Costello notes that there can be market failures or regulatory barriers that affect consumer decision making. As with the NAS Letter Report, Mr. Costello notes that energy efficiency can be measured from either the consumption site or taking into account the full-fuel-cycle. He too states that the full-fuel-cycle is "theoretically superior, but accurate measurement it difficult."<sup>13</sup> Mr. Costello goes on to note:

The dilemma facing a commission is that it can choose the site definition of energy efficiency and not account for the energy losses involved in the production, transportation, and distribution of electricity and natural gas; alternatively, it can choose the source definition and risk having an inaccurate measure of energy efficiency. Calculating the energy reduction from switching would, moreover, require knowing which generating units would run less, a fact that changes hourly.<sup>14</sup>

The NRRI Report states that there are several factors affecting consumers'

decision to switch from electricity to natural gas. Among the factors identified are the

following:

1. Consumers have imperfect information.

<sup>&</sup>lt;sup>11</sup> Id., page 11.

<sup>&</sup>lt;sup>12</sup> NRRI Report, page iii.

<sup>&</sup>lt;sup>13</sup> Id., page 4.

<sup>&</sup>lt;sup>14</sup> Id.

- 2. Consumers' primary concern is whether the decision meets their own economic criteria rather than the affect on the environment.
- 3. Current rate design is inefficient and this affects fuel choices.
- 4. Homebuilders and consumers tend to focus on the initial installation and appliance cost rather than cost over the life of the appliance.<sup>15</sup>

The NRRI Report suggests that regulatory action can be taken to assist consumers in making efficient fuel decisions. Mr. Costello lists seven options for Commissions to consider:

- 1. Improve the quality of information offered to utility customers. The regulator could direct the gas utility to disseminate information on the economic benefits of gas water heaters over electric water heaters; alternatively, the commission or another government agency could carry out the informational effort. This information should alert customers to the fact that the relationship between electricity and natural gas prices changes over time, resulting in one source of energy becoming more or less attractive relative to the other.
- 2. Review rate structures of both electric and gas utilities to eliminate any regulatory favoritism toward either energy source. A review might reveal that the price for one of the energy sources is much closer to marginal cost than for the other energy source. Such pricemarginal cost divergence could cause an uneconomic outcome where, from a societal perspective, customers are consuming too much electricity relative to natural gas, or vice versa.
- 3. Review any existing restrictions on promotional practices to see if they deny customers the information necessary to make effective choices. Such restrictions may be uneven across the two kinds of utilities, inducing consumers to switch to the fuel with the less restrictive promotional practices.

<sup>&</sup>lt;sup>15</sup> Id., pages 8-9.

- 4. Grant rebates to residential customers who convert from electricity to natural gas for space heating and water heating, as long as energy substitution passes a given cost-benefit test (such as the Total Resource Cost test). Where consumers are reluctant to purchase a gas water heater because it is more expensive than an electric water heater, some regulators have considered allowing the gas utility to offer a rebate, say \$200, to any residential consumer who purchases a new gas water heater. The cost of the rebate is borne by other customers. The rationale is that the long-term cost savings to all customers justifies the initial cost, which a single customer is unlikely to bear. There are two risks. If the rebate exceeds the real benefit to all customers, it becomes a subsidy that benefits one customer at the expense of others and results in excessive appliance purchases. Further, the rebate is wasted if the customer would have bought the appliance anyway—a fact that is difficult to discern.
- 5. Require or authorize the gas utility to offer ratepayerfunded incentives to home builders to install gas appliances.
- 6. Determine whether existing energy-efficiency initiatives cause choice distortions. If an electric utility offers more energy efficiency initiatives than the gas utility, customers might perceive electric service as more attractive than gas, even if the long-term efficiencies favor the latter.
- Recognize that if regulatory policy encourages customer departure from electric to gas utilities, electric utilities will experience under-recovery of fixed charges, requiring commission consideration of alternative means of compensation.<sup>16</sup>

The NRRI Report then suggests that commissions ask several questions in

determining what action, if any, to take.<sup>17</sup> The Commission's order opening this docket

posed questions similar to some of the NRRI suggested questions. If the Commission

chooses to move forward to address the fuel-switching issue more broadly than whether

<sup>&</sup>lt;sup>16</sup> Id., pages 12-13.

<sup>&</sup>lt;sup>17</sup> Id., pages 13-14.

utilities' energy-efficiency programs promote or should promote fuel-switching, then the

Commission may wish to request the parties address the questions in the NRRI Report.

C) FSWG Staff Report Following a Staff Report from the FSWG, the PAPUC adopted its Staff's

recommendations to allow cost-effective fuel-switching measures. The PAPUC states

that it adopted the following Staff recommendations:

- Cost-effective fuel switching measures should be available to EDCs [electric distribution companies] and their stakeholders when considering the best means of achieving EE&C [Energy Efficiency and Conservation] plan goals. However, fuel switching programs should not be mandated.
- EDCs should address the design of fuel switching programs through their stakeholder processes.
- The most effective manner in which to develop guidance to determine efficiency standards for any equipment involved in a fuel switching program is through the TRM [Technical Reference Manual] and TRC test revision processes.
- Custom evaluation, measurement and verification methods for determining electric consumption and demand reductions associated with fuel switching programs should be developed by each EDC's independent monitor and approved by the Director of the Bureau of Conservation, Economics and Energy Planning [CEEP].
- Any proposed deemed savings associated with specific fuel switching measures should be reviewed under the TRM update process.
- EDCs be permitted to consider fuel switching programs for low income customers.

- The Commission release this Report and adopt, reject, modify or add to the Staff's recommendations contained in it.
- That the Commission direct CEEP to develop deemed evaluation, measurement and verification protocols for specific energy efficiency measures that involve switching from electricity to another fuel source, to be considered for inclusion in the TRM. CEEP is to develop these protocols in conjunction with the Statewide Evaluator and through the annual TRM revision process.
- The Commission direct CEEP to develop recommended changes to the TRC test needed to analyze the costs and benefits of energy efficiency measures that involve switching from electricity to another fuel source. CEEP is to develop these recommended changes to the TRC test in conjunction with the Statewide Evaluator and the Total Resource Cost Test Working Group.<sup>18</sup>

### D) AGA Paper

The AGA Paper provides an analysis of the full-fuel-cycle comparing natural gas,

electricity, oil and propane for residential end-uses. The AGA Paper finds that natural gas leads to lower total energy consumption than other sources of fuel. The AGA Paper states that this is primarily true because "less than ten percent of the natural gas energy produced is used or lost from the point of production to the residence."<sup>19</sup> The analysis conducted by the AGA suggests when using natural gas that ". . .for every 100 MMBtu of energy produced, 92 MMBtu of energy is delivered to the consumer."<sup>20</sup> The AGA Paper suggests that on average, based on the current electricity generation mix, that electricity

<sup>&</sup>lt;sup>18</sup> PAPUC Secretarial Letter. Pages 2-3.

 <sup>&</sup>lt;sup>19</sup> American Gas Association, <u>Energy Analysis</u>, "A Comparison of Energy Use, Operating Costs, and Carbon Dioxide Emissions of Home Appliances," EA 2009-3, October 20, 2009, page 2. (AGA Paper)
 <sup>20</sup> Id., page 5.

provides "... the consumer only 32 MMBtu of the [ ] 100 MMBtu of energy produced."<sup>21</sup> The AGA analysis of full-fuel-cycle energy efficiency was conducted using data from "Source Energy and Emission Factors for Building Energy Consumption" by the Gas Technology Institute in August, 2009.<sup>22</sup>

The AGA Paper also provides comparative estimates of energy use and consumer cost for use of natural gas, electricity, fuel oil, and propane. Those estimates are based on energy use for a residence of approximately 2000 square feet (excluding air conditioning (cooling)), and national averages of residential energy prices.<sup>23</sup>

### Additional Analysis

In Kansas, the primary area of competition between fuel sources is for end-use heat space conditioning. Competition could also occur for other equipment and appliances, but it is space conditioning that has received the most attention as a concern regarding fuel-switching. Consumer choices are affected by rate design and by incentive programs. Rate design affects customer choices by potentially distorting the operating cost of space conditioning equipment. In many instance, consumers are offered cheaper "all electric" rates which encourage use of electric space heating. Combined with these types of rates, several utilities have had air-source heat pump (ASHP) incentive programs for builders, dealers and more recently for consumers. Together, rate design and incentives affect consumer choice and the potential for fuel-switching. These issues are discussed below.

<sup>&</sup>lt;sup>21</sup> Id.

 $<sup>^{22}</sup>$  Id., pages 6-7. Note that it is possible the parties will not agree on the methods used by the AGA.

<sup>&</sup>lt;sup>23</sup> Id., pages 4, 7 and 9.

### Current Rate Design

Since the filing of Staff's Report, the issue of fuel-switching has been raised in relation to rate design in proceedings for Westar Energy, Inc. and Kansas Gas and Electric Company (Westar), Empire District Electric Company (Empire), and Kansas City Power & Light Company (KCPL).<sup>24</sup> In the Westar and Empire proceedings, the Commission has approved changes in rate design which should discourage uneconomic fuel-switching. That is, the Commission has taken steps to modify or eliminate declining block rates, and address the off-peak rates that have been used by electric utilities to encourage use of electricity. In the KCPL proceeding, Staff has made similar proposals for the Commission's consideration.

In addition to the rate design changes being made through individual rate cases, the Commission is in the midst of an informal rate design project. The Commission has contracted for the services of Christensen Associates Energy Consulting (Christensen) to assist the Commission in the review of various rate design options to encourage conservation and/or efficient use of electricity. Christensen is in the process of gathering data from several utilities to analyze various rate design options and the effect of those options on consumers and utility revenues. Once the analysis is concluded, Christensen will issue a draft report in December 2010. It is planned that a workshop will be held in January 2011 to discuss the report in general terms and then a workshop or workshops will be held in February 2011 to discuss specific company data, options, and issues with moving to a new rate design structure. A workshop focusing on educating consumers

<sup>&</sup>lt;sup>24</sup> See Docket No.10-WSEE-358-GIE; Docket No. 10-EPDE-314-RTS; and, Docket No. 10-KCPE-415-RTS.

about changes in rate structures is also planned. Christensen expects to present the Commission with a final report in September 2011.

Staff suggests that if rate design changes continue to be made, much of the incentive to switch from natural gas to electricity will be addressed. Without declining block rates, ASHPs become a less attractive option for consumers. Thus, even with the potential for an equipment rebate, a consumer is less likely to experience savings over the life of the equipment.

On the next page is Chart 1 indicating the residential rates for each utility. Some of these residential rates could be perceived as encouraging fuel switching. Again, the Commission is making progress in addressing this issue and if it continues to follow its current pattern of decision making, it is likely that a great deal of the fuel-switching issue will be resolved.

#### Current Builder Incentive Programs

KCPL offers direct incentives to developers/builders through its Subdivision Program. The Subdivision Program is available to developers in KCPL's service area who choose to install electric heating equipment in their subdivision houses.<sup>25</sup> This incentive program is not a tariffed program and it is unclear whether costs associated with such activity are currently included in rates established by the Commission.

Westar currently offers incentives to HVAC dealers and home builders who install electric heat pumps.<sup>26</sup>

<sup>&</sup>lt;sup>25</sup> KCPL Response to Staff Data Request 9 in Docket No. 08-KCPE-848-TAR.

<sup>&</sup>lt;sup>26</sup> Comments of Westar Energy, Inc. and Kansas Gas and Electric Company (Westar) filed November 18, 2008 in Docket No. 09-GIMX-160-GIV.

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			Energy Charge		Energy Charge	
Company	Service	Customer Charge	Winter		Summer	
Westar	Residential Service	\$8.00	\$0.057743 First 500 kWh		0.057743 Firet 500 kWb	
	Residential Service	\$0.00	\$0.057743	Next 400 kWh	0.057743	Next 400 kWh
			\$0.045896	Additional kWh	0.071091	Additional kWh
			-			
Empire	Residential Service	\$13.00	\$0.065380	First 600 kWh	\$0.065380	First 600 kWh
			\$0.055570	Additional kWh	\$0.055570	Additional kWh
	Residential Total Electric	\$13.00	\$0.052300	All kWh	\$0.052300	All kWh
KCPL	Residential Service	\$9.07	\$0.080370	First 1000 kWh	\$0.089900	First 1000 kWh
			\$0.079100	Additional kWh	\$0.089900	Additional kWh
	Residential Space Heat	\$9.07	\$0.052110	First 1000 kWh	\$0.089900	First 1000 kWh
	(One Meter)		\$0.039080	Additional kWh	\$0.089900	Additional kWh
	Residential Water Heat	\$9.07	\$0.051770	First 1000 kWh	\$0.089900	First 1000 kWh
	(One Meter)		\$0.079100	Additional kWh	\$0.089900	Additional kWh
	Residential Space Heat	\$11.27	\$0.077740	First 1000 kWh	\$0.089900	First 1000 kWh
	(Two Meters Space Heat		\$0.076940	Additional kWh	\$0.089900	Additional kWh
	on Separate Meter)	Space Heat	\$0.037580	All kWh	\$0.089900	All kWh
	Residential Water Heat and	\$11.27	\$0.049030	First 1000 kWh	\$0.089900	First 1000 kWh
	Space Heat	0	\$0.073510	Additional kWh	\$0.089900	Additional kWh
	(I WO METERS Space Heat on Senarate Meter)	Space Heat	\$0.037580	All KWh	\$0.089900	All kWh
Midweet						
Energy	Residential Service	\$13.00	\$0.095032	First 300 kWh	\$0.095032	All kWh
	M System		\$0.088032	Next 450 kWh		
			\$0.082032	Additional kWh		
	Residentail Total Electric	\$13.00	\$0.091830	First 750 kWh	\$0.091830	All kWh
	M System		\$0.068830	Next 750 kWh		
			\$0.068830	Additional kWh		

The Company states that it offers larger incentives to dealers and builders for the sale and installation of more efficient units. The Company also offers incentives to dealers and builders to sell and install heat pumps and who use the incentive to further educate consumers on the benefits of heat pumps. Larger incentives are also paid to builders who use additional energy-saving features in homes, such as increased insulation. These incentives are not tariffed and it is unclear whether the costs associated with these incentives are included in rates.

Again, if the Commission continues to make progress toward addressing the incentives within current rate structures, these types of programs will be less effective. However, the Commission may wish to investigate the line extension policies of Kansas utilities (i.e. discounts for establishing service in a new development are provided if allelectric homes are developed), developer/builder incentives offered by utilities, and dealer incentives offered by utilities. The Commission will need to request additional comments from parties on this issue. Staff suggests that if the Commission determines that it would like further comment on this issue, parties should address whether the cost of these types of programs, if permitted, should be borne by shareholders in addition to the questions posed in its initial order.

#### Current Energy Efficiency Incentives

The Commission has approved energy efficiency programs which offer consumers rebates for the installation of equipment. Those rebates that have been approved since the Commission's findings in Docket No. 08-GIMX-442-GIV have been found to pass the TRC test. However, some claim that these incentives can be used to

influence a consumer's fuel choice. For instance, KCPL currently offers two programs which could have fuel-switching implications. The Cool Homes program is a tariffed energy efficiency program designed to encourage the use of higher efficiency home cooling installations and retrofits. As a requirement for participation in Cool Homes, customers must have a home cooling system in place, but the program itself makes no distinctions between electric heat pumps and central air conditioning when offering an incentive for replacement equipment. Thus, there is a potential incentive for customers with electric central air cooling and gas heating to install an electric heat pump. Likewise, KCPL offers a Commercial & Industrial Prescriptive Rebate program, which may potentially provide an incentive for commercial and industrial customers to install electric heat pumps.

The Commission recently approved a series of pilot energy efficiency programs for Empire. The Central Air Conditioner Tune-Up and Replacement Pilot Program ("CAC Tune-Up and Replacement") is one of the approved programs. Similar to KCPL's Cool Homes program, the CAC Tune-Up and Replacement program is designed to encourage the use of higher efficiency home cooling installations and retrofits. The program has no availability restrictions, and makes no distinction between installation of air conditioning units and electric heat pumps. Thus, there is a potential incentive for customers with electric CAC and gas heating to install an electric heat pump. The Commission also approved a Commercial & Industrial Prescriptive Rebate program which may have the potential to encourage fuel-switching.

Rebates can be an important strategy for encouraging consumers to consider higher efficiency products. Staff believes that once rate design is addressed, these
programs are less likely to be effective in encouraging fuel-switching. Consistent with Staff's prior recommendation, Staff suggests the Commission find that energy efficiency programs be designed in a manner that does not bias an end-user toward a particular fuel but allows the end-user to make an efficiency improvement at the end-user location. This would allow a utility to offer an incentive to an end-user for replacement of equipment with more efficient equipment of the same fuel-type. Staff also suggested that under a whole house program, the audit may influence customer choice. Thus, Staff suggested that the auditor be independent of the utility. Staff also suggested that incentives offered through whole structure programs be a general rebate to encourage energy efficiency improvements to insulation, the building envelop, or other items that either increase total site efficiency or efficiency for the specific fuel supplied by the utility.

#### Encouraging Fuel-Switching From Electricity to Natural Gas

If the Commission wishes to consider encouraging the use of natural gas over electricity, the Commission will need to consider the questions outlined in the NRRI report and request additional comments from interested parties. Staff has conducted some preliminary analysis of the relative engineering or resource efficiency of natural gas and electricity using Kansas specific rates that might also be a useful starting point for discussion. Staff notes that information about subsidies provided at various phases within the production of an energy source should be considered in the analysis. Additionally, the comments of KGS and Atmos refer to and provide additional comment on national studies that could be reviewed further. Staff notes that such a review will require the Commission to consider both efficient use of resources balanced with the

economic efficiency for the consumer. It would also require the Commission to consider treatment of loss of revenues for the utility that loses usage.

Staff does not recommend the Commission actively encourage fuel-switching from electric use to natural gas usage. At this time, Kansas utilities do not face requirements to reduce kWh or KW as do electric utilities in other states, such as Pennsylvania, which encourage fuel-switching as a means of reducing kWh and KW. Even in Pennsylvania, where fuel-switching from electricity to natural gas is viewed as an acceptable means of achieving efficiency, there were parties that were opposed to increasing the use of another fuel source to achieve electric efficiency.

Staff suggests that at this time, the Commission maintain its definition of energy efficiency developed in its Order Following Collaborative, Docket No. 08-GIMX-442-GIV, paragraphs 201 and 199 (442 Order). The 442 Order defines energy efficiency as encouraging site efficiency of the particular fuel used for a particular end-use. This Order implies the efficient use of resources at the usage site is most important and not increasing the use of one type of fuel over another to achieve the most efficient use of resources generally. While the Commission may wish to move to this resource focused definition of efficiency in the future, Staff suggests that the Commission not attempt to incorporate the source-to-site analysis recommended in the NAS Letter Report and supported by the AGA Paper until the DOE has made progress in developing consistent estimates to be used in that analysis.

#### Summary of Staff Recommendations

- Staff recommends that the Commission make a determination in this docket regarding the use of incentives in energy efficiency programs, incentives to developers/builders and equipment dealers, and regarding line extension policies.
  - -- Incentives in energy efficiency programs can be addressed with the information already filed by interested parties. However, the Commission may wish to have parties update the record.
  - -- Incentives offered to developers/builders, equipment dealers, and line extension policies, can only be addressed if the Commission requests additional comments from parties. If the Commission decides to move forward on these issues, Staff suggests the parties file additional comments on these issues.
- Staff suggests the Commission is already making progress on rate design and has clearly stated in various forums that it wishes to move forward with rate design changes. The Commission has an informal rate design project underway. Thus, Staff does not believe rate design needs to be addressed in this proceeding except to recognize that rate design changes have some effect on whether other means of attempting to encourage fuel-switching will be successful.
- Finally, Staff recommends that the Commission should not pursue a policy to proactively encourage use of natural gas over electricity. Staff suggests that, at this time, the Commission maintain its definition of energy efficiency as encouraging site efficiency of the particular fuel used for a particular end-use. Additionally, maintaining this definition will allow the Commission to maintain

its current benefit-cost analysis for energy efficiency programs until the DOE makes progress in adopting the recommendation of the NAS Letter Report to incorporate source-to-site analysis. The Commission can then build upon the experience of the DOE if it determines that source-to-site analysis should be incorporated into benefit-cost analysis.

STATE OF KANSAS ) ) ss. COUNTY OF SHAWNEE )

#### **VERIFICATION**

Janet Buchanan, being duly sworn upon her oath deposes and says that she is Senior Managing Research Analyst for the State Corporation Commission of the State of Kansas, that she has read and is familiar with the foregoing Direct Testimony, and that the statements contained therein are true and correct to the best of her knowledge, information and belief.

uchanan\_

Janet Buchanan Senior Managing Research Analyst State Corporation Commission of the State of Kansas

Subscribed and sworn to before me this 28 day of September, 2010.

PAMELA J. GRIFFETH Notary Public - State of Kansas My Appt. Expires 08-17

Notary Public Kippeto

My Appointment Expires:

<u>Allquet 17, 2011</u>

## Attachment A

#### Staff's Summary of Comments in Docket No. 09-GIMX-160-GIV Following May 13 Order

#### **Responses of Interveners**

## A. If a fuel-switching policy is developed in this docket, should it be limited to addressing incentives within energy efficiency programs?

KGS and Atmos (Gas Utilities) and Midwest disagreed with Staff's recommendation not to apply fuel switching policies to activities outside of energy efficiency. Midwest stated its position that any program that results in fuel-switching is justified "if and only if" the program passes the RIM test. When the RIM test is equal to 1 or greater, all ratepayers are better off with the program than without it, and there is no unfair subsidy paid in order to gain market share. With regard to energy efficiency programs, Midwest agreed that any policy developed should be consistent with the Commission's goals for energy efficiency. However, Midwest believes it is difficult, if not impossible, to evaluate individual attributes of a program, such as incentives, independent of evaluating the program as a whole. ( $\P$  2-5)

The Gas Utilities believe that limiting a fuel-switching policy to energy efficiency programs is not consistent with the Commission's stated goals to develop a comprehensive energy conservation plan and reduce energy consumption. The Gas Utilities reference a several promotional practices mentioned within Staff's report which the gas utilities claim are designed to increase electricity consumption. (¶¶ 9-10)

In its reply comments to the Gas Utilities, KCPL argued that these practices are outside the scope of the docket because all parties have limited their discussion of fuel-switching to EE programming. (KCPL reply comments  $\P$  7)

## B. What are the general public policy recommendations of the parties, the benefits and costs of fuel-switching, environmental and economic considerations, etc.?

KGS and Atmos (Gas Utilities) in general felt that Staff's recommendations were not consistent with a few of the Commission's goals established by the 442 docket. In particular, the Gas Utilities felt that Staff's Report failed to explain how limiting fuel switching issues to an analysis of site efficiencies would mitigate CO2 emissions, or educate customers about the actual cost of providing energy. ( $\P\P$  4-7)

KCPL disputes the Gas Utilities claim that Staff's recommendation is not consistent with the Commission's goal of reducing additional electric generation. KCPL believes that the Gas Utilities' comment reflects their overall goal of obtaining regulatory mandates that will shift customer usage from electricity to natural gas. KCPL also believe that the gas utilities overstated the Commission's goal addressing environmental concerns, claiming that the "most efficiency and economically sound means" include considering the cost and volatility of competing energy sources. (¶¶ 4-5)

KCPL restated its position that the Commission's policy adopted should not require the Commission to pick winning fuel sources, and that these decisions should be made by the consumer who will enjoy the benefits of, and bear the negative consequences of such decision. (¶ 9)

## C. What policy information is included in research cited by parties and in additional Staff research?

The Gas Utilities disputed Staff's assertion that site-to-source energy consumption is hard to model and measure. In support of this position, the Gas Utilities provide a table of EPA's Energy Star Performance Ratings estimates, along with some internal analysis which they claim supports these estimates as being fairly representative of local utilities. ( $\P15$ )

KCPL disputes the Gas Utilities all or nothing conclusion regarding the assertion that an evaluation will not result in overall energy improvements if it does not address source-tosite analysis. KCPL states that many energy improvements have already occurred in Kansas even though a source-to-site analysis is not performed. KCPL also contended that the Commission should not rely on a simple generic model (such as EPA's Energy Star Performance Ratings) as such models may not be directly applicable to a specific utility's generation or load profile. (¶¶ 8, 11) 09-GIMX-160-GIV

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Second Staff Report and Recommendation was placed in the United States mail, postage prepaid, or hand-delivered this 28th day of September, 2010, to the following:

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09-GIMX-160-GIV

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Pamela Griffeth

Administrative Specialist

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-14

Exhibit JLB-14

2011.10.03 16:10:36 Kansas Corporation<sup>®</sup>Commussion /S/ Patrice Petersen<sup>®</sup>Klein

OCT 0 3 2011

by State Corporation Commission of Kansas

#### BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

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In the Matter of a General Investigation Into Incentives for Fuel Switching.

Docket No. 09-GIMX-160-GIV

#### STAFF REPLY TO RESPONSE OF KANSAS GAS SERVICE TO STAFF REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission," respectively) and submits this response to the reply comments submitted to Staff's Report and Recommendation by Kansas Gas Service ("KGS"). Staff states as follows:

1. On September 21, 2011, Kansas Gas Service ("KGS") filed a response to Staff's Report and Recommendation. KGS took issue with Staff's recommendation to close the docket and stated that Staff provided limited information to support its recommendation to close the docket.

2. KGS has a history of concern with fuel switching, and has intervened in numerous electric utility dockets to protect its interests where it believes the electric utility's operations may persuade customers to utilize electricity, rather than natural gas as a fuel source. (See KCC Docket Nos.10-KCPE-415-RTS, 09-KCPE-246-RTS, 10-KCPE-795-TAR, where KGS has sought intervention with concerns of customers switching from natural gas to electricity as a fuel source.)

3. While KGS notes in its response that market changes have affected the availability and price of natural gas, however, in the utility regulatory field, there will always be fluctuation in the marketplace. As noted in Staff's report and recommendation, Westar Energy, Inc. and Kansas City Power and Light have both noted in this docket that the Commission cannot affect consumer behavior.

4. KGS states that programs in existing tariffs are not fuel neutral. KGS cites to some existing programs which it believes encourage customers to switch from one fuel source to another. Staff responds that other than incentives, the other predominant influence on fuel choice is imbedded in rate structures, particularly declining block electric rates and specific electric heating tariffs. It is currently the practice of Staff to reduce or eliminate both of these as opportunities present themselves in rate cases.

5. Staff further notes that Kansas utilities are long in capacity on both the electric and natural gas side. Nothing should prevent utilities from promoting their fuels through non-tariff, stakeholder funded ventures, but it is important that these are not being subsidized by ratepayers and that they are not easily confused with tariff programs.

6. While Staff understands that KGS has an interest in ensuring that its market share is not decreased through efforts by electric utility companies to promote the use of electricity over natural gas, Staff believes that this docket has brought out the issues surrounding fuel switching concerns, and that the docket has served the purpose for which it was opened. Therefore, as recommended in Staff's Report and Recommendation filed on September 8, 2011, Staff recommends the closing of this docket with the Commissions' finding that utilities should design energy efficiency programs which are not biased toward a particular fuel source.

WHEREFORE, the Staff of the State Corporation Commission of the State of Kansas respectfully asks the Commission to issue an order to close this docket with the finding that energy efficiency programs should be designed in a manner that does not bias a particular fuel source.

Respectfully Submitted,

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Matthew A. Spurgin, #20470 Litigation Counsel Kansas Corporation Commission 1500 SW Arrowhead Rd. Topeka, KS 66604 785-271-3110 785-271-3167 (fax) <u>m.spurgin@kcc.ks.gov</u> Attorney for Commission Staff

MAS

STATE OF KANSAS ) ) ss. COUNTY OF SHAWNEE

#### VERIFICATION

Matthew A. Spurgin, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing Reply and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

Matthew A. Spurgin, # 20470

Kansas Corporation Commission of the State of Kansas

Subscribed and sworn to before me this  $3^{cd}$  day of October, 2011.

VICKI D. JACOBSEN Notary Public - State of Kansas My Appt. Expires 6-30-14

Vici D. Jacobsen Notary Public

My Appointment Expires: 6-30-14

#### CERTIFICATE OF SERVICE

#### 09-GIMX-160-GIV

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing docket was placed in the United States mail, postage prepaid, or hand-delivered this 3rd day of October 2011, to the following:

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09-GIMX-160-GIV

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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-15

Kansas Corporation Collision

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#### THE STATE CORPORATION COMMISSION Patrice Peterson Liein OF THE STATE OF KANSAS

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Before Commissioners:

Mark Sievers, Chairman Ward Loyd Thomas E. Wright

In the Matter of a General Investigation into Incentives for Fuel Switching.

Docket No. 09-GIMX-160-GIV

#### **ORDER TO CLOSE DOCKET**

The above-captioned matter comes on before the State Corporation Commission of the State of Kansas (Commission) for consideration and determination. Having examined its files and records, and being duly advised on the premises, the Commission finds and concludes:

1. On Augusts 8, 2008, Commission Staff (Staff) filed a motion to open a generic investigation to consider the development of a policy regarding incentives for fuel-switching and end-use applications. On September 29, 2008, the Commission issued an Order Initiating Investigation and Assessing Costs, stating that it would consider the issue of whether it is appropriate for utilities to use monetary incentives to encourage consumers to switch fuels for end-use applications within their homes.

2. On November 18, 2008, initial comments were filed by several of the parties to the docket. Midwest Energy (Midwest) filed its Initial Comments and stated that it believed enduse application programs for fuel-switching incentives can be economically justified, but environmental justification is problematic. Midwest stated it is appropriate for a utility to offer incentives to switch fuels as long as the switch leads to improved economic efficiency. Initial Comments of Midwest Energy, Inc., November 18, 2008.

3. Kansas Gas Service, a Division of ONEOK, Inc. (KGS) and Atmos Energy (Atmos) (collectively referred to as Kansas Gas Utilities) filed a Joint Recommendation. The

Kansas Gas Utilities recommended that conservation and energy-efficiency programs and utility rates should be constructed in a manner designed to create incentives for consumers to use energy wisely and remove disincentives for utilities to promote conservation. The Joint Recommendations and Comments of Kansas Gas Service, a Division of ONEOK, Inc. and Atmos Energy, November 18, 2008.

4. Westar Energy, Inc. and Kansas Gas and Electric Company (collectively referred to as Westar) filed initial comments as well. Westar stated that it did not intend to use incentives paid to end-users to promote fuel-switching because it believes that switching from a natural gas furnace to use of electricity for heating can be economically justified and that if cost information is provided to customers, customers will be able to make informed decisions on these issues. Westar recommended the Commission adopt an approach that allows utilities to educate their customers regarding various fuel options, and allow customers to make the ultimate decision regarding energy sources for their homes and businesses. Comments of Westar Energy, Inc. and Kansas Gas and Electric Company Regarding Fuel Switching Concerns, November 18, 2008.

5. In its initial comments, KCP&L stated that its energy-efficiency/demand response programs are not designed to encourage customers to switch fuels. The focus of these programs is to encourage customers to utilize energy more efficiently. KCP&L further stated that it believes its customer programs can be economically and environmentally justified through design, evaluation, measurement and verification of its programs. Additionally, KCP&L stated customers should be able to use the fuel of their choice, allowing utilities to provide customers with programs to use that fuel choice in an efficient manner. Initial Comments of Kansas City Power & Light Company, November 18, 2008.

6. The parties to this docket had the opportunity to provide reply comments to filings made in this docket. On December 23, 2008, Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy (Black Hills), filed its Reply Comments to Westar's Initial Comments. Black Hills stated that the statement that customers can save money and become more energy efficient by installing a heat pump instead of a high efficiency natural gas furnace to heat their homes that Westar relied on was inaccurate and needed to be corrected. Reply Comments of Black Hills Energy, December 23, 2008. The Kansas Gas Utilities filed their Joint Reply highlighting the agreement and disagreement among the comments filed in the docket and requesting the Commission define fuel-switching as a component of energy efficiency. The Joint Reply Comments of Kansas Gas Service, a Division of ONEOK, Inc., and Atmos Energy, December 24, 2008.

7. On December 24, 2008, KCP&L filed its Reply Comments in response to the joint comments of the Kansas Gas Utilities. KCP&L stated that it strongly objects to many of the recommendations made by the Kansas Gas Utilities because it would require the Commission to order competing companies to share sensitive commercial information, force them to join together to evaluate subjective data as a committee, and ultimately adopt business plans inconsistent with the best interests of their customers and shareholders. Reply Comments of Kansas City Power & Light Company, December 24, 2008.

8. The Citizens' Utility Ratepayer Board (CURB) also submitted its reply comments stating it strongly agreed with the comments made by Westar and KCP&L and urged the Commission to investigate the benefits of using a neutral third-party administrator. CURB's Reply Comments, December 24, 2008.

9. On April 13, 2009, Staff filed its Report and Recommendation suggesting that the Commission address policy considerations for fuel-switching only as it relates to energy-efficiency programs in this docket. Staff also suggested that it is reasonable for the Commission to develop a policy or provide guidance on fuel-switching in energy-efficiency programs consistent with the goals it has developed for energy efficiency. Notice of Filing of Staff Report and Recommendation, April 13, 2009. The Prehearing Officer issued an Order Accepting Staff's Report and Recommendation and ordered each party to file responsive comments. Order Accepting Staff's Report and Recommendation, Granting Motion for Leave, and Directing Parties to Submit Responsive Comments by May 29 and Any Reply Comments by June 12, 2009, May 13, 2009.

10. Comments concerning Staff's Report and Recommendation were filed by Midwest and the Kansas Gas Utilities on May 29, 2009. Midwest stated it believed that customers can decide the best fuel source for themselves and that utilities should be allowed to provide incentives so long as such programs pass the RIM test. Comments of Midwest Energy, Inc., May 29, 2009. The Kansas Gas Utilities filed their Joint Response to Staff's Report and Recommendation, stating that Staff's recommendations do not address many of the concerns and issues they raised and do not fully analyze the policy objectives set forth by the Commission as applied to these matters. The Joint Response of Kansas Gas Service and Atmos Energy to the Staff Report and Recommendation Filed April 13, 2009, May 29, 2009.

11. KCP&L disagreed with comments made by the Kansas Gas Utilities, stating their interpretation of the Commission Order and Staff's Report and Recommendation is inaccurate, and that the gas companies fail to acknowledge and respond to information in the record that does not support their position. KCP&L also requested an evidentiary hearing before the

Commission institutes a policy as recommended by the Kansas Gas Utilities. Kansas City Power & Light Company's Reply to Responsive Comments of Kansas Gas Service and Atmos, June 12, 2009.

12. On September 28, 2010, Staff filed its Report and Recommendation suggesting that the Commission make a determination in this docket regarding the use of incentives in energy-efficiency programs, incentives to developers/builders and equipment dealers, and regarding line extension policies. Staff also suggested that rate design not be addressed in this proceeding, and that the Commission should not pursue a policy to proactively encourage use of natural gas over electricity. Instead, the Commission should maintain its definition of energy efficiency as encouraging site efficiency of the particular fuel used for a particular end-use. Notice of Filing of Staff's Report and Recommendation, September 28, 2010.

13. On September 8, 2011, Staff filed an additional Report and Recommendation recommending the Commission issue an Order closing this docket, and find that energy-efficiency programs should be designed in a manner that does not bias users toward a particular fuel source. Staff Report and Recommendation, September 8, 2011. KGS responded to Staff's recommendation and argued that the Commission should develop a fuel policy that favors natural gas, reflects the incentives, rebates and other economic benefits provided by electric utilities to build load. KGS asked that this docket remain open until an opportunity is presented to address various fuel-switching practices that are designed to favor electricity over natural gas, or that there be a ruling that incentives, rebates and economic benefits for electric fuel substitution not be paid or conferred to influence a fuel choice decision. Response of Kansas Gas Service to the Staff Report and Recommendation Filed September 8, 2011, September 21, 2011. Staff replied to KGS's arguments that Kansas utilities have excess capacity on both the electric and natural gas side, and nothing should prevent utilities from promoting their fuels through non-tariff,

stakeholder funded ventures, but that it is important that these are not subsidized by ratepayers and that they are not easily confused with tariff programs. Staff stated that this docket has brought out issues surrounding fuel-switching concerns, the docket has served the purpose for which it was opened, and again recommended the Commission close the docket with the finding that utilities should design energy-efficiency programs which are not biased toward a particular fuel source. Staff Reply to Response of Kansas Gas Service to Staff Report and Recommendation, October 3, 2011.

14. Based on the comments filed by the parties, the Commission observes that a focus of this docket has become whether rate levels and structures incent customers to substitute one fuel source for another, for example rate structures that encourage customers to substitute electric energy for natural gas or vice versa. As a matter of public policy, the Commission concludes that it is inappropriate to implement rate structures designed to protect firms from competition.

15. The Commission also notes that an assessment of fuel-switching incentives is fact and rate specific, and should involve an examination of rate level and rate design that is utilityspecific. In every rate case, the Commission must assess whether the proposed rates are in the public interest, which necessarily involves an inquiry into the impact of rates on customers' incentives and inquiries into whether a rate is above or below cost, whether a rate affects demand and whether the Commission should change that rate or rate structure.

16. The Commission recognizes that every unjust or unreasonably discriminatory or unduly preferential rule, regulation, classification, rate, charge or exaction is prohibited and is unlawful and void, and that the Commission has the power to require all electric public utilities to establish and maintain just and reasonable rates. K.S.A. 66-101b. The Commission is mindful that if it finds any rate, rule and regulation, practice or act is found to be unjust, unreasonable, unfair, unjustly discriminatory or unduly preferential, or in violation of Kansas laws, the Commission has the power to establish, and order substituted therefor, such rates or rules and regulations as the Commission determines to be just, reasonable and necessary. K.S.A. 66-101f.

17. The Commission concludes that Docket No. 09-GIMX-160-GIV be should be closed. Utility providers shall continue to offer energy-efficiency programs in a manner that does not bias users toward a particular fuel source.

#### IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. This Docket, Docket No. 09-GIMX-160-GIV, is closed. Utility providers shall continue to offer energy-efficiency programs in a manner that does not bias users toward a particular fuel source.

B. Parties have 15 days, plus three days if service of this Order is by mail, from the date of service of this Order in which to petition the Commission for reconsideration. K.S.A. 66-118b; K.S.A. 2010 Supp. 77-529(a)(1).

C. The Commission retains jurisdiction over the subject matter and parties of this Docket for the purpose of issuing such additional orders it deems necessary.

#### BY THE COMMISSION IT IS SO ORDERED.

Sievers, Chairman; Loyd, Commissioner; Wright, Commissioner

Dated: \_\_\_\_\_\_ FEB 1 5 2012

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Patrice Petersen-Klein Executive Director

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ORDER MAILED FEB 1 6 2012
Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

## Exhibit JLB-16



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Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-17



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## Exhibit JLB-18



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Row Labels	Sum of Amount	
10000	1,830,691.95	-
-	199,574.19	Labor, meals, mileage/vehicle/travel costs for customer relations
00B932 - Customer Activity	1,233,278.56	Labor costs for customer relations
519500 - HVAC	210,723.14	HVAC Program Costs
519501 - Builder Program	19,754.24	Builder Program Costs
519503 - Smart Built Subdivision	132,428.56	Smart Build Subdivision Costs
519507 - Builder Operator Certification	32,690.13	BOC Costs
AIRCARD - Aircard Charges	227.42	Cellular Air Cards
B99995 - Class 05 Vehicles	88.07	Vehicle expenses
CABLE - IT Cable O&M	1,118.94	COX Media Services
TABLET - IPad&Tablet expenses tracking	808.70	Computer costs
10100	1,469,703.15	
-	157,090.47	Labor, meals, mileage/vehicle/travel costs for customer relations
00B932 - Customer Activity	997,825.13	Labor costs for customer relations
519500 - HVAC	181,831.11	HVAC Program Costs
519501 - Builder Program	17,045.76	Builder Program Costs
519503 - Smart Built Subdivision	114,271.44	Smart Build Subdivision Costs
CABLE - IT Cable O&M	965.56	COX Media Services
TABLET - IPad&Tablet expenses tracking	673.68	Computer costs
Grand Total	3.300.395.10	

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-19

Exhibit JLB-19 2008.10.30 11:46:11 1 Kansas Corporation Commission 757 Susan K. Duffy

### BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS STATE CORPORATION COMMISSION

Before Commissioners:

Thomas E. Wright, Chairman Michael C. Moffet Joseph F. Harkins

Sume Taliffy Docket Room

OCT 3 0 2008

In the Matter of the Application of Kansas City ) Power & Light Company for Approval of the ) Energy Star<sup>®</sup> New Homes Program. )

Docket No. 08-KCPE-848-TAR

#### **NOTICE OF FILING OF STAFF MEMORANDUM**

COMES NOW the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission", respectively), and for its Notice of Filing of Staff Memorandum states as follows:

1. Staff hereby files the attached Staff Memorandum indicating that the Commission should approve the Energy Star<sup>®</sup> New Homes Program ("the program") as submitted by Kansas City Power and Light Company ("KCPL").

2. Additionally, Staff recommends a thorough evaluation, measurement and verification process be conducted consistent with requirements to be developed in Docket No. 08-GIMX-442-GIV.

3. Staff further recommends that KCPL's tariff be amended to indicate that its evaluation of the program will be consistent with Commission requirements.

WHEREFORE, Staff requests the Commission consider its memorandum and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,

Mat C,

W. Thomas Stratton, Jr. #11916 Chief Litigation Counsel Matthew A. Spurgin, #20470 Litigation Counsel Kansas Corporation Commission 1500 SW Arrowhead Road Topeka, Kansas 66604 (785) 271-3279 (Telephone) (785) 271-3167 (Facsimile)

For Commission Staff

.

#### **VERIFICATION**

STATE OF KANSAS ) ) ss. COUNTY OF SHAWNEE )

Matthew A. Spurgin, of lawful age, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas; that he has read and is familiar with the foregoing *Notice of Filing of Staff Memorandum* and believes that the statements therein are true to the best of his knowledge, information and belief.

Matthew A. Spurgin\_#20470 Litigation Counsel The State Corporation Commission of the State of Kansas

SUBSCRIBED AND SWORN to before me this 29th day of October, 2008.



L. Davis Notary Public

My Appointment Expires:

124,2010



Kathleen Sebelius, Governor Thomas E. Wright, Chairman Michael C. Moffet, Commissioner Joseph F. Harkins, Commissioner

#### MEMORANDUM

- To: Chairman Wright Commissioner Moffet Commissioner Harkins
- From: Janet Buchanan Michael Mount Jaime Stamatson
- Date: October 29, 2008
- Re: Docket No. 08-KCPE-848-TAR In the Matter of the Application of Kansas City Power & Light Company for Approval of the Energy Star® New Homes Program ("*Application*")

Date Sent to Legal: 10 | 29 | 08

Date Sent to Commissioners: 10/30/08

Public Version
\*\* denotes confidential information

#### **Executive Summary:**

The Energy Star® New Homes Program submitted by Kansas City Power and Light Company (KCPL) provides an incentive for builders to build Energy Star® rated homes in the KCPL territory. Additionally, the company will provide technical services (such as builder training) and marketing of the program. KCPL anticipates that the program will lead to 3,500 Energy Star® rated homes being built in its territory over the next five years.

The program encourages a total home approach to achieving energy savings. Builders must comply with specific criteria to ensure energy savings. KCPL will assist with training and will provide educational materials to encourage demand for Energy Star® rated homes.

While there is some uncertainty concerning the benefit-cost test results, Staff recommends that this program be approved. Staff suggests that the educational value of the program and the success of the program in other States weigh in favor of approval of the program. Staff recommends a thorough evaluation, measurement and verification process be conducted consistent with requirements to be developed in Docket No. 08-GIMX-442-GIV. Staff recommends that KCPL's tariff be amended to indicate that its evaluation of the program will be

consistent with Commission requirements. At the time of the review, Staff will determine whether changes to the program should be made to improve consumer benefits.

#### **Procedural History:**

On March 10, 2008, KCPL filed an application for approval of the Energy Star® New Homes Program (*Application*). The *Application* was submitted by KCPL in response to the commitment made by the company in Docket No 04-KCPE-1025-GIE to implement demand response and energy efficiency programs. Exhibit B of the *Application* is a proposed tariff schedule, "Energy Star® New Homes, Schedule NH [Schedule 14].

On March 21, 2008, the Commission issued an order suspending the effective date of KCPL's proposal for 240 days, until November 5, 2008. The suspension was made pursuant to K.S.A. 66-117 to allow Staff sufficient time to investigate and develop a recommendation for the Commission.

Kansas Gas Service, a division of ONEOK, Inc. (Kansas Gas Service), Atmos Energy (Atmos), and the Citizens' Utility Ratepayer Board (CURB) all filed petitions for intervention. Both Kansas Gas Service and Atmos expressed concern on whether the proposed new home program would be fuel neutral. CURB requested intervention to represent the interests of residential and small commercial consumers. KCPL filed a response to the petitions of Kansas Gas Service and Atmos on April 14, 2008. While KCPL had no objection to the intervention of these entities, the company did not believe the fuel-switching issues raised by Kansas Gas Service and Atmos were appropriate for consideration in this proceeding. The Commission granted intervention to Kansas Gas Service, Atmos and CURB on April 30, 2008. The Commission stated that fuel neutrality was under consideration in Docket No. 08-GIMX-442-GIV and that the *Application* should be reviewed in light of orders issued in that docket and under consideration in Docket No. 08-GIMX-441-GIV.

The Commission issued an order in Docket No. 08-GIMX-442-GIV on June 2, 2008, that acknowledged the issue of fuel-switching had been raised, but the Commission did not believe it had sufficient information to develop a policy. The Commission determined that it would open a general investigation on the subject.<sup>1</sup> That investigation was opened on n September 29, 2008, in Docket No. 09-GIMX-160-GIV. The investigation has not been completed.

On October 24, 2008, KCPL filed a "Consent to Extension" to extend the 240-day period of issuance of an Order in this docket for a period of 14 days or until November 19, 2008.

#### **Background:**

General Program Information

The Energy Star® New Homes Program is a program developed by the U.S. Environmental Protection Agency and the U.S. Department of Energy. According to the *Energy Star® for New* 

<sup>&</sup>lt;sup>1</sup> In the Matter of a General Investigation Regarding Benefit-Cost Analysis and Program Evaluation for Energy Efficiency Programs, Docket No. 08-GIMX-442-GIV, Order Setting Energy Efficiency Policy Goals, Determining a Benefit-Cost Test Framework, and Engaging a Collaborative Process to Develop Benefit-Cost Test Technical Matters and an Evaluation, Measurement, and Verification Scheme, June 2, 2008, paragraph 31.

*Homes Sponsor and Utility Partner Guide* (*Guide*), the program began in 1996.<sup>2</sup> The *Guide*, along with the *Application* indicates that Energy Star qualified homes are "at least 15% more energy efficient than homes built to the 2004 International Residential Code."<sup>3</sup>

The program is designed as an "off the shelf proven solution" to promote energy efficient construction practices in the residential market.<sup>4</sup> The *Guide* indicates that there are five primary categories of barriers to the building of energy efficient homes. Those are:

- High Cost
- Lack of Consumer Demand
- Lack of Sales Skills
- Industry Resistance to Change
- Lack of Technical Infrastructure<sup>5</sup>

The program is designed to address a split incentive barrier similar to that of the landlord/tenant split incentive. That is, ". . . the party responsible for energy efficiency decisions is not the one who will ultimately reap related benefits."<sup>6</sup> Additionally, there are other barriers to construction of energy efficient homes, such as the availability of Home Energy Rating System (HERS) inspectors, builder knowledge of energy efficiency products, and the higher cost associated with energy efficient construction.

The *Guide* indicates that incentives offered through the program will help to address some of these barriers. It states:

Incentives can 'jumpstart' program participation and, if strategically designed, can lead to a healthy, self-sustaining market even after they are phased out. Incentives can include direct monetary payments, such as rebates, indirect monetary assistance such as free HERS ratings; or non-monetary assistance such as free training. Direct payments are typically provided to builders rather than homebuyers to reduce transaction costs and to maximize builder interest in participation.<sup>7</sup>

The *Guide* indicates that the following types of incentives have been offered: cash rebates, free or subsidized home energy ratings, advertising, free or subsidized training, marketing materials, discounted utility bills for the consumer, rebates for Energy Star® qualified products, rebates for high efficiency equipment, and rebates for qualified model homes.<sup>8</sup> However, the *Guide* also

<sup>&</sup>lt;sup>2</sup> Energy Star® for New Homes Sponsor and Utility Partner Guide, U.S. Environmental Protection Agency, October 2007, page 7. (Guide) Located at:

<sup>(</sup>http://www.energystar.gov/ia/partners/reps/pt\_reps\_new\_construction/New\_Homes\_Sponsor\_Utility\_Partner\_Guid e.pdf)

<sup>&</sup>lt;sup>3</sup> In the Matter of the Application of Kansas City Power & Light Company for Approval Of the ENERGY STAR® New Homes Program, Application of Kansas City Power & Light Company for Approval of the Energy Star® New Homes Program, March 10, 2008, Appendix A, page 1. (Application)

<sup>&</sup>lt;sup>4</sup> *Guide*, page 11.

<sup>&</sup>lt;sup>5</sup> Guide, page 15.

<sup>&</sup>lt;sup>6</sup> Quantum Report, page R8-1.

<sup>&</sup>lt;sup>7</sup> Guide, page 19.

<sup>&</sup>lt;sup>8</sup> Guide, page 19.

indicates there is little correlation between the size of the rebates and the growth in number of Energy Star® homes in a particular market.<sup>9</sup>

According to the Energy Star® web site, there are several builders and developers in the Kansas City area that have already become partners with Energy Star®. Most did not become partners until 2008. To become a partner, builders commit to qualifying at least one home for an Energy Star® label within any 12-month period.<sup>10</sup> These homes must be independently verified as meeting Energy Star® standards. Partner builders in the Kansas City area are listed in Attachment A.

Typically, the Energy Star® New Homes Program encourages building practices that are consistent with whole-house building science and meet HERS standards.<sup>11</sup> Generally, builders can attain the HERS standard through effective insulation, high-performance windows, tight construction and ducts, installation of efficient heating and cooling equipment and other Energy Star® products such as lighting, refrigerators, and dishwashers. Energy Star® offers builders two general paths for achieving the rating. Under the National Builder Option Package, in the climate zone designated by Energy Star® for Kansas<sup>12</sup>:

- cooling equipment must be sized appropriately and be at least a seasonal energy efficiency ratio (SEER) of 13 air conditioner or an Energy Star® qualified heat pump (14 SEER, energy efficiency ration (EER) of 11.5, heating seasonal performance factor (HSPF) of 8.5);
- heating equipment must be rate at an annual fuel utilization efficiency (AFUE) of 90 for a gas furnace, an Energy Star® qualified heat pump, an 85 AFUE for a boiler or an oil furnace;
- thermostat must be Energy Star® qualified;
- ductwork must have leakage less than or equal to 4 cfm to outdoors per 100 square feet and R-6 minimum insulation on ducts in unconditioned spaces;
- envelope infiltration (measured by air changes per hour at blower-door induced pressure differential of 50 Pascal (ACH50)) must be 5, insulation meet or exceed the 2004 International Residential Code (IRC) and an inspection meeting the thermal bypass checklist;
- windows must be Energy Star® qualified or better;
- water heater must be a forty gallon gas water heater with an energy factor (EF) of .61, a sixty gallon gas water heater with an EF of .57, an eighty gallon gas water heater with an EF of .53, an electric forty gallon water heater with an EF of .93, a fifty gallon electric hot water heater with an EF of .92 or an eighty gallon electric heater with an EF of .89; and,
- installation of five or more Energy Star® qualified appliances, light fixtures, ceiling fans, etc.

<sup>&</sup>lt;sup>9</sup> Guide, page 19.

<sup>&</sup>lt;sup>10</sup> Quantum Report, page R8-14.

<sup>&</sup>lt;sup>11</sup> Quantum Consulting, Residential New Construction Best Practices Report, National Energy Efficiency Best Practices Study, Volume R8, December 2004, page R8-14. (Quantum Report)

<sup>&</sup>lt;sup>12</sup> http://www.energystar.gov/ia/partners/bldrs\_lenders\_raters/downloads/Nat\_BOP\_Final\_062807.pdf.

Under the National Performance Path, builders must submit a construction plan to a HERS rater prior to building. The plans must meet essentially the same requirements listed for the National Builder Option but must specifically meet a HERS Index rating of 85 or less.<sup>13</sup> A specific HERS Index rating is not required under the former option. Copies of requirements for each path are attached to this memorandum as Attachment B.

#### Program Experiences of Other States

The *Guide* indicates that the following states have strong participation in the Energy Star® New Homes program<sup>14</sup>:

Alabama	Nevada
Alaska	New Hampshire
Arizona	New Jersey
California	New York
Colorado	North Carolina
Connecticut	Oklahoma
Delaware	Oregon
Florida	Rhode Island
Georgia	South Carolina
Indiana	Tennessee
Iowa	Texas
Maryland	Utah
Massachusetts	Vermont
Minnesota	Washington
Missouri	Wisconsin
Nebraska	

A New Jersey Energy Star® Homes program was implemented by the New Jersey Clean Energy Program in 2002. Through its application of the Energy Star® program, New Jersey required homes to meet a HERS Index rating of 86 and additional specifications beyond the basic requirements of the Energy Star® model program. The additional specifications were associated with central air conditioning, heat pumps, ducts and house air sealing.<sup>15</sup> Utility representatives worked with builders to select the appropriate mix of energy efficiency equipment/appliances were installed to meet requirements, to ensure proper building practices were followed, and to offer technical advice during construction.<sup>16</sup> In 2002, the second year of the program, 1,828 homes were HERS certified out of an estimated 30,000 new home starts in New Jersey.<sup>17</sup> However there were an additional 8,805 commitments to build houses to meet HERS certification.<sup>18</sup> A total of \$4 million in incentives were

<sup>&</sup>lt;sup>13</sup> http://www.energystar.gov/ia/partners/bldrs lenders raters/downloads/PerfPathTRK\_060206.pdf.

<sup>&</sup>lt;sup>14</sup> Guide, page 12.

<sup>&</sup>lt;sup>15</sup> Quantum Report, page R8-15.

<sup>&</sup>lt;sup>16</sup> Quantum Report, page R8-15.

<sup>&</sup>lt;sup>17</sup> Quantum Report, page R8-17. This is approximately 6% of the new homes built.

<sup>&</sup>lt;sup>18</sup> Quantum Report, page R8-17.

paid to builders (approximately \$2400 per house).<sup>19</sup> The incentive covered the entire incremental cost of building a home to meet a HERS rating of 86.<sup>20</sup>

California began implementing energy efficiency programs targeted at new home construction in the mid-1970's.<sup>21</sup> Revisions to the programs were made in the late 1990's to increase emphasis on home buyer education or market transformation.<sup>22</sup> In 2000, programs were further revised to meet changes in the California energy market and the programs continue to evolve. The *Quantum Report*, evaluated the programs in place in 2002. Then, program incentives were targeted to builders and were designed to provide builders with 60% of the incremental cost of meeting the program requirement to exceeding California energy standards by at least 15%.<sup>23</sup> The participating utilities offered design assistance to builders, conducted periodic training, reviewed building plans to verify that qualifications were met. The utilities also offered advertising through brochures, yard signs, welcome mats, and Energy Star® certificates.<sup>24</sup>

Energy Trust of Oregon (Energy Trust) has also implemented the Energy Star® New Homes program. In October 2007, the Energy Trust published a process evaluation of its program.<sup>25</sup> The Energy Trust's program was targeted to single family home builders, manufactured home builders and retailers and home buyers. Through its review, the Energy Trust discovered that "... less than twothirds (67%) of current ENERGY STAR home owners are even aware that the have purchased an ENERGY STAR home."<sup>26</sup> The Energy Trust was advised that this meant that growth opportunities exist for its program and should place more focus on marketing efforts.<sup>27</sup> Additionally, the process evaluation revealed that "... many ENERGY STAR manufactured home buyers are not submitting their rebate forms. This finding may demonstrate that the rebate itself may not be the primary incentive for purchasing an ENERGY STAR manufactured home."<sup>28</sup> The Energy Trust was advised to move away from its incentive-based system and instead increase its marketing of Energy Star® Homes and developing materials to educate builders and home buyers. The process evaluation also revealed that while the program was able to attract builders, few new homes were being built because of the slow down of the housing market.<sup>29</sup> Concerning home buyers, the process evaluation revealed that 90% of the buyers that were aware that their home was Energy Star® rated would recommend an Energy Star® purchase to others.<sup>30</sup> Additionally, 76% of the home buyers believed the major benefit of an Energy Star® home comes in the form of reduced energy bills.<sup>31</sup> Of those home buyers that were aware that their home was Energy Star® rated, 32% did not see a great value in the Energy Star®

<sup>&</sup>lt;sup>19</sup> Quantum Report, page R8-17.

<sup>&</sup>lt;sup>20</sup> Quantum Report, page R8-41.

<sup>&</sup>lt;sup>21</sup> Quantum Report, page R8-18.

<sup>&</sup>lt;sup>22</sup> Quantum Report, page R8-19.

<sup>&</sup>lt;sup>23</sup> Quantum Report, page R8-41.

<sup>&</sup>lt;sup>24</sup> Quantum Report, page R8-42.

<sup>&</sup>lt;sup>25</sup> Opinion Dynamics Corporation, Process Evaluation of Energy Trust of Oregon's Energy Star Energy Star® Homes New Homes Program, October 2007. (Oregon Process Evaluation)

<sup>&</sup>lt;sup>26</sup> Oregon Process Evaluation, page 1.

<sup>&</sup>lt;sup>27</sup> Oregon Process Evaluation, page 2.

<sup>&</sup>lt;sup>28</sup> Oregon Process Evaluation, page 3.

<sup>&</sup>lt;sup>29</sup> Oregon Process Evaluation, page 4.

<sup>&</sup>lt;sup>30</sup> Oregon Process Evaluation, page 16.

<sup>&</sup>lt;sup>31</sup> Oregon Process Evaluation, page 16.

certification of the home.<sup>32</sup> Again, it was recommended that the Energy Trust focus more on education and marketing to consumers as well as builders.

#### KCPL Specific Program Information

If the Commission approves KCPL's application, KCPL will obtain "Partner" status with Energy Star® to provide the New Homes program in their Kansas and Missouri territories. The company will offer financial incentives, technical services (such as builder training), and marketing of the program.

In the *Application*, KCPL notes that it had originally planned for an education program along with the payment for independent inspections. Under the New Homes program submitted, KCPL will offer an incentive of \$800 per home to builders who build homes that meet the required rating for Energy Star<sup>®</sup>.<sup>33</sup> Additionally, KCPL will pay for the cost of inspections by certified HERS inspectors, up to \$750 per home.<sup>34</sup> KCPL will also provide advertisement of the program to its residential customers through press releases, direct mailings, bill inserts, brochures with "trade allies" and through its web site.<sup>35</sup> Additionally, KCPL will develop a "clearinghouse" of information to train builders and to provide marketing resources or other tools that will be useful in promoting the New Homes program.<sup>36</sup> Finally, KCPL also states that it will assist in expanding the number of HERS raters to evaluate and certify the new Energy Star homes if necessary to meet demand.<sup>37</sup> The company indicates it will assist in recruitment of additional inspectors and perhaps with the cost of training for new HERS inspectors.<sup>38</sup> The estimated cost of training for HERS inspectors is \$1100.<sup>39</sup>

KCPL indicates that builders will be allowed to avail themselves of either path allowed by Energy Star® (discussed above) for achieving an Energy Star® rating. (See Attachment B) Three inspections will occur. Two of the inspections will occur during the construction phase and one will occur after completion of construction.<sup>40</sup> For builders of multiple homes, a HERS rater may be allowed to apply a sampling protocol for inspection and inspect a minimum of 15% of the builders similarly constructed homes.<sup>41</sup> If a sampling protocol is used, the \$800 incentive to the builder and the cost of the inspection would only be paid for those homes actually inspected.<sup>42</sup> The inspection rebate will be paid directly to the HERS rater rather than the builder.<sup>43</sup> Staff notes that there is no requirement for builders to install only electric appliances.

<sup>&</sup>lt;sup>32</sup> Oregon Process Evaluation, page 16.

<sup>&</sup>lt;sup>33</sup> Application, Appendix A, page 2.

<sup>&</sup>lt;sup>34</sup> Application, Appendix A, page 1.

<sup>&</sup>lt;sup>35</sup> Application, page 3.

<sup>&</sup>lt;sup>36</sup> Application, page 3.

<sup>&</sup>lt;sup>37</sup> Application, Appendix A, page 1.

<sup>&</sup>lt;sup>38</sup> KCPL Response to Staff Data Request No. 2.

<sup>&</sup>lt;sup>39</sup> KCPL Response to Staff Data Request No. 2.

<sup>&</sup>lt;sup>40</sup> Application, Appendix A, page 1.

<sup>&</sup>lt;sup>41</sup> Application, Appendix A, page 1

<sup>&</sup>lt;sup>42</sup> KCPL Response to Staff Data Request No. 5.

<sup>&</sup>lt;sup>43</sup> KCPL Response to Staff Data Request No. 5.

KCPL has indicated that ". . .builders of homes with Energy Star® rated natural gas appliances and space heating are eligible to fully participate in this program."<sup>44</sup>

Throughout this process, KCPL will encourage builders to achieve to "Partner" status with Energy Star<sup>®</sup>.<sup>45</sup> Builders will then be able to provide additional marketing and education to consumers. In Attachment A, Staff provides a list of builders constructing homes in the KCPL service area that have already achieved Partner status with Energy Star<sup>®</sup>.

KCPL anticipates that 3,500 Energy Star® rated homes will be built over a five year period.<sup>46</sup> The company states that this estimate is based on the participation in Energy Star® New Homes programs in other states along with the total number of expected homes to be built in the KCPL territory.<sup>47</sup> KCPL based its program on new home construction data from 2003.<sup>48</sup> The company notes that Vermont has achieved a market penetration of 30% in 2006 and that KCPL anticipates a market penetration of 20% after the initial start-up years.<sup>49</sup> However, the estimated 3,500 homes over five years are approximately 14% of the estimated new homes built over the same time period.<sup>50</sup> KCPL estimates that no Energy Star rated homes will be built in the first year of the program; 500 homes in the second year; and, 1000 homes built each year thereafter.<sup>51</sup>

While the *Application* states program goals in terms of the number of houses built each year, KCPL also indicates that it will monitor kWh and kW saved through the program.<sup>52</sup> The company estimates that the annual savings per home will be 2607 kWh for a total of 9,124,500 kWh at the end of the five year period.<sup>53</sup> The estimated avoided load per home is 0.93 kW for a total of 3,265 kW avoided by the end of the five year period.<sup>54</sup>

KCPL provided the following budget estimates for the program<sup>55</sup>:

Program Year	Program Delivery	Admin	Incentive	Marketing	Evaluation	Total
Year One	\$60,000	\$0	\$0	\$20,000	\$0	\$80,000
Year Two	\$415,000	\$55,000	\$400,000	\$50,000	\$0	\$920,000
Year Three	\$780,000	\$55,000	\$800,000	\$50,000	\$50,000	\$1,735,000
Year Four	\$780,000	\$55,000	\$800,000	\$50,000	\$0	\$1,685,000
Year Five	\$780,000	\$55,000	\$800,000	\$50,000	\$0	\$1,685,000
Total	\$2,815,000	\$220,000	\$2,800,000	\$220,000	\$50,000	\$6,105,000

<sup>48</sup> KCPL Response to Staff Data Request No. 3.

<sup>&</sup>lt;sup>44</sup> KCPL Response to Staff Data Request No. 9.

<sup>&</sup>lt;sup>45</sup> Application, page 3.

<sup>&</sup>lt;sup>46</sup> Application, page 3.

<sup>&</sup>lt;sup>47</sup> KCPL Response to Staff Data Request No. 3.

<sup>&</sup>lt;sup>49</sup> KCPL Response to Staff Data Request No. 3.

<sup>&</sup>lt;sup>50</sup> KCPL Response to Staff Data Request No. 3.

<sup>&</sup>lt;sup>51</sup> Application, Appendix A, page 2.

<sup>&</sup>lt;sup>52</sup> KCPL Response to Staff Data Request No. 6.

<sup>&</sup>lt;sup>53</sup> KCPL Response to Staff Data Request No. 6.

<sup>&</sup>lt;sup>54</sup> KCPL Response to Staff Data Request No. 6.

<sup>&</sup>lt;sup>55</sup> Application, Appendix A, page 2.

Regarding benefit-cost test results, KCPL reports the following<sup>56</sup>:

Total Resource Cost Test	1.48
Societal Test	1.73
Participant Test	2.71
Ratepayer Impact Measure	0.64
Utility Cost Test	1.57

#### Analysis:

#### General

As indicated in the Background section of this memorandum, the Energy Star® New Homes program began in 1996 and several states have implemented the program. The program makes use of the total home concept the Commission has stated a preference for in Docket No. 08-GIMX-442-GIV.<sup>57</sup> The success of programs varies with the specific program design and incentive structure developed in each state as well as the status of the housing market in general. The program design outlined by KCPL is similar to that which has been implemented in other states. Most programs reviewed by Staff offer incentives to builders and cover the cost of the HERS inspections as proposed by KCPL. In addition to offering incentives to builders, there is a strong educational component to the program. KCPL will provide training and marketing tools to assist in educating the public regarding the value of an energy efficient home.

#### Benefit-Cost Tests

Staff examined the benefit-cost test documentation provided by KCPL. In the *442 Order*, the Commission stated that all five standard benefit-cost tests should be submitted for review with a utility's application for program approval and the Commission would evaluate the results on a case-by-case basis.<sup>58</sup> The Commission also indicated that it would place emphasis on the Total Resource Cost Test and the Ratepayer Impact Measure.<sup>59</sup> The Commission directed Staff to schedule a collaborative discussion to attempt to reach consensus on the details involved in benefit-cost calculation. While the collaborative has been scheduled, the discussions have not yet occurred so KCPL's calculations are based on the company's interpretation of data required for the calculations. While acknowledging that neither KCPL nor Staff has the benefit of knowledge that will be gained through the collaborative process, Staff has reservations about several of the assumptions made by KCPL in its calculations.

#### a. Age of Data

KCPL's calculations are based on outdated data; most of it from **\*\* \*\***. Staff believes updated information would provide more reliable results.

<sup>58</sup> 442 Order, paragraph 38.

<sup>&</sup>lt;sup>56</sup> Application, Appendix A, page 3.

<sup>&</sup>lt;sup>57</sup> Docket No. 08-GIMX-442-GIV, Order Setting Energy Efficiency Policy Goals, Determining a Benefit-Cost Test Framework, and Engaging a Collaborative Process to Develop Benefit-Cost Test Technical Matters and an Evaluation, Measurement and Verification Scheme, paragraph 71. (442 Order)

<sup>&</sup>lt;sup>59</sup> 442 Order, paragraphs 39 and 40.

#### b. Discount Rates

Staff questions the discount rates employed by KCPL in several of the benefit-cost tests. The discount rates utilized are an important input into the benefit-cost calculations and can significantly affect the results of the calculations.

KCPL used a utility discount rate of **\*\* \*\*** in its calculation of the Utility Cost Test. In an email responding to staff inquiries made during a conference call, KCPL indicates that the **\*\* \*\*** rate represents the incremental cost of capital for the company as of **\*\* \*\* \*\*** a copy of the email is attached as Attachment C. Staff suggests it is more appropriate to use the Commission approved rate of return since energy efficiency resources are to be treated as an energy resource similar to supply-side resources. The most recently approved rate of return for KCPL is 8.4%.

KCPL utilized a societal discount rate of **\*\* ••• •• •**• **•** 

Many economists have pointed out that use of a market discount rate in social cost-benefit analysis undervalues the interests of future generations. Yet if a market discount rate is not used, comparisons with alternative investments are difficult to make.<sup>60</sup>

Thus, as a compromise, many follow the lead of the White House Office of Management and Budget (OMB). The OMB suggests that federal agencies perform benefit-cost analysis for the base case using a discount rate that "... approximates the marginal pretax rate of return on the average private sector investment. . ." or approximately 7%.<sup>61</sup> The California Energy Commission has derived discount rates to be used in cost and performance evaluations of proposed appliance efficiency standards.<sup>62</sup> The discount rate was based on after-tax cost of capital for building owners and purchasers of equipment and the interest rates associated with funding options available to them.<sup>63</sup> Ultimately, the California Energy Commission Staff determined a reliable after-tax discount rate of 3% was reasonable.<sup>64</sup> In 2003, the OMB again revisited the discount rate to be used by federal agencies in their analyses. The OMB suggested that when a regulation affects consumption, a lower discount rate is justified and recommended use of a discount rate of 3% in those instances.<sup>65</sup> The Consortium of Electric Reliability Technology Solutions (CERT) has recommended a social discount rate of 5% for reviewing transmission projects.<sup>66</sup> Since there is no clear consensus on this matter, Staff will provide results using a discount rate at both the high and the low end of the range presented here (7% and 3%).

<sup>&</sup>lt;sup>60</sup> California Standard Practice Manual, page 19.

<sup>&</sup>lt;sup>61</sup> Ringer, Mike, Discounting Future Fuel Costs at a Social Discount Rate, California Energy Commission, August 18, 2008, page 3. (Social Discount Rate)

<sup>&</sup>lt;sup>62</sup> Social Discount Rate, page 3.

<sup>&</sup>lt;sup>63</sup> Social Discount Rate, pages 3-4.

<sup>&</sup>lt;sup>64</sup> Social Discount Rate, page 4.

<sup>&</sup>lt;sup>65</sup> Social Discount Rate, pages 4-5.

<sup>&</sup>lt;sup>66</sup> Social Discount Rate, page 6.

KCPL used also the societal discount rate in the calculation of the Total Resource Cost Test. The company stated in an email that its consultant believes the appropriate discount rate for the Total Resource Cost Test is a market discount rate and believes the societal discount rate to be aligned with the perspective of the test. While the consultant also believes this position is aligned with the practice in California, the California Standard Practice Manual clearly states that a distinct discount rate is used for the Societal Test.<sup>67</sup> Therefore, it is not appropriate to use the same discount rate for the Societal and Total Resource Cost Tests. Staff suggests that the company's rate of return is the appropriate discount rate for the Total Resource Cost Test because it represents the discount rate for energy resources within the utility's territory.

#### c. Participant Cost

KCPL assumes the direct participant cost is **\*\* W \*\*** per home. Through an email, KCPL explained that this number was derived for the additional cost of a high efficiency central air conditioning **\*\* W \*\***, a high efficiency Energy Star® refrigerator **\*\* W \*\*** and compact florescent lighting fixtures **\*\* \*\***. Staff is not confident that this is a reasonable estimate of the incremental cost of obtaining the Energy Star® rating. However, Staff has had difficulty locating a reliable estimate for such cost.

For instance, the U.S. Department of Energy (DOE) indicates that builders will estimate that an energy efficiency home will cost 4% to 6% more than standard construction.<sup>68</sup> Yet, the DOE rejects the builder estimates and suggests that the "additional cost of a system-designed energy-efficient home ranges from zero to \$1,500 or more and depends on how the builder's costs are structured, the home's size and design, and the prevailing cost of building materials."<sup>69</sup> For instance, the DOE indicates that an affordable energy efficient home<sup>70</sup> was built in 2004, in Nebraska, for no additional cost.

The Massachusetts Energy Star® New Homes web site indicates that ". . [t]ypically, the upgrades needed to meet ENERGY STAR Homes standards are in the range of 1% to 3% more than code levels. Of course, if your builder is already building at a level higher than code, the cost is even less."<sup>71</sup>

The Southwest Energy Efficiency Project (SWEEP) released a report in November 2007 indicating that the additional cost of an Energy Star® rated home in its area ranges from approximately \$2,400 to \$3,600. Below is an excerpt from a table included in the SWEEP report.<sup>72</sup>

#### Incremental Costs for Basic Energy Star® Rating State Energy Star® Rated Home Arizona (Phoenix) \$3,218 Colorado (Denver) \$2,917

<sup>67</sup> California Standard Practice Manual, page 19.

68 http://apps1.eere.energy.gov/state\_energy\_program/feature\_detail\_info.cfm/fid=53

<sup>&</sup>lt;sup>69</sup> http://www1.eere.energy.gov/buildings/residential/financing.html

<sup>&</sup>lt;sup>70</sup> Here, "affordable home" was defined as a home for a buyer who qualifies for some type of government assistance.

<sup>&</sup>lt;sup>71</sup> http://www.energystarhomes.com/homebuilders/generalfaqs.htm#8

<sup>&</sup>lt;sup>72</sup> "High Performance Homes in the Southwest: Savings Potential, Cost Effectiveness and Policy Options" SWEEP, November 2007.

Nevada (Las Vegas)	\$3,236
Nevada (Reno)	\$3,653
New Mexico (Albuquerque)	\$2,464
Utah (Salt Lake City)	\$2,946

It should be noted that KCPL has not included the cost of the HERS inspection (approximately \$750 per house) in its calculation of incremental cost. It is unclear whether the estimates of incremental cost from New Jersey and from SWEEP include the cost of the inspections.

Staff contacted several of the builders listed in Attachment A and requested an estimate of the incremental cost of construction to meet the Energy Star® standards of this program. The builders contacted provided various estimates of the cost of meeting Energy Star® standards and indicated their belief that most homes are now built to a HERS index of less than 85. This would indicate that the incremental cost of building to Energy Star® standards is zero and the benefit of the program would be questionable.

Given the wide range of possible values for incremental cost, Staff provides the Commission with benefit-cost calculations utilizing the **\*\* formula \*\*** proposed by KCPL and a higher participant cost of \$4,020 based on the estimates of cost in other areas of the country.

e. Energy Savings

While energy savings from the program are likely to decline over time, KCPL did not factor this into the benefit-cost analysis. Through an email, KCPL indicates that:

While it is true that savings of a new appliance or measure will degrade over time it is also true that the efficiency of the existing appliance or measure will also degrade if not replaced. The key element we are after in the calculation is the delta between the existing and the new. We believe it to be reasonable [to] assign a lifetime in the analysis (15 years) and hold the savings for that period of time. Through the experience of [the consultant], we understand this practice to be consistent with methods used in other jurisdictions.

In this instance the program addresses new homes and comparison is between an Energy Star® rated home and standard construction. In either instance, the appliances would be new. Yet, estimating energy savings over time is still quite difficult depending upon the level of accuracy the Commission attempts to achieve. Considerations include: the life expectancy of the appliance or equipment, improvements in technology that will occur, age of replaced equipment, etc. Some of the considerations may be cost prohibitive to pursue and, depending upon the quality of the data, may not improve the accuracy of the calculations. Yet, Staff suggests it may be reasonable to assume a decline in savings of 2% per year.

#### f. Consideration of Natural Gas Savings

The proposed program is fuel-neutral yet KCPL did not include natural gas savings in the Rate Payer Impact measure, the Societal Test or the Total Resource Cost Test. KCPL indicated through an email that it did not have natural gas related information but was attempting to

identify the possible savings. Staff suggests that the additional savings attributable to natural gas would increase the value of these benefit-cost tests and should be considered for inclusion. However, Staff was unable to incorporate this into the benefit-cost worksheet provided by KCPL.

g. Externalities

KCPL proposed externalities valued at **\*\* where \*\*** per kWh. Staff proposes that externalities be valued at \$0.02 per kWh consistent with the value used in the wind study performed by the Commission.

Staff recalculated the benefit-cost tests assuming the following changes to the data:

Utility Discount Rate	8.4%
Social Discount Rate	7% or 3%
Total Resource Discount Rate	8.4%
Participant Cost	<b>** or \$4,020</b>
Initial Cost of Gas	\$8.2585 (from EIA data)
Rate of Change of Gas Cost	1.63% (proposed by Midwest for HowSmart review)
1 <sup>st</sup> Year Gas Savings	9.812 decatherms (based on Midwest review of HowSmart)
Attrition Rate for Savings	2%
Externalities	\$0.02

With these changes, the results of the benefit-cost tests are as follows:

	Option 1	Option 2	Option 3	Option 4
Societal Test	0.96	1.34	2.05	2.87
Total Resource Cost Test	0.76	0.76	1.63	1.63
Ratepayer Impact Measure	0.51	0.51	0.79	0.79
Utility Cost Test	1.53	1.53	1.53	1.53
Participant Test	1.03	1.03	2.88	2.88

Where Option 1 utilizes a participant cost of \$4,020 and a societal discount rate of 7%, Option 2 utilizes a participant cost of \$4,020 and a societal discount rate of 3%, Option 3 utilizes a participant cost of \*\* and societal discount rate of 7% and Option 4 utilizes a \*\* and a societal discount rate of 3%.

The Participant Test and Utility Cost Test are greater than 1 under any of Staff's options. The Societal Test is nearly 1 or greater than 1 under all of Staff's options. The Total Resource Cost Test is greater than 1 under Staff's Option 3 and Option 4. The Ratepayer Impact Measure is less than one under all of Staff's options.

Thus, it appears that under KCPL's calculations and those of Staff, the program would be costeffective and beneficial to the participants and the utility since all Participant Test and Utility Cost Test calculations are greater than 1. KCPL's Total Resource Cost Test is greater than 1 as it is under two of Staff's options utilizing the lower participant cost value. This would indicate that the programs are cost-effective for the customers, participants and non-participants together, in the service area of KCPL depending upon the participant cost level. The Societal Test is 1 or nearly one under both KCPL's and Staff's calculations indicating that the program is cost-effective for society. Under both KCPL's and Staff's calculations, the Ratepayer Impact Measure is less than one indicating that non-participants will experience some increase in cost over time.

#### Evaluation, Measurement and Verification

KCPL will conduct a billing analysis between participating customers and a control group after the program has been in place for approximately 30 months.<sup>73</sup> Staff suggests that KCPL's evaluation follow the protocols developed through the collaborative process ordered in Docket No. 08-GIMX-442-GIV.

#### Fuel-Switching

Fuel-switching does not appear to be an issue associated with this program. As indicated above, KCPL has stated that ". . .builders of homes with Energy Star® rated natural gas appliances and space heating are eligible to fully participate in this program."<sup>74</sup> Thus, the builder's choice of appliances or space heating is not influenced through the incentive payment.

#### Other Issues

While the program design outlined by KCPL is similar to that which has been implemented in other states, the housing market has changed significantly since many of the states first implemented their programs. KCPL states that its estimates are based on housing data from 2003. However, with the current economy, and the fact that new housing starts were already declining, it is unlikely that the program will lead to the anticipated level of Energy Star® rated homes or the associated energy and demand savings in the next five years.

While the Oregon Trust is evaluating whether to continue providing incentives or focus its program solely on education, Staff suggests that the incentive proposed by KCPL may serve to capture the attention of the builders to gain their assistance in promoting energy efficiency. Data provided by KCPL indicate that only 83 Energy Star® rated homes have been built in the Kansas City metropolitan area since 1996.<sup>75</sup> This may indicate that an incentive will help prompt builders to pursue energy efficient building practices. Yet, Staff acknowledges that builders may be constructing homes which would meet Energy Star® criteria yet not seeking the formal rating. The Commission may wish to revisit the need for an incentive following the program evaluation.

Additionally, it should be noted that incentive payments are simply a transfer of welfare from the KCPL to the participant. These payments will not affect the outcome of the Total Resource Cost Test or the Societal Test; however, the incentive payment will affect the Ratepayer Impact Measure, Participant Test, and Utility Cost Test. Any increase in the incentive payment, all else remaining constant, will cause a decrease in the result of the Ratepayer Impact Measure and the

<sup>&</sup>lt;sup>73</sup> KCPL proposed tariff, page 3.

<sup>&</sup>lt;sup>74</sup> KCPL Response to Staff Data Request No. 9.

<sup>&</sup>lt;sup>75</sup> Email attached as Attachment E.

Utility Cost Test while it will increase the result of the Participant Test. Again, Staff suggests that the effectiveness of the incentive should be carefully reviewed during the evaluation, measurement and verification process for this program.

Staff notes that if the housing market improves, there is some likelihood of free-riders associated with this program, especially for upper-end homes. It may be unlikely that builders need an incentive to make the Energy Star® upgrades for higher dollar homes. There may also be a spill-over effect associated with the program. Accounting for free-riders and spill-over affects will be discussed in the collaborative process ordered in Docket No. 08-GIMX-442-GIV and results of the collaborative can be incorporated into the evaluation, measurement and verification of this program.

Staff suggests that it may be appropriate to focus the program on a particular segment of the housing market. Staff questions the value of this program for addressing energy efficiency in the upper end of the housing market. Staff notes KCPL proposed and the Commission approved a Low-Income Affordable New Homes program in Docket No. 07-KCPE-767-TAR to achieve energy efficient affordable new housing in its service area. However, this program does not require the home to obtain an Energy Star® rating. Rather, rebates are provided to the builder for installation of Energy Star® rated lighting fixtures (\$400), Energy Star® rated refrigerators (\$200), high-efficiency central cooling systems (14 SEER or Greater) (\$800), and/or insulation meeting R42 (attic), R25 (floor) or R19 (crawlspace) (\$400). A budget of only \$10,000 per year was devoted to this program. It may be reasonable then to focus this program on low income and moderate housing. However, given the current status of the housing market, Staff suggests that it may be reasonable to implement the program without constraint to a particular segment. When the housing market improves, Staff suggests that this issue be revisited.

#### **Recommendations:**

While there are many positive aspects to KCPL's program, including use of the total home concept and significant educational efforts, the uncertainty over inputs for the benefit-cost analysis makes approval of the program based on these ratios difficult at this time. The collaborative to discuss appropriate inputs for the benefit-cost analysis has not occurred, so neither Staff nor KCPL have the benefit of insight that may be gained in that process. Given that appropriate inputs have not been determined, the Commission might assume that reasonable values for the benefit-cost measures lie somewhere between Staff's calculations and those of KCPL. If so, all but the Ratepayer Impact Measure would be greater than 1. This would indicate that the program is beneficial to the customers of KCPL and society in general.

For additional support in favor of approving the program, the Commission could rely on the success of the program in other states. Staff has provided several examples of successful programs and believes this program could prove to be valuable in Kansas when the housing market improves. The educational component has seemed especially valuable in other states. If viewed as an educational program, educating both builders and home buyers, then the Commission may be more willing to approve the program given the benefit-cost results. The Commission indicated that it would not require benefit-cost tests for educational programs.

It must be acknowledged that the program has been successful in states with much higher energy costs than those in Kansas. The lower energy costs in Kansas make energy efficiency programs more difficult to justify through the benefit-cost tests. However, the Commission has acknowledged that utilities are now planning to meet future load and ". . . that new generation and transmission capacity for electricity or natural gas may not come cheaply."<sup>76</sup> Thus, the Commission may wish to approve this program knowing that the benefits may not come until a later time period.

If the Commission approves this program, Staff suggests that the evaluation of this program be closely monitored by Staff and changes to the program be recommended at that time to achieve appropriate benefit-cost test results. Staff recommends the tariff language proposed by KCPL under the "Evaluation" heading be modified to state that evaluation, measurement and verification of the program consistent with the requirements established by the Commission will occur thirty months after implementation. Staff suggests that during the review process, KCPL evaluate other incentive mechanisms such as a mechanism that varies the level of incentive by the HERS index achieved or greater incentives for moving beyond requiring compact florescent lighting to LED lighting. Staff also suggests that at the time of review, KCPL consider whether certain segments of the housing market should be targeted with this program.

<sup>&</sup>lt;sup>76</sup> 442 Order, paragraph 22.

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## ATTACHMENT A

#### Attachment A

#### Energy Star® Partner Builders in the Kansas City Area

#### In Kansas

Acuff Homes Co., Inc (Became a partner in 2008 and has one Energy Star® label home) H&S Covenant Homes, LLC (Became a partner in 2007 and has one Energy Star® label home)

Haw Creek Construction Management (Became a partner in 2007)

Jacobs Construction, LLC (Became a partner in 2008)

Lyon Construction + Design, LLC (Became a partner in 2007)

Moffitt Development Company, Inc. (Became a partner in 2007)

Prairies End (Became a partner in 2007)

Segale Company (Became a partner in 2007 and has one Energy Star® label home) Stitt Energy Systems (Became a partner in 1996 and has two Energy Star® label homes) Two Brothers, LLC (Became a partner in 2008)

#### In Missouri

Acuff Homes Co., Inc (Became a partner in 2008 and has one Energy Star® label home in KS) Blue Hills Community (Became a partner in 2008 and has ten Energy Star® label homes) Duncan Custom Homes (Became a partner in 2007 and has one Energy Star® label home) Green Living by Durango Homes (Became a partner in 2008)

Haw Creek Construction Management (Became a partner in 2007)

Jacobs Construction, LLC (Became a partner in 2008)

Lyon Construction + Design, LLC (Became a partner in 2007)

Michael's Quality Homes, LLC (Became a partner in 2007 and has one Energy Star® label home)

Riead Home Construction, LLC (Became a partner in 2007 and has one Energy Star® label home)

Sterling Builders, Inc. (Became a partner in 2006 and has three Energy Star® label homes) Stitt Energy Systems (Became a partner in 1996 and has five Energy Star® label homes)

\*Four builders appear on the list for both Kansas and Missouri.

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### ATTACHMENT B



## ENERGY STAR Qualified Homes National Builder Option Package

The requirements for the ENERGY STAR Builder Option Package (BOP) are specified in the table below. To qualify as ENERGY STAR using this BOP, a home must meet the requirements specified, be verified and field-tested in accordance with the HERS Standards by a RESNET-accredited Provider, and meet all applicable codes.

· · · · · · · · · · · · · · · · · · ·	Hot Climates <sup>1</sup> (2004 IRC Climate Zones 1,2,3)	Mixed and Cold Climates <sup>1</sup> (2004 IRC Climate Zones 4,5,6,7,8)	
Cooling Equipment (Where Provided)	<ul> <li>Right-Sized <sup>2</sup>:</li> <li>ENERGY STAR qualified A/C (14 SEER / 11.5 EER); <u>OR</u></li> <li>ENERGY STAR qualified heat pump <sup>3</sup> (14 SEER / 11.5 EER / 8.2 HSPF)</li> </ul>	<ul> <li>Right-Sized <sup>2</sup>:</li> <li>13 SEER A/C; <u>OR</u></li> <li>ENERGY STAR qualified heat pump <sup>3</sup> (14 SEER / 11.5 EER / 8.5 HSPF)</li> </ul>	
Heating Equipment	<ul> <li>80 AFUE gas furnace; <u>OR</u></li> <li>ENERGY STAR qualified heat pump<sup>2,3</sup> (14 SEER / 11.5 EER / 8.2 HSPF); <u>OR</u></li> <li>80 AFUE boiler; <u>OR</u></li> <li>80 AFUE oil furnace</li> </ul>	<ul> <li>ENERGY STAR qualified gas furnace (90 AFUE); <u>OR</u></li> <li>ENERGY STAR qualified heat pump <sup>2, 3</sup> (See Note 3 for specifications); <u>OR</u></li> <li>ENERGY STAR qualified boiler (85 AFUE); <u>OR</u></li> <li>ENERGY STAR qualified oil furnace (85 AFUE)</li> </ul>	
Thermostat <sup>3</sup>	ENERGY STAR qualified thermostat (except for zones with radiant heat)		
Ductwork	Leakage <sup>4</sup> : $\leq$ 4 cfm to outdoors / 100 sq. ft.; <u>AND</u> R-6 min. insulation on ducts in unconditioned spaces <sup>5</sup>		
Envelope	<ul> <li>Infiltration <sup>6,7</sup> (ACH50): 7 in CZ's 1-2   6 in CZ's 3-4   5 in CZ's 5-7   4 in CZ 8; <u>AND</u></li> <li>Insulation levels that meet or exceed the 2004 IRC<sup>8</sup>; <u>AND</u></li> <li>Completed Thermal Bypass Inspection Checklist <sup>9</sup></li> </ul>		
Windows	ENERGY STAR qualified windows or better (	additional requirements for CZ2 and CZ4) <sup>10, 11, 12</sup>	
Water Heater <sup>13</sup>	Gas (EF): 40 Gal = 0.61 Electric (EF): 40 Gal = 0.93 Oil or Gas <sup>14</sup> : Integrate	60 Gal = 0.57   80 Gal = 0.53 50 Gal = 0.92   80 Gal = 0.89 d with space heating boiler	
Lighting and Appliances <sup>15,16</sup>	Five or more ENERGY STAR qualified appliances, light fixtures, ceiling fans equipped with lighting fixtures, and/or ventilation fans		

Note: Due to the unique nature of some state codes and/or climates, EPA has agreed to allow regionally-developed definitions of ENERGY STAR in California, Hawaii, and the Pacific Northwest to continue to define program requirements. The States of Montana and Idaho may use either the requirements of the national program or the regionally-developed program in the Pacific Northwest.



Map is for illustrative purposes only and is based on figure N1101.2 from the 2004 International Residential Code (IRC).



## ENERGY STAR Qualified Homes National Builder Option Package Notes

1. The appropriate climate zone shall be determined by the 2004 International Residential Code (IRC), Figure N1101.2.

2. Cooling equipment shall be sized according to the latest editions of ACCA Manuals J and S, ASHRAE 2001 Handbook of Fundamentals, or an equivalent procedure. Maximum oversizing limit for air conditioners and heat pumps is 15% (with the exception of heat pumps in Climate Zones 5 - 8, where the maximum oversizing limit is 25%). The following operating conditions shall be used in the sizing calculations and verified where reviewed by the rater:

<u>Outdoor temperatures</u> shall be the 99.0% and 1.0% design temperatures as published in the ASHRAE Handbook of Fundamentals for the home's location or most representative city for which design temperature data are available; <u>Indoor temperatures</u> shall be 75 F for cooling and 70 F for heating; <u>Infiltration rate</u> shall be selected as "tight", or the equivalent term.

In specifying equipment, the next available size may be used. In addition, indoor and outdoor coils shall be matched in accordance with ARI standards.

- 3. Homes with heat pumps in Climate Zones 4 and 5 must have an HSPF ≥ 8.5, which exceeds the ENERGY STAR minimum of 8.2 HSPF. Homes with heat pumps in Climate Zones 6, 7, and 8 cannot be qualified using this BOP, but can earn the label using the ENERGY STAR Performance Path requirements. In homes with heat pumps that have programmable thermostats, the thermostat must have "Adaptive Recovery" technology to prevent the excessive use of electric back-up heating.
- 4. Ducts must be sealed and tested to be ≤ 4 cfm to outdoors / 100 sq. ft. of conditioned floor area, as determined and documented by a RESNET-certified rater using a RESNET-approved or equivalent ASTM-approved testing protocol. Duct leakage testing can be waived if all ducts and air handling equipment are located in conditioned space (i.e., within the home's air and thermal barriers) AND the envelope leakage has been tested to be ≤ 3 ACH50 OR ≤ 0.25 CFM 50 per sq. ft. of the building envelope.
- 5. EPA recommends, but does not require, locating ducts within the home's conditioned space (i.e., inside the air and thermal barriers), and using a minimum of R-4 insulation for ducts inside the conditioned space to prevent condensation.
- 6. Envelope leakage must be determined by a RESNET-certified rater using a RESNET-approved testing protocol.
- 7. To ensure consistent exchange of indoor air, whole-house mechanical ventilation is recommended, but not required.
- 8. Insulation levels of a home must meet or exceed Sections N1102.1 and N1102.2 of the 2004 IRC. These sections allow for compliance to be determined by meeting prescriptive insulation requirements, by using U-factor alternatives, or by using a total UA alternative. These sections also provide guidance and exceptions that may be used. However, note that the U-factor for steel-frame envelope assemblies addressed in Section N1102.2.4 shall be calculated using the ASHRAE zone method, or a method providing equivalent results, and not a series-parallel path calculation method as is stated in the code. Additionally, Section N1102.2.2, which allows for the reduction of ceiling insulation in space constrained roof/ceiling assemblies, shall be limited to 500 sq. ft. or 20% of ceiling area, whichever is less. In all cases, insulation shall be inspected to Grade I installation as defined in the RESNET Standards by a RESNET-certified rater, with the following exceptions:
  - i. Rim/Band Joists the interior sheathing/enclosure material is optional in all climate zones, provided insulation is adequately supported and meets all other requirements.
  - ii. Wall Insulation the interior sheathing/enclosure material is optional in climate zones 1-3, provided insulation is adequately supported and meets all other requirements.
  - Sealed, Unvented Attic/Roof Assemblies the interior sheathing/enclosure material is optional in climate zones 1-3, provided insulation is adequately supported and meets all other requirements, including full contact with the exterior (roof) sheathing.
  - iv. Floor insulation over unconditioned basements or enclosed crawlspaces, either vented or unvented, need not be enclosed (though floor insulation over ambient conditions does).

.Note that the fenestration requirements of the 2004 IRC do not apply to the fenestration requirements of the National Builder Option Package. Therefore, if UA calculations are performed, they must use the IRC requirements (with the exception of fenestration) plus the fenestration requirements contained in the national BOP. For more information, refer to the "Codes and Standards Information" document.

- 9. The Thermal Bypass Inspection Checklist must be completed for homes to earn the ENERGY STAR label. The Checklist requires visual inspection of framing areas where air barriers are commonly missed and inspection of insulation to ensure proper alignment with air barriers, thus serving as an extra check that the air and thermal barriers are continuous and complete.
- All windows and skylights must be ENERGY STAR qualified or meet all specifications for ENERGY STAR qualified windows. Windows in Climate Zones 2 and 4 must exceed ENERGY STAR specifications (CZ 2: U-value ≤ 0.55 and SHGC ≤ 0.35; CZ 4: U-value ≤ 0.40 and SHGC ≤ 0.45). Visit <u>www.energystar.gov/windows</u> for more information on ENERGY STAR qualified windows.
- 11. All decorative glass and skylight window area counts toward the total window area to above-grade conditioned floor area (WFA) ratio. For homes with a WFA ratio >18%, the following additional requirements apply:
  - a. In IRC Climate Zones 1, 2, and 3, an improved window SHGC is required, and is determined by:



## ENERGY STAR Qualified Homes National Builder Option Package Notes

#### Required SHGC = [0.18 / WFA] x [ENERGY STAR SHGC]

Where the ENERGY STAR SHGC is the minimum required SHGC of the climate-appropriate window specified in this BOP.

- b. In IRC Climate Zones 4, 5, 6, 7, and 8, an improved window U-Value is required, and is determined by:
  - Required U-Value = [0.18 / WFA] x [ENERGY STAR U-Value]

Where the ENERGY STAR U-Value is the minimum required U-Value of the climate-appropriate window specified in this BOP.

- 12. Up to 0.75% WFA may be used for decorative glass that does not meet ENERGY STAR requirements. For example, a home with total above-grade conditioned floor area of 2,000 sq. ft. may have up to 15 sq. ft. (0.75% of 2,000) of decorative glass.
- To determine domestic hot water (DHW) EF requirements for additional tank sizes, use the following equations: Gas DHW EF ≥ 0.69 - (0.002 x Tank Gallon Capacity); Electric DHW EF ≥ 0.97 - (0.001 x Tank Gallon Capacity).
- 14. In homes with gas or oil hydronic space heating, water heating systems must have an efficiency ≥ 0.78 EF. This may be met through the use of an instantaneous water heating system or an indirect storage system with a boiler that has a system efficiency ≥ 85 AFUE. Homes with tankless coil hot water heating systems cannot be qualified using this BOP, but can earn the label using the ENERGY STAR Performance Path requirements.
- 15. Any combination of ENERGY STAR qualified products listed may be installed to meet this requirement. ENERGY STAR qualified ventilation fans include range hood, bathroom, and inline fans. ENERGY STAR qualified lighting fixtures installed in the following locations shall not be counted: storage rooms (e.g., closets, pantries, sheds), or garages. Eligible appliances include ENERGY STAR qualified refrigerators, dish washers, and washing machines. Further efficiency and savings can be achieved by installing ENERGY STAR qualified products, in addition to those required (e.g., additional lighting, appliances, etc.).
- 16. Efficient lighting fixtures represent a significant opportunity for persistent energy savings and a meaningful way to differentiate ENERGY STAR qualified homes from those meeting minimum code requirements. In 2008, EPA intends to propose and solicit industry comments on adding the ENERGY STAR Advanced Lighting Package (ALP) as an additional requirement for ENERGY STAR qualified homes in 2009. To learn more about the ALP, refer to <u>www.energystar.gov/homes</u>.



### ENERGY STAR Qualified Homes National Performance Path Requirements

#### **ENERGY STAR Performance Requirements:**

To qualify as ENERGY STAR, a home must meet the minimum requirements specified below, be verified and field-tested in accordance with the RESNET Standards by a RESNET-accredited Provider, and meet all applicable codes.



#### Maximum HERS Index Required to Earn the ENERGY STAR<sup>1</sup>

Note: Due to the unique nature of some state codes and/or climates, EPA has agreed to allow regionally-developed definitions of ENERGY STAR in California, Hawaii, and the Pacific Northwest to continue to define program requirements. The States of Montana and Idaho may use either the requirements of the national program or the regionally-developed program in the Pacific Northwest.

#### **ENERGY STAR Mandatory Requirements:**

Envelope <sup>2,3,4</sup>	Completed Thermal Bypass Inspection Checklist
Ductwork <sup>5,6</sup>	Leakage ≤ 6 cfm to outdoors / 100 sq. ft.
ENERGY STAR Products <sup>13,14</sup>	<ul> <li>Include at least one ENERGY STAR qualified product category:         <ul> <li>Heating or cooling equipment <sup>7</sup>; <u>OR</u></li> <li>Windows <sup>8</sup>; <u>OR</u></li> </ul> </li> <li>Five or more ENERGY STAR qualified light fixtures <sup>9,10</sup>, appliances <sup>11</sup>/<sub>12</sub>, ceiling fans equipped with lighting fixtures, and/or ventilation fans <sup>12</sup></li> </ul>
ENERGY STAR Scoring Exceptions	<ul> <li>On-site power generation may not be used to decrease the HERS Index to qualify for ENERGY STAR.</li> <li>A maximum of 20% of all screw-in light bulb sockets in the home may use compact fluorescent lamps (CFLs) to decrease the HERS Index for ENERGY STAR compliance. CFLs used for this purpose must be ENERGY STAR qualified.</li> </ul>



## ENERGY STAR Qualified Homes National Performance Path Notes

- The appropriate climate zone for each building site shall be determined by the 2004 International Residential Code (IRC), Table N1101.2. The HERS Index must be calculated in accordance with the RESNET Mortgage Industry National Home Energy Rating Standards.
- 2. The Thermal Bypass Inspection Checklist must be completed for homes to earn the ENERGY STAR label. The Checklist requires visual inspection of framing areas where air barriers are commonly missed and inspection of insulation to ensure proper alignment with air barriers, thus serving as an extra check that the air and thermal barriers are continuous and complete.
- 3. Envelope leakage must be determined by a RESNET-certified rater using a RESNET-approved testing protocol.
- 4. To ensure consistent exchange of indoor air, whole-house mechanical ventilation is recommended, but not required.
- 5. Ducts must be sealed and tested to be ≤ 6 cfm to outdoors / 100 sq. ft. of conditioned floor area, as determined and documented by a RESNET-certified rater using a RESNET-approved testing protocol. If total duct leakage is ≤ 6 cfm to outdoors / 100 sq.ft. of conditioned floor area, then leakage to outdoors does not need to be tested. Duct leakage testing can be waived if all ducts and air handling equipment are located in conditioned space (i.e., within the home's air and thermal barriers) <u>AND</u> the envelope leakage has been tested to be ≤ 3 ACH50 <u>OR</u> ≤ 0.25 CFM 50 per sq. ft. of the building envelope. Note that mechanical ventilation will be required in this situation.
- 6. EPA recommends, but does not require, locating ducts within conditioned space (i.e., inside the air and thermal barriers), and using a minimum of R-4 insulation for ducts inside conditioned space to prevent condensation.
- 7. All cooling equipment, regardless of whether it is used to satisfy the ENERGY STAR products requirement, must be sized according to the latest editions of ACCA Manuals J and S, ASHRAE 2001 Handbook of Fundamentals, or an equivalent computation procedure. Maximum oversizing limit for air conditioners and heat pumps is 15% (with the exception of heat pumps in Climate Zones 5 8, where the maximum oversizing limit is 25%). This can be accomplished either by the rater performing the calculations or reviewing documentation provided by the professional contractor or engineer who calculated the sizing (e.g., HVAC contractor). The following operating conditions shall be used in the sizing calculations and verified where reviewed by the rater:

<u>Outdoor temperatures</u> shall be the 99.0% design temperatures as published in the ASHRAE Handbook of Fundamentals for the home's location or most representative city for which design temperature data are available. Note that a higher outdoor air design temperature may be used if it represents prevailing local practice by the HVAC industry and reflects extreme climate conditions that can be documented with recorded weather data; <u>Indoor</u> temperatures shall be 75° F for cooling; <u>Infiltration rate</u> shall be selected as "tight", or the equivalent term.

In specifying equipment, the next available size may be used. In addition, indoor and outdoor coils shall be matched in accordance with ARI standards.

- Where windows are used to meet the ENERGY STAR qualified product requirement, they shall be ENERGY STAR qualified or meet all specifications for ENERGY STAR qualified windows. Additional information can be found at www.energystar.gov/windows.
- 9. For the purposes of meeting the ENERGY STAR requirement, qualified lighting fixtures in the following locations cannot be counted: storage rooms (e.g., closets, pantries, sheds), or garages.
- 10. Efficient lighting fixtures represent a significant opportunity for persistent energy savings and a meaningful way to differentiate ENERGY STAR qualified homes from those meeting minimum code requirements. In 2008, EPA intends to propose and solicit industry comments on adding the ENERGY STAR Advanced Lighting Package (ALP) as an additional requirement for ENERGY STAR qualified homes in 2009. To learn more about the ALP, refer to www.energystar.gov/homes.
- 11. Eligible appliances include ENERGY STAR qualified refrigerators, dish washers, and washing machines.
- 12. ENERGY STAR qualified ventilation fans include range hood, bathroom, and inline fans.
- 13. Further efficiency and savings can be achieved by installing ENERGY STAR qualified products, in addition to those required (e.g., additional lighting, appliances, etc.). For more information, visit <u>www.energystar.gov</u>.
- 14. In homes with heat pumps that have programmable thermostats, the thermostat must have "Adaptive Recovery" technology to prevent the excessive use of electric back-up heating.

## ATTACHMENT C
#### Janet Buchanan

From:	Lutz Brad	[Brad Lutz@kcnl.com]

Sent: Friday, October 03, 2008 4:44 PM

To: Janet Buchanan

Cc: Turner Mary; Sivils Carol; Dennis Allen; Riggins Kristin

Subject: Follow-up responses concerning the KCP&L Energy Star New Homes Program

Janet,

Attached are our responses to the questions expressed in the conference call on Monday. For your information we utilized Applied Energy Group (AEG) to perform this analysis as part of our Comprehensive Energy Plan and much of this response was provided by Michael Marks, their President.

#### Question #1: Concerning the discount rate, why did we use

Answer: The presents the KCPL incremental cost of capital on

Question #2: How was the Societal Discount Rate of determined?

Answer: The rate was determined using the US Treasury Daily Treasury Long Term Average Rate as of

#### Question #3: How was the Participant discount rate of the determined?

Answer: The rate was determined using the average rate for a money market account in I



#### Question #4: Why was the societal discount rate used to calculate TRC cash flows?

Answer: According to AEG, the rate used in the TRC should be a market discount rate. The societal discount rate serves as that rate and better aligns with the TRC's perspective, which is to include cash flows of the utility and its customers net of tax effects. Further, the use of the societal rate conforms to standards defined in many jurisdictions including California and Minnesota.

#### Question #5: Please define the Direct Participant costs (\$/Part) = (or builders cost per home).

Answer: for high efficiency Centralized Air Conditioning, for high efficiency ENERGY STAR<sup>®</sup> refrigerator, and for CFL lighting fixtures.

At the time these tests were performed these amounts were consistent with other utility programs developed by AEG and correspond with the incentive levels established within this program. Although the amounts may have changed since the tests were completed, Mr. Marks believes they remain reasonable amounts for the program design we are proposing.

# Question #6: Can you provide any additional information as to estimated gas savings cost in Therms and \$\$ value?

Answer: We do not have any gas-related information prepared as part of this program evaluation. In an effort to address this question we are in the process of reviewing available industry and Company information to identify possible savings. We will follow-up with you early next week to let you what we have found and work together to see if it could be useful to you.

#### Question #7: Did you factor in any decline in energy savings over time ( as appliances age?)

Answer: No. While it is true that savings of a new appliance or measure will degrade over time it is also true that the efficiency of the existing appliance or measure will also degrade if not replaced. The key element we are after in the calculation is the delta between the existing and the new. We believe it to be reasonable assign a lifetime in the analysis (15 years) and hold the savings for that period of time. Through the experience of AEG, we understand this practice to be consistent with methods used in other jurisdictions.

#### Question #8: Are we planning to target any specific market with this program?

Answer: No. We intend to market the program as broadly as possible. Given the challenges of the current housing market, all opportunities will be explored.

Please let me know if you would like to have another conference call to discuss these issues further. We are willing to have Mr. Marks available for the next call and allow you to explore your questions first-hand if you wish.

Thank you,

Brad Lutz 816-654-1689

# ATTACHMENT D

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### **Tom DeBaun**

From:	Lutz Brad [Brad.Lutz@kcpl.com]
Sent:	Monday, October 20, 2008 9:56 AM
То:	Tom DeBaun

Cc: Riggins Kristin

Subject: ENERGY STAR New Homes data

Good Morning Tom,

To follow-up on our offer to provide a breakdown of the ENERGY STAR new homes in our service territory by builder, we have learned this information is not available from ENERGY STAR. At this time ENERGY STAR does not keep a database of individual homes. Regional providers are required to maintain a database of activity for up to three years. However, we are uncertain if they maintain the data we want. We are continuing to see if the information exists. In the meanwhile, I wanted to forward the information ENERGY STAR did provide. I hope you find it useful.

Brad

#### 816-654-1689

#### 

The following is some more detailed data on ENERGY STAR Homes constructed in Kansas City:

,	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD	Grand Total
Total Kansas City Homes	0	0	0	2	1	`0	1	3	9	5	15	19	28	8:
Total KS and MO Homes	0	2	27	14	13	3	27	28	21	9	34	142	178	498
% of ESQH in KC		0%	0%	14%	8%	0%	4%	11%	43%	56%	44%	13%	16%	17%

#### **ENERGY STAR Home Construction in 2007:**

State	Final 2007 Census 1 Unit Permits <sup>1</sup>	2007 Census 2 Unit Permits	2007 Census 3&4 Unit Permits	2007 Census 1,2,3,4 Unit Permits	2007 Census 5 Unit Permits	All ENERGY STAR Homes 2007 <sup>2</sup>	ENERGY STAR Manuf. Homes 2007	ENERGY STAR Multifam. Low Rise 2007	ENERGY STAR Multifam High-Rise 2007 (4 or more)	2007 Market Penetration (Site-Built, Single Fam) Adjusted for Starts
Kansas	8137	448	462	9047	2426	41	2	2		1%
Missouri	14905	5 996	1018	16919	4606	103	3	2		1%

Exhibit JLB-19 33

08-KCPE-848-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Staff Memorandum was placed in the United States mail, postage prepaid, or hand-delivered this 30th day of October, 2008, to the following:

\* JAMES G. FLAHERTY, ATTORNEY ANDERSON & BYRD, L.L.P. 216 SOUTH HICKORY PO BOX 17 OTTAWA, KS 66067 Fax: 785-242-1279 jflaherty@andersonbyrd.com

NIKI CHRISTOPHER, ATTORNEY CITIZENS' UTILITY RATEPAYER BOARD 1500 SW ARROWHEAD ROAD TOPEKA, KS 66604 Fax: 785-271-3116 n.christopher@curb.kansas.gov \*\*\*\* Hand Deliver \*\*\*\*

C. STEVEN RARRICK, ATTORNEY CITIZENS' UTILITY RATEPAYER BOARD 1500 SW ARROWHEAD ROAD TOPEKA, KS 66604 Fax: 785-271-3116 s.rarrick@curb.kansas.gov \*\*\*\* Hand Deliver \*\*\*\*

\* CURTIS D. BLANC, MANAGING ATTORNEY-REGULATORY KANSAS CITY POWER & LIGHT COMPANY 1201 WALNUT (64106) PO BOX 418679 KANSAS CITY, MO 64141-9679 Fax: 816-556-2787 curtis.blanc@kcpl.com

\* WALKER HENDRIX, DIR, REG LAW KANSAS GAS SERVICE, A DIVISION OF ONEOK, INC. 7421 W 129TH STREET STE 300 (66213) PO BOX 25957 SHAWNEE MISSION, KS 66225 Fax: 913-319-8622 whendrix@oneok.com \* GLENDA CAFER, ATTORNEY CAFER LAW OFFICE, L.L.C. 2921 SW WANAMAKER DR STE 101 TOPEKA, KS 66614 Fax: 785-271-9993 gcafer@sbcglobal.net

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Pamela Griffeth

Administrative Specialist

\* Denotes those receiving the Confidential version

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-20

JUL 2 8 2008

2008.07.28 16:07:53 Kansas Soureocaromationooianaiostoni 757 Susan K. Duffy

#### BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

In the Matter of the Application of Kansas ) City Power & Light Company for Approval ) of the Home Performance with ENERGY ) STAR® Program.

Docket No. 08-KCPE-581-TAR

#### **REPORT AND RECOMMENDATION OF THE COMMISSION STAFF**

COMES NOW the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission", respectively) and files its Report and Recommendation in response to the Application of Kansas City Power & Light Company seeking approval of its Home Performance with ENERGY STAR® Program.

1. On December 17, 2007, Kansas City Power & Light Company ("KCPL" or "Applicant") filed an Application seeking Commission approval for KCPL's participation in the Home Performance with ENERGY STAR® Program ("HPwES Program" or "Program"), a national program developed by the U.S. Environmental Protection Agency and U.S. Department of Energy. Subsequently, on December 21, 2007, KCPL filed a corrected page 2 for substitution into its Application. The HPwES Program provides a process to identify significant energy savings through a whole-house energy assessment performed by Building Performance Institute certified contractors or consultants. The certified contractors or consultants provide a detailed listing of improvements that may be applied to the home and coordinate the installation of those improvements as directed by the customer. KCPL filed its Application as a part of the Stipulation and Agreement approved by the Commission's Order issued August 5, 2005 in Docket No. 04-KCPE-1025-GIE wherein KCPL agreed to develop, evaluate, and potentially implement certain demand response, efficiency and affordability programs.

Succes Intropy Docket

The HPwES Program is already in place in the Kansas City Metro area and the Missouri Department of Natural Resources' Energy Center is partnering with the Metropolitan Energy Center to implement the Program within a seven county area of Missouri and Kansas. Funding for the HPwES Program is provided by area agencies, including the Heartland Utilities for Energy Efficiency and the State of Kansas.

2. On January 9, 2008, the Commission issued a Suspension Order suspending operation of KCPL's request and deferral of its effective date for not more than two hundred forty (240) days from the date of filing the Application, December 17, 2007, until August 13, 2008.

3. Staff has thoroughly reviewed and investigated KCPL's Application and supporting materials filed in this matter and otherwise provided by Applicant during the course of Staff's investigation. In support of this Report and Recommendation, Staff proffers and incorporates herein as Attachment 1, Staff's verified Memorandum dated July 17, 2008, jointly prepared by Thomas B. DeBaun, Senior Energy Engineer, and Janet Buchanan, Chief of Telecommunications, setting forth in detail Staff's analysis and recommendation in this matter. Staff recommends four alternative solutions for the Commission's consideration and determination in this matter, which include the following:

(a) Approve the HPwES Program as filed in the instant Application.

(b) Approve the HPwES Program as presented pending the outcome of further examination of the fuel-switching issue in Docket No. 08-GIMX-442-GIV. If, at that time, the Commission finds that the HPwES Program is inconsistent with its fuel-switching policy, the Commission may require KCPL to end, or amend, the HPwES Program.

(c) Approve the HPwES Program on the condition that KCPL remove

the language excluding natural-gas-only improvements from eligibility. KCPL customers would continue to benefit from an efficiency measure leading to a reduction in energy use and/or demand.

(d) Dismiss the Application without prejudice pending the Commission's resolution of the fuel-switching issue in Docket No. 08-GIMX-442-GIV.

WHEREFORE, Staff respectfully submits its Report and Recommendation for the

Commission's consideration and determination in this matter.

Respectfully submitted,

W. Thomas Stratton, Jr. #11916 Otto A. Newton #8760 Litigation Counsel Kansas Corporation Commission 1500 S.W. Arrowhead Road Topeka, KS 66604-4027 (785) 271-3157

#### VERIFICATION 08-KCPE-581-TAR

STATE OF KANSAS ) ) ss. COUNTY OF SHAWNEE )

Otto A. Newton, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the Kansas Corporation Commission; that he has read and is familiar with the foregoing Report and Recommendation of the Commission Staff and that the statements therein are true to the best of his knowledge and belief.

Otto A. Newton

SUBSCRIBED AND SWORN to before me this 28<sup>th</sup> day of July, 2008.

PAMELA J. GRIFFETH Notary Public - State of Kansas My Appt. Expires 08-17-2011

Notary Public Hight

My Appointment Expires: <u>August 17, 201</u>



Kathleen Sebelius, Governor Thomas E. Wright, Chairman Michael C. Moffet, Commissioner Joseph F. Harkins, Commissioner

	MEMOR July 17	ANDUM , 2008
In the Ma City Pow of the Ho ENERGY	atter of the Application of Kansas er & Light Company for Approval me Performance with & STAR® Program.	) ) Docket No. 08-KCPE-581-TAR ) )
TO:	Chairman Wright Commissioner Moffet Commissioner Harkins	
FROM:	Thomas DeBaun Mar Janet Buchanan Ja Utilities Division	
DATE SU	JBMITTED TO LEGAL:	JUL 1 7 2008
DATE-SU	UBMITTED TO COMMISSIONERS:	July 28, 2008

#### EXECUTIVE SUMMARY

In this *Application*, Kansas City Power & Light Company ("KCPL" or "Company") seeks Commission approval of a program designed to encourage and assist owners of existing residential property in increasing the energy efficiency of homes, multiplexes, or apartments where the current resident is receiving service under any generally available residential rate schedule offered by the Company".<sup>1</sup> Rebates would be paid directly to the residential property owner for "Qualified Improvements" when:

- The subject residence is professionally assessed [evaluated] by an approved energy efficiency consultant/contractor, and
- At least one consultant/contractor-recommended energy efficiency improvement is implemented.

<sup>&</sup>lt;sup>1</sup> Application, Exhibit B, "Availability", Sheet 1 of 3

It is important to note that the proposed Home Performance with ENERGY STAR® Program ("HPwES Program") is only one in a portfolio of KCPL demand response, energy efficiency, and affordability programs, nine (9) of which have already been approved by the Commission in recent years.<sup>2</sup> In the portfolio, KCPL has attempted to achieve balance across customer classes in terms of an overall portfolio budget. If the HPwES Program is approved, it will allow KCPL to contribute to a regional energy efficiency effort and avoid some costs that it would otherwise incur from implementing an exclusively-KCPL program.

In this application, program rebates are proposed. They are intended to help offset an owner's total costs for evaluation and improvements, up to a maximum of \$600 per residential unit. HPwES participation is projected to be 1,000 assessments, with approximately 500 customers actually completing recommended improvements and qualifying for rebates over the five-year Program. Some customers may also be eligible to obtain additional incentives through other related KCPL demand response and energy efficiency program offerings, such as the Cool Homes, Energy Optimizer, or Low-Income Weatherization Programs. Other eligibility restrictions and program rules are specified in the tariff document.

While program eligibility requirements and rebate availability are clearly stated, the anticipated (and unanticipated) outcomes are more difficult to determine for the purpose of benefit/cost modeling. Evaluation, measurement and verification (EMV) may prove equally challenging. Yet, HPwES is a national program endorsed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE).

Staff's "Recommendation" in this memorandum outlines alternative Commission actions regarding the instant *Application*.

<sup>&</sup>lt;sup>2</sup> See Docket Nos. 06-KCPE-548-TAR, In the Matter of KCP&L Seeking Commission Approval of an **Online Energy Information Tariff**; 06-KCPE-497-TAR, In the Matter of the KCP&L Seeking Commission Approval of a **Low-Income Weatherization Tariff**; 06-KCPE-315-TAR, In the Matter of the KCP&L Seeking Commission Approval of a **Residential and Small Commercial and Industrial Air Conditioner Cycling Rider**; 06-KCPE-1190ACT, In the Matter of the Application of KCP&L for Approval of the **Business Energy Analyzer Program** and Interim Treatment of the Associated Costs as a Regulatory Asset; 06-KCPE-809-TAR, In the Matter of the KCP&L Seeking Commission Approval of the **MPOWER Rider**; 06-KCPE-1232-TAR, In the Matter of the Application of Kansas City Power and Light Company for Commission Approval of an **Energy Audit and Energy Saving Measures (ER) Rider**; 07-KCPE-909-TAR, In the Matter of the Application of Kansas City Power & Light Company for Approval of the **Low-Income Affordable New Homes Program**; 07-KCPE-683-MIS, In the Matter of the Application of Kansas City Power & Light Company for Approval of the Application of Kansas City Power & Light Company for Approval of the **Application** of Kansas City Power & Light Company for Approval of the **Low-Income Affordable New Homes Program**; 07-KCPE-683-MIS, In the Matter of the Application of Kansas City Power & Light Company for Approval of the **Building Operator Certification Program**.

#### BACKGROUND

KCPL's Home Performance with ENERGY STAR®, Schedule HP is intended to identify and encourage whole-house energy efficiency improvements. The HPwES Program is one of 14 demand response, efficiency, and affordability programs originally proposed in the *Stipulation and Agreement (1025 S&A)*, Appendix B, in Docket No. 04-KCPE-1025-GIE (04-1025 Docket).<sup>3</sup> On August 5, 2005, the Commission approved the *1025 S&A*, which specified additional Commission evaluation of individual efficiency programs prior to implementation.<sup>4</sup>

The national HPwES program from the EPA and DOE is devoted to improving energy efficiency and comfort, while helping to protect the environment.<sup>5</sup> Nationally, ENERGY STAR® applies to both existing and new structures with 9,000-plus businesses and organizations participating as ENERGY STAR® partners.<sup>6</sup> The Missouri Department of Natural Resources, Energy Center (MODNR) is the regional sponsor of the Home Performance with ENERGY STAR® programs in Illinois, Kansas, and Missouri.<sup>7</sup> KCPL and other parties are "partners" providing varying degrees of program delivery responsibilities and/or financial support.

#### **PROGRAM SPECIFICS**

Delivery of the HPwES Program in Kansas will involve MODNR, the Metropolitan Energy Center (MEC) and KCPL, as well as, additional support from the State of Kansas Energy Office, Heartland Utilities for Energy Efficiency (HUEE) and other business/trade organizations. The following descriptions of the responsibilities of MODNR, MEC and KCPL were provided in response to a Staff data request:

MODNR will coordinate agreements with local partners, produce a multi-state marketing plan, facilitate peer exchange, and monitor quality assurance and report results to the national DOE/ EPA HPwES Program.

http://www.eei.org/industry\_issues/retail-services...

<sup>&</sup>lt;sup>3</sup> Three of the originally proposed programs were consolidated in Docket No. 06-KCPE-1232-TAR, Energy Audit/Energy Savings Program, resulting in a final Kansas portfolio consisting of 12 programs.

<sup>&</sup>lt;sup>4</sup> Docket No. 04-KCPE-1025-GIE, In the Matter of the Future Supply, Delivery and Pricing of the Electric Service Provided by Kansas City Power & Light Company, p.3; Appendix B, p.3; and Appendix B-1.

<sup>&</sup>lt;sup>5</sup> Home Performance with ENERGY STAR®, <u>http://www.energystar.gov</u>

<sup>&</sup>lt;sup>6</sup> "Electric Company 2007 Energy Star Award Winners, Edison Electric Institute.

<sup>&</sup>lt;sup>7</sup> Docket No. 08-KCPE-581-TAR, In the Matter of the Application of Kansas City Power & Light Company for Approval of the Home Performance with ENERGY STAR Program ("Application"), Exhibit A, p.1

MEC will manage the process and flow of the local HPwES Program. This will include contractor recruiting, training and certifications, management of the lead generation process, whole house performance education for customers, and quality assurance.

KCPL will work to promote the program throughout the Company's service territory. This effort will include marketing, lead generation, and customer incentives. KCPL's scope will also include an impact evaluation of the program within KCPL's service territory in program year three.<sup>8</sup>

Staff Exhibit TBD-1 provides a brief biography of the principle organizations cited in the *Application* as supporting KCPL's HPwES Program initiative.

KCPL customer participation in the proposed HPwES Program by the owners of singlefamily homes, multiplex units, or apartments entails the following steps:

- 1. Property owner contacts MEC, the HPwES Program manager and a regional ENERGY STAR® partner.
- Approved contractor/consultants will be contacted by MEC and they will in turn contact the property owner to schedule a home energy assessment. The cost of the assessment is estimated to be \$300 - \$500, as stated in the HPwES tariff and payment for this service is the property owner's obligation.
- 3. Contractor/consultant will perform the assessment and provide the customer with a list of energy efficiency improvements.
- 4. An owner may decline to implement any of the improvements, at which time program participation terminates. Or, the owner may elect to complete one or more of the suggested improvements. Qualified Improvements <u>exclude</u> improvements related to natural-gas-only equipment or improvements associated with other KCPL residential energy efficiency or demand response programs.<sup>9</sup>
- 5. Upon completion of at least one eligible energy efficiency improvement by a certified contractor, a post-installation assessment will be conducted by the party that completed the initial assessment (at no additional cost to the customer) to verify that the project was

<sup>&</sup>lt;sup>8</sup> KCPL Response to Staff Data Request No. 3, Bryant and Riggins, April 23, 2008

<sup>&</sup>lt;sup>9</sup> For example, if the customer replaces a central air-conditioning unit with incentives under the Cool Homes Program (Schedule CHP), the air-conditioner replacement would not be considered a Qualified Improvement under this Program.

completed as specified. Payment for energy efficiency improvement(s) is the responsibility of the property owner.

- 6. Owner submits the "KCP&L Home Performance with ENERGY STAR® Application" (See Staff Exhibit TBD-2) to the Company, along with documentation of associated costs. The rebate application form is available on the Company's website (<u>www.kcpl.com</u>) and contractors, consultants, and MEC will also provide rebate applications.
- Approved applicants will receive a rebate for the assessment and improvement(s), or \$600, whichever is less.

#### PROGRAM COSTS

Several regional organizations are involved in the delivery of this program and monetary support for the HPwES Program comes from many sources. KCPL's five-year budget for the HPwES Program is approximately \$343,000 (Kansas portion) or 1.4 % of the \$24,000,000 five-year budget for the entire Kansas portfolio of demand response, energy efficiency, and affordability programs set forth in the *1025 S&A*. Estimated annual program costs for the five-years range from \$67,000 to \$76,000 (Kansas) and are stated in the HPwES tariff. Other sources of funding administered by the MODNR include \$168,036 federal funding, a \$20,000 grant from the State of Kansas (KCC - Kansas Energy Office), \$5,000 from MEC, and \$20,000 from HUEE<sup>10</sup>.

At the time of the 04-1025 Docket, KCPL envisioned the emphasis and cost of this program would be primarily directed toward contractor training. Since that time, MEC has assumed responsibility for contractor recruiting, training, and certification through a subgrant from the MODNR.<sup>11</sup> KCPL subsequently elected to commit the original HPwES budget amount toward the costs of incentive payments to participants in its service territory, and to marketing, evaluation, and administration of the HPwES Program.

In developing the incentive of \$600, KCPL considered what rebate amount would be cost effective and still impact customer decision making. The Company estimates that the customer's cost of the initial assessment will range from \$300 to \$500. The cost for the initial assessment plus energy efficiency improvements will likely exceed the \$600 maximum incentive

<sup>&</sup>lt;sup>10</sup> Staff note: Heartland Utilities for Energy Efficiency (HUEE) is a Kansas City metropolitan area energy efficiency collaboration consisting of electric and gas utilities. See: <u>www.huee.org</u>

<sup>&</sup>lt;sup>11</sup> KCPL Response to Staff Data Request No. 2, April 23, 2008

payment. However, customers may also be eligible for tax credits and may utilize other KCPL programs that target specific home improvements.

Staff notes that, while not mentioned in the *Application*, the Kansas Housing Resources Corporation (KHRC) offers a low interest rate loan program to assist in the purchase of "energy efficient heating systems and to make other energy conservation home improvements".<sup>12</sup> The KHRC "Kansas Energy Efficiency Program" (KEEP) was introduced in November 2006 and could complement HPwES and other KCPL programs.

#### **BENEFIT/COST TESTS**

In Docket No. 08-GIMX-442-GIV (08-442 Docket), the Commission provided general guidance for applicability of several benefit-cost tests (B/C tests) to the evaluation of energy efficiency programs.<sup>13</sup> The Commission indicated that it would expect to be presented with data for all of the B/C tests.<sup>14</sup> Additionally, the Commission indicated that it would pay particular attention to the results of the Total Resource Cost Test and the Ratepayer Impact Measure Test. In a post-08-442 docket, the Commission will also seek additional information to assist it in making detailed determinations related to the data utilized in the tests.

While the details of the benefit-cost calculations appropriate for Kansas are yet to be determined, KCPL provided alternative benefit-cost information in the *Application*, Exhibit A and through a data request response. In both submissions, KCPL utilized Benefit-cost test results savings and demand estimate data obtained from the EPA and the New York State Energy Research and Development Agency (NYSERDA) in conjunction with KCPL specific rate, cost and participation data to produce the benefit-cost test results. The savings and demand study results were as follows:

Test	<u>EPA</u>	<b>NYSERDA</b>
Ratepayer Impact Test	0.66	0.49
Total Resource Cost Test	1.18	0.78
Utility Cost Test	1.03	0.68
Participant Test	3.31	2.23
Societal Test	1.33	0.89

<sup>&</sup>lt;sup>12</sup> See: <u>www.kshousingcorp.org/programs/KEEP</u>

 <sup>&</sup>lt;sup>13</sup> See: California Standard Practice Manual: Economic Analysis of Demand-Side Management Programs, October 2001 available at http://www.cpuc.ca.gov/puc/energy/electric/energy+efficiency/rulemaking/03eeproposalinfo.htm
 <sup>14</sup> Docket No. 08-GIMX-442-GIV, Order Setting Energy Efficiency Policy Goals, Determining a Benefit Cost Framework, and Engaging a Collaborative Process to Develop Benefit-Cost Test Technical Matters and an Evaluation. Measurement, and Verification Scheme; June 2, 2008, ¶ 38, p. 15

Because multiple revenue sources exist for the ENERGY STAR® programs in general, as well as regionally (program is not entirely ratepayer funded), B/C test results for KCPL ratepayers would be variously impacted depending upon the proportion of funding sources attributed specifically to the KCPL HPwES Program. Also, Qualified Improvements, such as insulation, infiltration control, or windows have different levels of impact on energy savings and predicting the "mix" of options selected by customers would introduce additional uncertainty in any B/C analysis. Given KCPL's relatively modest HPwES annual budgets of \$67-76,000 (Kansas), Staff believes an independent, reasonably conclusive B/C study could easily consume a significant portion of an annual appropriation for the program.

#### ADMINISTRATION

Administration of the HPwES Program involves several levels and/or divisions of responsibility. First, the MODNR Energy Center is the overall "sponsor" of ENERGY STAR® in Illinois, Kansas and Missouri.<sup>15</sup> Several "partners" will contribute to implementation of the residential retro-fit energy efficiency measures in Kansas. KCPL describes its involvement as program promotion through marketing; identification of prospective participants; and customer incentives, as well as program impact evaluation for its service territory after program year three.<sup>16</sup> The Company's administrative costs for the HPwES Program are projected to be approximately 56% of the total program budget.<sup>17</sup>

#### EVALUATION, MEASUREMENT AND VALIDATION (EMV)

In its *Application*, Appendix A, KCPL states that it will conduct an impact analysis in program year three consisting of a billing analysis between participants and a control group within KCPL's territory. Quality assurance oversight of contractor involvement will be the responsibility of MEC, and MODNR will also conduct a 12-month, post-HPwES utility bill analysis. Presently, KCPL is providing Staff quarterly, confidential updates of demand response, energy efficiency, and affordability programs along with the status of other projects in the 04-1025 Docket ("Strategic Infrastructure Investment Status Report"). These reports reflect program

<sup>&</sup>lt;sup>15</sup>Application, Exhibit A, p.1

<sup>&</sup>lt;sup>16</sup> Ibid. Exhibit A, p.1

<sup>&</sup>lt;sup>17</sup> Confidential Reply to Staff Data Request No. 6, EPA numbers-600 incentive-Confidential xls

participation and cost results compared to budget and performance projections. For some programs, demand and energy savings results are also reported.

By Commission Order in the 08-442 Docket, Commission-approved protocol for EMV will be determined in an ensuing docket, but such protocol does not presently exist.

#### **OTHER CONSIDERATIONS**

As proposed in the HPwES tariff<sup>18</sup>, "Qualified Improvements" exclude improvements related to natural gas-only equipment. This provision could be viewed by some as a fuelswitching incentive related to water heaters, heating systems, etc. The Commission ordered a further examination of the fuel-switching issue in the 08-442 Docket<sup>19</sup>. Staff has discussed this concern with KCPL as it relates to the instant Application, as well as options to alleviate the concern. One possibility is that, if the tariff is approved subject to removing the gas-only exclusion, operational results of the HPwES Program over the course of a few years could provide a concrete source of information relative to fuel-switching, since results could be compared to KCPL's performance in Missouri where the program is currently in effect and excludes natural-gas-only improvements. Staff also notes that, in the instant docket, no gas utility has come forward to address fuel-switching.

#### CONCLUSION:

The HPwES Program is not represented as a "pilot" program by KCPL in the instant filing. However, Staff believes that due to the absence of conclusive benefit/cost tests, such designation may be appropriate in the event of a Commission order favoring implementation. The appeal of this program rests partially in its inclusion in KCPL's portfolio of demand response, energy efficiency, and affordability programs. The results from future program participation would provide valuable insight regarding public interest, as well as behavior with respect to fuel switching potential.

Commission approval of the HPwES Program would allow KCPL to participate in a nationally recognized energy efficiency program.

<sup>&</sup>lt;sup>18</sup> Application, Exhibit B, Sheet 2 of 3, Item 10.
<sup>19</sup> Docket No. 08-GIMX-442-GIV, Order ¶ F, p.2, June 3, 2008

#### **RECOMMENDATION:**

In Staff's opinion, the Commission has several options available for its consideration and determination in this matter. Consequently, Staff submits the following alternative solutions:

- 1. Approve the HPwES Program as filed in the instant *Application*.
- 2. Approve the HPwES Program as presented pending the outcome of further examination of the fuel-switching issue in Docket No. 8-GIMX-442-GIV. If, at that time, the Commission finds that the HPwES program is inconsistent with its fuel-switching policy, the Commission may require KCPL to end, or amend, the HPwES Program.
- 3. Approve the HPwES Program on the condition that KCPL remove the language excluding natural-gas-only improvements from eligibility. KCPL customers would continue to benefit from an efficiency measure leading to a reduction in energy use and/or demand.
- 4. Dismiss the *Application* without prejudice pending the Commission's resolution of the fuel-switching issue in Docket No. 08-GIMX-442-GIV.

cc: D. Low L. Holloway O. Newton T. Stratton S. Duffy M. Petty

## KCPL Home Performance with Energy Star

Organization	KCD&I HPWES Involvement	Members
U.S. Environmental Protection Agency (EPA) and U.S. Department of Energy (DOE)	Home Performance with Energy Star (HPwES) for existing homes. Guidance for existing homes toward more energy efficiency, reduction of high energy bills, improved comfort, and protecting the environment—accomplished either individually or though a hired, qualified professional	
Missouri Department of Natural Resources (MDNR) - Energy Center The Missouri Department of Natural Resources' Energy Center is a nonregulatory state agency that works to protect the environment and stimulate the economy through energy efficiency and renewable energy resources and technologies.	SPONSOR: Coordinates "partners" to implement HPwES Draft multi-state marketing plan (MO, KS, IL), Facilitate peer exchange, monitor quality assurance, conduct post HPwES utility bill analysis, report results to DOE/EPA	
<b>Metropolitain Energy Center (MEC)</b> . The Metropolitan Energy Center was formed in 1980 and incorporated June 6, 1983 as a Missouri not-for-profit organization. The mission of the Metropolitan Energy Center is to help create resource efficiency, environmental health and economic vitality in the Kansas City region.	PARTNER: Coordinates HPwES in Kansas City metropolitan area (Johnson, Leavenworth, & Wyandotte counties in KS and Cass, Clay, Jackson and Platte counties in MO; contractor recruiting, training, and certification; manage lead generation; customer education - whole house performance; quality assurance	Board Members representing: KCP&L BGR Engineers; Aquila; Lathrop & Gage, LLC; Berkebile Nelson Immenschuh McDowell Architects; Kansas University; Mid America Sign Contractors; Inc.; Renewable Utility Development Corp.; MDNR; Westside Housing Organization; City of Kansas City, Missouri; Henderson Engineers
Kansas City Power & Light Company	PARTNER: Program promotion in service territory. Marketing. Coordinate with contractors/ consultants. Leverage existing KCP&L programs that are relavant to HPwES. Press release, direct mail, bill inserts, bill messages, website, tradeshows. Lead generation - prospective participants Customer incentives Program impact evaluation (Year 3). Meeting or exceeding minimum set targets. Billing analysis.	
Heartland Utilities for Energy Efficiency - Organized in 2002, (HUEE) is a vehicle for participating electric and gas utilities to "promote energy efficiency in the Greater Kansas City marketplace through energy education, resources and actions to help assure a secure energy future for area residents." As such, it is one of the only local utilities collaborative in the nation working together on residential energy efficiency issues. In furtherance of this mission, member utilities contribute staff time to HUEE and charitable dollars to the "Energy Efficiency Education Fund" established at the Greater Kansas City Community Foundation.	Funding	Aquila, Inc., Atmos Energy, Independence Power and Light, Kansas City Board of Public Utilities, Kansas City Power and Light, Kansas Gas Service, Missouri Gas Energy, Platte-Clay Electric Cooperative
State of Kansas (Kansas Corporation Commission Energy Office)	Funding	



## KCP&L Home Performance with ENERGY STAR® Rebate

Please complete all se	ctions of this application. Appl rejected	ications that a J.	re incomplete may be delayed o
Section 1: Applicant Informa	ition		
Applicant Name:			
Contact Information:			
Mailing Address:			
City:	St	ate:	Zip:
Home Phone #:	Cell Phone #:		E-Mail:
(CP&L Electric Account #:			
Home Address (If different from N	lailing Address):		
Dity:	State	):	Zip:
Contractor Information: Company Name.		Fe	deral Tax ID #:
Mailing Address:			
	Sta	te:	Zip:
Contact Person:			
Business Telephone #:	Cell Phone #:		Fax #:
Please select which of the followi	ng KCP&L programs you have pa	rticipated in or a	are participating in?
<ul> <li>Energy Optimizer</li> <li>Energy Analyzer</li> <li>Cool Homes</li> </ul>		Surge Protectic Change A Ligh Other:	on t
For more in	formation about our current program o	offerings please v	isit <u>www.kcpl.com</u>

Staff Exhibit TBD-2 Docket No. 08-KCPL-581-TAR Who did you hear about the Home Performance with Energy STAR Program from?

<ul> <li>☐ KCP&amp;L</li> <li>☐ Contractor/Consultant</li> <li>☐ The Metropolitan Energy Center</li> <li>☐ The Missouri Department of Natural Resources</li> </ul>	EPA ENERGY STAR® Program Other Utility Other:
How did you hear about the Home Performance with ENERGY	STAR® Program?
☐ Bill Insert ☐ Newspaper/Magazine ☐ Door Hanger ☐ Radio ☐ E-mail	☐ TV ☐ Letter/Mail ☐ Website ☐ Event ☐ Other:
Section 2: Project Description	

Please select the type of home: Single-Family Apartment Duplex or Townhome

Size of the home or apartment in square feet:

Which of the following best describes your Home Performance with ENERGY STAR® project (SELECT ALL THAT APPLY)?:

Add Insulation Seal Ductwork Eliminate other air leaks Replace electric heating system Replace electric cooling system Heating and/or cooling system tune up Replace windows or doors Change Light bulbs or light fixtures Buy New Appliances – List: Other: Other:	Recommended Improvements	Improvements Completed	Installation Date	Installation Costs \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$
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#### **IMPORTANT**

In all cases, the applicant must provide an invoice for the home energy assessment and the installation of energy efficiency improvements. The invoice must include a breakdown of equipment, materials and labor.

KCP&L must receive the application within 120 days from the date of installation.



Section 3: Certification Statement

I certify that all information in this Application, including any attachments, is true and accurate to the best of my knowledge. I have read and understand the Terms and Conditions set forth in this Application and agree to abide by them. I further certify that I am the Owner of the property.

I agree to permit KCP&L to verify the purchase invoices and product installation transactions.

I acknowledge that KCP&L may issue the rebate in the form of a bill credit to my KCP&L electric account.

Applicant's Signature:

Date: \_\_\_\_

Return completed application and supporting invoices to: Kansas City Power and Light Energy Solutions – HPwES P.O. Box 418679 Kansas City, MO 64141-9679

#### KCP&L HOME PERFORMANCE WITH ENERGY STAR PROGRAM-TERMS AND CONDITIONS

Subject to these Terms and Conditions, the Kansas City Power & Light Company (hereinafter "KCP&L") may pay incentives to eligible customers (as defined below) toward the cost of a Home Performance with Energy Star Home Energy Assessment and a portion of the installation costs of energy efficiency improvements identified by the Home Energy Assessment and approved by KCP&L.

i. Customer Eligibilie

a) The KCP&L Home Performance with Energy Star Program is available to customers owning an existing home, multiplex, or apartment on a residential rate in the KCP&L service territory (hereinafter "Customers").

b) All Home Energy Assessments must be requested by the owner of the home..

2. Home Energy Assessment

a) The Home Energy Assessment is an energy evaluation of the home that includes observation of lighting and appliances as well as performance testing of the ventilation and mechanical systems, building tightness, and insulation levels that will result in a scope of work outlining recommended energy efficiency improvements.

b) All Home Energy Assessments must be performed by a certified Home Performance with Energy Star contractor or consultant to qualify for a KCP&L rebate.

c) To qualify for the Home Energy Assessment rebate, the Customer must implement at least one recommended energy efficiency improvement approved by KCP&L.

. Installation of Unergy Efficiency improvements

a) Energy efficiency improvements may include but are not limited to measures that are applied to the home to eliminate air leaks, add insulation, seal ductwork, and improve electric heating and cooling systems.

b) KCP&L will only approve those specific measures that have been recommended and installed by the Home Performance with Energy Star certified contractors or consultants in accordance with the Home Energy Assessment. KCP&L may approve or reject any proposed electric savings measures at its sole discretion.

4. Incensive Amounts

a) The Customer may qualify for a rebate amount up to \$600. The actual amount of the rebate will be based on the cost of the Home Energy Assessment and the cost of the implementation of recommended energy efficiency improvements that are approved by KCP&L.
 b) KCP&L reserves the right to award the rebate in the form of a bill credit.

5. Cost of Equipment

At any time, upon KCP&L's request. Customer or contractor must provide copies of all invoices (including the home energy assessment, all materials, labor, equipment discounts) reflecting the costs of purchasing and installing the energy savings measures. The invoices shall include a breakdown of all energy savings measures purchased for installation under this Agreement. In addition KCP&L may request any other reasonable documentation or verification of the cost to the Customer of purchasing the energy savings measures. KCP&L reserves the right at any time to require invoices from the contractor to determine the price paid by the contractor (including any discounts or incentives) for the energy savings measures. KCP&L reserves the right to use the contractor's reasonable costs in order to determine the correct incentive amount.

5. Limited Scope of Review

KCP&L is under no obligation to: (1) make follow-up visits, (2) review the operation of the energy savings measures, or (3) make any suggestions of any kind to the Customer.

The scope of review by KCP&L of the design and installation of the energy savings measures is limited solely to determining whether program conditions have been met. It does not include any kind of safety review.

Changes in the Program

KCP&L may modify, suspend or discontinue the program or any rebates due under the program at any time without prior notice. Under such circumstances, the Customer is not enfitled to any program benefits in excess of those approved prior to such action by KCP&L. These Terms & Conditions may also be modified by KCP&L at any time without prior notice.

9. Publicity of Customer Participation -

KCP&L may publicize aggregated details about the program, including but not limited to the amount of rebates paid and the results of the program. If KCP&L wants to publicize the Customer's individual participation in the program and details related to the individual participation, KCP&L will secure a release from the Customer authorizing to make such information public.

9. I initation of Liability and Indomnification

KCP&L's total liability under this program is limited to the dollar amount of the incentives specified in these Terms and Conditions. In no event will KCP&L, its officers, directors, employees, agents or affiliates be liable to the Customer for any consequential, indirect or incidental damages or for any damages in tort (including negligence) caused by any activities associated with this program.

The Customer shall indemnify, defend and hold harmless KCP&L from and against all liabilities, losses, claims, damages, judgments, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorney's fees) imposed upon or incurred by KCP&L and resulting from, arising out of, or relating to Customer's participation in the program.

10. No Warrantics

KCP&L DOES NOT MAKE ANY REPRESENTATIONS OR WARRANTIES REGARDING (1) THE RESULTS TO BE ACHIEVED BY CUSTOMER'S PARTICIPATION IN THE PROGRAM: (2) ANY ENERGY-SAVING MEASURES UNDERTAKEN; OR (3) THE SAFETY OF SUCH MEASURES. ANY WARRANTIES THAT MAY EXIST UNDER THIS PROGRAM ARE BETWEEN CUSTOMER AND CONTRACTOR OR PRODUCT MANUFACTURER ONLY. KCP&L DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. CUSTOMER ACKNOWLEDGES THAT KCP&L IS NOT RESPONSIBLE FOR THE DESIGN OR INSTALLATION OF THE ENERGY-SAVING MEASURES OR FOR INSURING THAT SUCH MEASURES COMPLY WITH ANY PARTICULAR LAWS (INCLUDING PATENT LAWS), CODES, REGULATIONS OR INDUSTRY STANDARDS.

b) Program rebates are limited to one rebate per Home Energy Assessment.

c) By participating in this program, Customer agrees that KCP&L obtains and/or retains ownership of all rights to existing and future emissions credits, renewable energy rights to existing and future emissions credits, renewable energy green tags, tradable renewable certificates and/or any and all other environmental benefits associated with the installation of the eligible equipment.

<sup>11.</sup> Castomer Must Pay All Taxes

The benefits conferred upon the Customer through participation in this program may be taxable by the federal, state, and local government. The Customer is responsible for declaring and paying all such taxes.

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a) Submission of a completed application does not entitle the Customer to program participation. Entitlement to program participation can only occur after KCP&L has signed a copy of the application and granted approval.

#### VERIFICATION 08-KCPE-581-TAR

STATE OF KANSAS ) ) ss. COUNTY OF SHAWNEE )

Thomas B. DeBaun, being duly sworn upon his oath deposes and states that he is Senior Energy Engineer for the State Corporation Commission of the State of Kansas, that he prepared the foregoing Memorandum, and that the statements contained therein are true and correct to the best of his knowledge and belief.

Thomas De Ha

Thomas B. DeBaun

SUBSCRIBED AND SWORN to before me this  $\angle \mathscr{F}^{\text{th}}$  day of July, 2008.

A PAMELA J. GRIFFETH Notary Public - State of Kansas My Appt. Expires 6 8-/7-20//

Jamela J. Higgete Notary Public

My Appointment Expires: august 17, 2011

#### VERIFICATION 08-KCPE-581-TAR

STATE OF KANSAS ) ) ss. COUNTY OF SHAWNEE )

Janet Buchanan, being duly sworn upon her oath deposes and states that she is Chief of Telecommunications for the State Corporation Commission of the State of Kansas, that she assisted in the preparation of the foregoing Memorandum, and that the statements contained therein are true and correct to the best of her knowledge and belief.

anet Buchanan

Janet Buchanan

SUBSCRIBED AND SWORN to before me this  $\cancel{/}{l}^{th}$  day of July, 2008.

PAMELA J. GRIFFETH Notary Public - State of Kansas My Appt. Expires 08-17-2011

Notary Public

My Appointment Expires: <u>*Auquet 17,2*</u>011

### **CERTIFICATE OF SERVICE**

08-KCPE-581-TAR

I hereby certify that a true and correct copy of the foregoing Report and Recommendation of the Commission Staff was placed in the United States Mail, postage prepaid, on this 28<sup>th</sup> day of July, 2008, properly addressed to:

Glenda Cafer Cafer Law Office, L.L.C. 2921 S.W. Wanamaker Drive Suite 101 Topeka, KS 66614

Brad Lutz Regulatory Affairs Kansas City Power & Light Company 1201 Walnut Kansas City, MO 64106

Mary Turner Director-Regulatory Affairs Kansas City Power & Light Company 1201 Walnut-13<sup>th</sup> Floor Kansas City, MO 64106

Otto A. Newton Litigation Counsel Gas & Electric

Direct Testimony of Janet L. Buchanan Docket No. 19-WSEE-061-COM

# Exhibit JLB-21

2008.09.09 16:51:32 Kansas Corporation Commission /S/ Susan K. Duffy

#### THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

Before Commissioners:	Thomas E. Wright, Chairman
	Michael C. Moffet
	Joseph F. Harkins

In the Matter of the Application of Kansas City Power & Light Company for Approval of the Home Performance with ENERGY STAR® Program. ) Docket No. 08-KCPE-581-TAR

#### Order on Staff's Report and on Petition for Reconsideration

The above captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having examined its files and records, and being duly advised in the premises, the Commission makes the following findings:

#### A. Tariff Application

#### Background

1. On December 17, 2007, Kansas City Power & Light Company (KCPL) filed an application requesting that the Kansas Corporation Commission (Commission) approve KCPL's Home Performance with ENERGY STAR® Program (Program). On December 21, 2007, KCPL filed a corrected page 2 for substitution into its Application. KCPL's application was suspended to August 13, 2008, and subsequently extended by agreement of KCPL and the Commission to September 12, 2008. See Suspension Order, filed January 9, 2008; Consent to Extension, filed July 25, 2008; Order Agreeing to Extension of Time, filed August 1, 2008.

2. KCPL is a vertically integrated electric public utility company under the jurisdiction of the Commission that is engaged in the generation, transmission, distribution and sale of electric energy to the public within the meaning of K.S.A. 2007 Supp. 66-104, in legally designated areas of Kansas. KCPL holds a Certificate of Convenience and Authority issued by this Commission, authorizing KCPL to engage in such utility business. See Application, p. 2.

3. On July 28, 2008, Staff filed its Report with the Commission. Staff noted the Program is a national program developed by the U.S. Environmental Protection Agency and the U.S. Department of Energy. Essentially, the Program provides for a whole-house energy assessment performed by Building Performance Institute certified contractors or consultants. The certified contractors or consultants provide a list of improvements that may be applied to the home and coordinate the installation of those improvements as directed by the customer. Customers that make improvements may then seek a rebate of up to \$600 from KCPL. See Application, p. 2-3 and Exhibit B; Report and Recommendation of the Commission Staff, filed July 28, 2008, p. 1.

4. KCPL filed its Application as a part of the Stipulation and Agreement approved by the Commission in its order of August 5, 2005 in Docket No. 04-KCPE-1025-GIE. KCPL agreed in that docket to develop, evaluate, and

potentially implement certain demand response, efficiency, and affordability programs. Application, pp. 1-2.

5. The Program is already in place in the Kansas City area. Application, 2; Memorandum, 8. The Missouri Department of Natural Resources' Energy Center, the program's "sponsor" in Illinois, Kansas, and Missouri, is partnering with the Metropolitan Energy Center to implement the Program in Missouri and Kansas. Application, Exhibit A, p. 1; Memorandum, 3-4, 7. Funding for the Program is provided by area agencies in addition to ratepayer money, including by the Heartland Utilities for Energy Efficiency and the State of Kansas. Memorandum, 3, 5, 7. KCPL's role is to promote the Program throughout its service territory, including marketing, lead generation, and customer incentives. KCPL's role also includes an impact evaluation in the Program's third year. Application, Attachment A, pp. 1-2; Memorandum, 4.

6. On August 4, 2008, Kansas Gas Service, a division of ONEOK, Inc. (KGS) filed a Petition for Intervention. Atmos Energy (Atmos) filed a Petition for Intervention on August 8, 2008. The Commission granted both petitions in orders issued August 7 and August 12, 2008, respectively.

7. On August 15, 2008, Kansas City Power & Light Company (KCPL), filed KCPL's Petition for Reconsideration of the Orders Granting Intervention to Kansas Gas Service and Atmos Energy.

8. On August 19, 2008, KGS filed a Response to KCPL's petition for reconsideration. On August 20, 2008, Atmos Energy also filed a response.

9. In Staff's Report, Staff stated it had reviewed and investigated KCPL's Application and the supporting materials filed by KCPL. Staff submitted a Memorandum dated July 17, 2008, as Attachment 1 to its Report and Recommendation. In Staff's Memorandum, Staff described the Program as designed to encourage and assist owners of existing residential property to increase the energy efficiency of their homes, multiplexes, or apartments where the current resident is receiving service under any generally available residential rate schedule offered by KCPL. Memorandum, 1. Staff observed the program is encourage "whole-house" intended identify and energy efficiency to improvements. Memorandum, 3. See also Application, Exhibit A, p.1.

10. As noted, the Program provides for the payment of rebates directly to the residential property owner for certain "Qualified Improvements" when the residence has been evaluated for energy efficiency by an approved energy efficiency consultant or contractor and at least one energy efficiency improvement suggested by the consultant or contractor is implemented by the customer. Memorandum, 1, 4; Application, Exhibits A and B. The program rebates are intended to help offset the customer's total costs for evaluation and improvements, up to a maximum of \$600 per residential unit. Memorandum 4; See also Application, Exhibits A and B. Improvements eligible for a rebate exclude improvements related to natural-gas-only equipment or improvements associated with other KCPL residential energy efficiency or demand response programs. Memorandum, 4.

11. Staff observed Program participation is projected at 1,000 assessments, with about half of those assessments resulting in completion of recommended improvements and qualifying for rebates over the course of the five-year program. Application, 3; Memorandum, 2. The Program would have estimated annual costs of about \$67,000 to \$76,000 in Kansas and a five-year budget of about \$343,000. Memorandum, 5, 7. Staff noted this is a very small percentage of the total KCPL five-year budget for its Kansas portfolio of demand response, energy efficiency, and affordability programs. Memorandum, 5.

Staff noted that outcomes of this Program are difficult to determine 12. Evaluation, measurement, and for the purpose of benefit/cost modeling. verification may prove challenging. Memorandum, 2. In providing benefit-cost analysis information to Staff in support of its application, KCPL used benefit-cost test results and savings and demand estimate data obtained from the Environmental Protection Agency (EPA) and the New York State Energy Research and Development Agency (NYSERDA) along with KCPL rate, cost and participation data. The savings and demand study results indicated a Ratepayer Impact Test of .66 (EPA) and .49 (NYSERDA). Total Resource Cost Test results were 1.18 (EPA) and .78 (NYSERDA). Utility Cost Test results were 1.03 (EPA) Participant Test Results were 3.31 (EPA) and 2.73 and .68 (NYSERDA). Societal Test results were 1.33 (EPA) and .89 (NYSERDA). (NYSERDA). Application, Exhibit A, 3; Memorandum, 6. Staff observed that test results for KCPL ratepayers would be variously impacted depending on the proportion of the multiple funding sources contributing to the Program funding that would be specifically attributed to the KCPL Program. Test results would also be affected by the selection of improvement options by customers because different energy efficiency improvements provide different levels of energy savings. Memorandum, 7.

13. KCPL would conduct an evaluation of the program in its third year that would consist of a billing analysis between participants and a control group. Application, Exhibit A, p. 2. Contractor quality assurance oversight is provided by the Missouri Energy Center. The Missouri Department of Natural Resources (MODNR) also will undertake a post-Program utility bill analysis. KCPL currently provides Staff with quarterly, confidential reports on KCPL's energy efficiency programs arising out of the 04-KCPE-1025-GIE docket. Memorandum, 7.

14. Staff observed that the exclusion for rebate eligibility for improvements related to natural gas-only equipment may be viewed as a fuel-switching incentive related to water heaters and heating systems. Memorandum, 8. The Commission plans to conduct an examination of the fuel-switching issue in a generic investigation, Docket 09-GIMX-160-GIV. See Order Setting Energy Efficiency Policy Goals, filed June 2, 2008, p. 26, 08-GIMX-442-GIV; Staff's Motion to Open a Generic Investigation into a Policy on Incentives for Fuel Switching, filed August 8, 2008, 09-GIMX-160-GIV.

15. Staff noted one option would be to approve the tariff subject to removal of the gas-only exclusion, permitting comparison of results of the Program with results in Missouri where the Program is run as proposed excluding natural-gas-only improvements. Staff also noted an option might be to view the program as a "pilot" program due to the absence of conclusive benefit/cost tests. Memorandum, 8.

16. Interveners Atmos and KGS have focused on whether KCPL's Program constitutes fuel switching. Atmos and KGS take issue with a provision in the program that excludes a rebate incentive in the event a customer selects a natural-gas-only energy efficiency improvement. KGS Petition for Intervention,  $\P$  4; Atmos Petition for Intervention,  $\P$  3.

17. Interveners argue the Program promotes load building in favor of electricity through the payment of incentives to offset the cost of electrical appliances. KGS Response to KCPL's Petition for Reconsideration, ¶ 6; Atmos Petition for Intervention, ¶ 7. They suggest that the incentives plus deep rate discounts in the KCPL rate structure for heat pumps and electric water heaters will cause customers to convert from natural gas appliances and increase electric consumption without promoting overall energy efficiency. KGS Response to KCPL's Petition for Intervention, ¶ 6; KGS Petition for Intervention, ¶ 9; Atmos Petition for Intervention, ¶ 7. They assert the program is not fuel neutral. KGS Petition for Intervention, ¶ 6. KGS describes the Program as ambiguous as to how it applies in the context of apartment complexes and multiplexes, thus

leaving open the possibility it might be used to convert an entire apartment complex to electricity. KGS Petition for Intervention,  $\P$  6.

18. Interveners state that energy efficiency programs should promote the use of the most efficient and lowest pollution-emitting energy sources for particular applications. KGS Petition for Intervention, ¶ 9; Atmos Petition for Intervention, ¶ 7. KGS argues natural gas is inherently more energy efficient as it retains a high percentage of its energy value from extraction through to the consumer, whereas electricity retains a much lower percentage of its energy through the "source-to-site" cycle. KGS further argues natural gas is more efficient on the basis of both source-to-site and applications. KGS Petition for Intervention, ¶ 7.

19. Interveners assert that conservation and energy efficiency programs should be analyzed on a multi-fuel and comprehensive basis that examines all reasonably available competing energy products and services and takes into account all likely impacts of the proposed programs, including load growth. They suggest conservation and energy efficiency programs should be analyzed on a source-to-site plus appliance efficiency ("full fuel cycle") basis, and that the fuel substitution standards developed in the California Standard Practice Manual should be applied. KGS Petition for Intervention, ¶ 8; Atmos Petition for Intervention, ¶ 6 & 7.
20. Interveners have asked the Commission to dismiss KCPL's tariff application until the issue of fuel switching is addressed in the Commission's generic investigation on the subject, 09-GIMX-160-GIV.<sup>1</sup>

21. In response, KCPL notes the Commission has indicated it would address the issue of fuel switching in the generic investigation and that is where Intervenors raise should be resolved. KCPL Petition for issues the Reconsideration, ¶ 5. KCPL argues the Program should not be delayed by the generic investigation, but may be terminated or modified upon an ultimate Commission decision fuel-switching issues. KCPL Petition for on Reconsideration, ¶ 5.

22. KCPL points out that the Program does not exclude natural gas customers from participation, does not prevent a customer from making a natural-gas-only improvement, and that the customer need only make one additional improvement to be eligible for a rebate incentive. Comments of KCPL on Staff's Report and Recommendation (Comments),  $\P$  6. KCPL also asserts that requiring electrical company ratepayers to pay for natural-gas-only improvements would be unfair. Comments,  $\P$  7.

23. Staff provided several options for the Commission to consider:

<sup>&</sup>lt;sup>1</sup> Specifically, Intervenors request development of an evidentiary record on the issue of fuel switching, the impact fuel substitution has on the calculation of avoided costs and the cost effectiveness tests, and the overall impact fuel switching has on energy conservation and efficiency. KGS Petition for Intervention, ¶ 10; Atmos Petition for Intervention, ¶ 8.

A. Approve the Program as filed;

B. Approve the Program as filed pending the outcome of examination of the fuel-switching issue in Docket No. 09-GIMX-160-GIV, and subject to termination or modification based on the results of that generic investigation;

C. Approve the Program subject to the condition that the language excluding natural-gas-only improvement from eligibility be removed; and,

D. Dismiss KCPL's application without prejudice pending the Commission's resolution of the fuel-switching issue. Memorandum, 9.

24. With regard to treatment of the Program as a pilot, KCPL stated that it views the Program as a market opportunity to increase residential energy efficiency and cites to the strong partnership with other agencies behind the Program. Comments, ¶ 3. KCPL also argues it is required to provide a detailed impact evaluation of the program throughout its service territory after the two-year point. Comment, ¶ 4. For these reasons, KCPL argues against designation as a pilot program.

25. With regard to Staff's suggestion the Program be approved with the condition the exclusion for natural gas-only equipment be removed, KCPL notes that addressing customer incentives for the Program was difficult because of the need to avoid measure-specific incentives. Measure-specific incentives would work against creation of a market for energy efficiency in existing homes using a

systematic whole-house approach. KCPL also sought an incentive that would be cost-effective and positively influence customer decision making. Comments,  $\P$  6. As noted above, KCPL argued its approach did not exclude natural gas customers from participation, as many improvements qualifying for a rebate would reduce both natural gas and electric usage, such as insulation upgrading, sealing ductwork, heating and cooling system tune ups, etc. Comments,  $\P$  6. KCPL also noted that if KCPL customers are paying for the program, KCPL customers should receive the benefits. KCPL asserted requiring electric customers to pay for improvements only impacting natural gas usage did not seem appropriate. Comments,  $\P$  7. KCPL observed that the program had been approved in Missouri, and the experience there had been that most participants (eight of thirteen) had added insulation and eliminated air leaks and implemented one other improvement. Comments,  $\P$  8.

26. KCPL did not object to Staff's proposal to make approval of the Program subject to the decision in the general investigation in 09-GIMX-160-GIV, but sought assurance that KCPL would be permitted to recover prudently incurred costs for implementation of the program prior to a ruling discontinuing or modifying the Program. Comments,  $\P$  9.

#### **Findings and Conclusions (Tariff Application)**

27. KCPL has been a leader in developing and implementing energy efficiency programs. As Staff noted, the Commission has approved no less than

nine demand response, energy efficiency, and affordability programs proposed by KCPL in the past few years. Memorandum, 2. The Commission recognizes and extends its appreciation to KCPL for these efforts. Staff has pointed out that with this and its other programs, KCPL has sought to achieve balance across customer classes with regard to its program portfolio budget. Memorandum, 2. In proposing this program, the Commission recognizes KCPL is seeking to contribute to the Kansas City regional energy efficiency effort in a way that minimizes cost because of the collaboration with other area agencies.

28. The Commission also recognizes KCPL's focus with this Program is on an important area for energy efficiency—existing residential housing. The program seeks to build a market for residential energy efficiency improvements. The program involves contractor training and certification. The program is also conceptually aimed at a comprehensive "whole house" approach toward achieving energy efficiency. These concepts are important to making energy efficiency work and to the Commission's view of how energy efficiency should be achieved. See Order Setting Energy Efficiency Policy Goals, issued June 2, 2008, pp. 11, 24, 08-GIMX-442-GIV.

29. In the Commission's order in 08-GIMX-442-GIV, the Commission explained that the Commission views energy efficiency as a resource. Therefore, investments in energy efficiency programs should provide immediate and dependable energy savings through the life of a program. Programs should address efficiency improvements in a comprehensive manner. Programs should be

implemented in a logical sequence that makes the most cost-effective use of energy efficiency expenditures. Order Setting Energy Efficiency Policy Goals, issued June 2, 2008, p. 11, 08-GIMX-442-GIV.

30. KCPL's initiative with this Program is commendable. However, the Commission has some concerns with the Program as proposed. One concern is the manner in which the Program's actual implementation fits with the "whole house," comprehensive approach the Commission favors. A participant in the program is not required to implement recommended improvements in a manner that is logical and cost-effective from a whole-house concept point of view. There is also no requirement that a customer select the most effective energy efficiency improvement identified by the audit. For example, a participant might select to replace a window, even though the energy audit also recommended increasing insulation. The customer would obtain the rebate, however, energy savings would be less than optimal and perhaps even negligible. The result would not be the most cost-effective way to achieve energy savings.

31. Secondly, because a participant is not required to implement recommended improvements in a comprehensive and logical way, energy efficiency savings from the program are not likely to be as dependable as possible, in the sense of a resource.

32. The Commission also has concerns about the benefit-cost test results and data supplied by KCPL in support of the Program. The Commission has signaled flexibility in addressing energy efficiency programs, however, the

Commission has indicated test results will be evaluated in a manner consistent with the Commission's stated goals. Order Setting Energy Efficiency Goals, issued June 2, 2008, p. 15, 08-GIMX-442-GIV. The Commission notes benefitcost test result data suggest the Program may not pass the Total Resource Test or the Ratepayer Impact Measure test. In fact, results would suggest the Program may not even pass a Societal Test. Memorandum, p. 6. In addition, the Commission notes the data used to obtain test results appear to be a mix of data from the EPA or the NYSERDA with KCPL data.

33. As noted above, the focus of interveners in this docket has been the issue of fuel switching. The Commission takes no position here on what constitutes fuel switching and what the Commission's position on fuel switching is. The Commission will address the issue of fuel switching in 09-GIMX-160-GIV, and nothing in this Order should be interpreted as an indication or prejudgment, in any way, of the Commission's views on that issue. The Commission plans to set an aggressive schedule in that generic investigation, recognizing the importance of addressing the issue promptly so programs like Home Performance with ENERGY STAR® may be implemented or modified as quickly as possible.

34. The Commission concludes it is best to address the fuel-switching issue in the generic investigation before taking a position on that issue with regard to a specific program. The Commission agrees with Staff that a reasonable option is to deny the application pending a determination of the fuel-switching issue in

the generic investigation. This will avoid sending a wrong signal for what may be a difficult, contentious, and complex issue. This will also avoid permitting a program to begin, and thus incur ratepayer costs, that the Commission may decline to approve in the future. In this regard, the Commission notes the Home Performance with ENERGY STAR® Program, while important, constitutes a relatively small part of KCPL's program portfolio. In the Commission's view, this weighs in favor of a more cautious approach at this time, because waiting will not result in high potential energy efficiency losses.

35. When the Commission's concerns are taken as a whole, the Commission comes to the conclusion the best course in this docket is to deny KCPL's application as filed, and to encourage KCPL to work with Staff to address Commission concerns and to re-file an application after these concerns are addressed. The Commission believes this will permit the Commission to address the fuel-switching issue in the proper context of a generic investigation so Commission fuel-switching policy may be applied consistently to this and other programs, and will permit KCPL and Staff to work together to address concerns about the Program expressed here. The Commission again extends its appreciation to KCPL for developing and implementing numerous energy efficiency programs and invites KCPL to resubmit its Program after consideration with Staff of the points noted herein. The Commission may entertain a resubmission prior to the conclusion of the generic investigation if KCPL elects to remove the language excluding natural-gas-only improvements from eligibility.

## **B.** Petition for Reconsideration

### Background

36. As noted above, on August 15, 2008, Kansas City Power & Light Company (KCPL) filed KCPL's Petition for Reconsideration of the Orders Granting Intervention to Kansas Gas Service and Atmos Energy.

37. KCPL observed that due to the timing of the Orders granting the petitions, KCPL had been unable to file an objection, and therefore was bringing the petition before the Commission.

38. KCPL argued the petitions for intervention by Atmos and KGS were not timely. Petition, 2.

39. KCPL further argued allowing the Petitioners to intervene and file opposing comments so close to the end of the docket would negatively impact the orderly and prompt conduct of the proceedings. KCPL noted that discovery and rebuttal are not possible so late in the docket process. Petition, 2-3.

40. KCPL pointed out that fuel-switching issues comprise the primary basis for opposition by KGS and Atmos to KCPL's application. KCPL pointed to the Commission's pending generic investigation into fuel-switching issues in Docket 09-GIMX-160-GIV, and noted that in the docket pertaining to approval of KCPL's ENERGY STAR® New Homes Program (08-KCPE-848-TAR) where KGS and Atmos had also filed interventions setting forth similar concerns regarding fuel-switching, the Commission had granted KCPL's request to limit matters related to fuel-switching and consider those in the generic docket. Petition, 3. See Order Granting Intervention, filed April 30, 2008, p. 5, 08-KCPE-848-TAR.

41. KCPL argued the generic investigation should not delay consideration of its Program. The Program, stated KCPL, may be revisited and adjusted as needed in light of any standards and rulings issued by the Commission in the generic proceeding. Petition, 4.

42. KCPL requests that if KGS and Atmos are permitted to intervene, their intervention be limited in the same manner as in 08-KCPE-848-TAR. KCPL also requests that the interventions be limited so as to exclude any discovery. Petition, 4.

43. On August 19, 2008, KGS filed a Response to KCPL's Petition for Reconsideration (Response of KGS to PFR). KGS asserted it had not sought permission to intervene until Staff's memorandum had been issued and the restriction of the KCPL program on natural gas equipment were made known. KGS noted that the KCPL application had not referenced the restriction on natural gas equipment. Response of KGS to PFR, ¶ 4.

44. KGS also asserted its intervention would not impair the orderly or prompt conduct of the proceedings, as its intervention does nothing more than comment on Staff's memorandum and the alternative remedies proposed by Staff. Response of KGS to PFR,  $\P$  5.

45. With regard to the fuel-switching issues, KGS noted the procedure for addressing these issues has changed, and the Commission has decided to open

a new generic investigation into the issue. Therefore, given the statutory time constraints in this docket, KGS asserted the fuel-switching issues would require resolution in this docket unless this docket is dismissed pending the outcome of the fuel-switching general investigation. Response of KGS to PFR, ¶ 6. KGS argued that if the Commission approved the tariff filings, it would be approving programs that do not involve the source-to-site analysis and that promote load building programs in favor of electricity through payment of incentives to offset the cost of electrical appliances. Response of KGS to PFR, ¶ 6. KGS stated that if the program is approved without further analysis, it would not have been evaluated on a multi-fuel and comprehensive basis, and would be approved without taking alternative fuels into account and without using fuel substitution standards set forth in the California Standard Practice Manual. Response of KGS to PFR, ¶ 7. KGS asserted that approval of its program would not preserve the status quo and would discriminate against natural gas as a fuel source. Response of KGS to PFR, ¶ 6.

46. KGS respectfully requested that the KCPL's petition for reconsideration be denied and this docket be dismissed pending a comprehensive review of the fuel switching issue in the generic investigation, 09-GIMX-160-GIV. Response of KGS to PFR.

47. On August 20, 2008, Atmos Energy also filed a response to KCPL's petition for reconsideration. Atmos made essentially the same arguments as KGS. Atmos also argued the Commission should preserve the "status quo," and not

approve the portion of KCPL's plan that places restrictions on the customer's use of natural gas equipment until the Commission has reviewed the fuel switching issue in the generic investigation. Response of Atmos Energy to KCPL's Petition for Reconsideration, (Response of Atmos to PFR) ¶ 3. Atmos similarly asked the Commission to dismiss this docket pending a review of the fuel-switching issue in the generic investigation. Response of Atmos to PFR.

### Findings and Conclusions (Petition for Reconsideration)

48. The Commission has broad discretion to grant a petition for intervention at any time if it is in the interests of justice, if the intervention will not impair the orderly and prompt conduct of the proceedings, and if the petitioning party has stated facts demonstrating its legal rights, duties, privileges, immunities or other legal interests may be substantially affected by the proceeding. K.S.A. 77-521; K.A.R. 82-1-225. At any time during a proceeding, the Commission may impose limitations on an intervenor's participation. K.A.R. 82-1-225(c). See K.S.A. 77-521(c). This can include limiting an intervenor's participation to designated issues in which the intervenor has a particular interest and its use of discovery and other procedures. The Commission also may require two or more interveners to combine their presentation of evidence and argument, cross-examination, discovery, and other participation in the proceedings. K.A.R.

82-1-225(c)(1) - (3)

49. The Commission finds the intervention by Atmos and KGS at this late time is reasonable in light of their respective explanations that they were not aware of certain details of the program proposed by KCPL that they find objectionable until after Staff's report was issued on July 28, 2008.

50. The Commission also finds intervention by Atmos and KGS will not impair the orderly or prompt conduct of the proceedings if their intervention is limited to comments. The Commission agrees with KCPL that, in light of the time frame, no discovery by interveners should be permitted. Atmos and KGS have not argued discovery is necessary.

51. As noted in its Order Granting Intervention, issued April 30, 2008 in 08-KCPE-848-TAR, and as stated above, the Commission believes the issues of fuel-switching and load building should be addressed in a generic investigation. The Commission intends to do that in 09-GIMX-160-GIV. The Commission finds such issues and related issues raised by Atmos and KGS such as whether the analysis of all conservation and energy efficiency programs should be done on a multi-fuel basis, consider reasonably available competing energy alternatives, take into account the "source-to-cite" cycle, and take into consideration all likely impacts of proposed programs, are policy matters to be addressed in the Commission's investigation in 09-GIMX-160-GIV.

## IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. KCPL's application for approval of the Home Performance with ENERGY STAR® Program is denied. KCPL is invited to resubmit an application, as discussed above.

B. KCPL's Petition for Reconsideration is granted to the extent that the interventions by KGS and Atmos are limited with regard to issues as discussed above. The Commission's position on fuel-switching matters will be addressed in the generic investigation and not in this docket. As so limited, KGS and Atmos are permitted to intervene.

C. No discovery by KGS or Atmos shall be permitted.

D. A party may file a petition for reconsideration of this order within 15 days of the service of this order. If this order is mailed, service is complete upon mailing and 3 days may be added to the above time frame.

E. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders as it may deem necessary.

# BY THE COMMISSION IT IS SO ORDERED.

Wright, Chmn; Moffet, Com.; Harkins, Com.

Dated: \_\_\_\_\_ SEP 0 9 2008

ORDERED MAILED

SEP 1 0 2008

Jam Laly EXECUTIVE DIRECTOR

Susan K. Duffy Executive Director

crr