



CURBside News

NEWS FROM THE WATCHDOG FOR RESIDENTIAL AND SMALL COMMERCIAL CONSUMERS OF UTILITIES JAN. 2005

Aquila Granted \$7.4 Million Hike Customer Rates to Increase 11%

On January 28, 2005, the Kansas Corporation Commission granted Aquila, Inc.'s WPK utility a \$7.4 million rate increase. This was less than half of \$19.2 million originally requested by the company. Customers will pay about 11% more for electricity as a result.

CURB had proposed holding the increase to only \$2.2 million.

Most disappointing was the Commission's decision to shift \$1.9 million in losses on two industrial contract customers to residential and small commercial consumers.

CURB had argued that the company could have prevented the losses, but chose to do nothing. Aquila's other ratepayers should not be required to bear costs created by management's failure to act. They already pay the full cost of fuel used to serve them because Aquila has an energy charge adjustment—ECA—which passes through the company's actual costs of fuel to its customers.

As a result of the KCC's decision, each WestPlains customer will pay roughly \$20 to \$30 a year to help pay the

costs of fuel to serve these two customers.

More encouraging, however, was the KCC's decision to open a docket to investigate WPK's generation and transmission problems, as well as look into WPK's troubling transactions with out-of-state affiliates—problems which CURB believes are creating excessive costs for Kansas customers.

The Commission also ordered the company to meet with CURB and Commission Staff to explore adopting a hedge program for the utility.

The KCC relied heavily on its Staff's positions in making its determinations, but did consider CURB's positions on a number of issues. David Springe, Consumer Counsel for CURB, said that CURB is reviewing the order and will make its determination whether to file a petition for reconsideration sometime this week.

Aquila provides electric service to approximately 68,500 customers in southwest and north-central Kansas.

(Docket No. 04-AQLE-1065-RTS)

Ice Storm Costly to Customers

Westar Energy has announced it will file a request with the KCC for an accounting authority order to recover costs expended in repairing the massive damage from early January's ice storm. The company announced it incurred approximately \$42 million to restore power to over 121,000 customers who lost power as a result of the worst ice storm to hit south central Kansas in decades.

The bulk of the damage occurred in and around the Wichita area, where some customers waited over a week for their power to be restored.

An accounting authority order, if granted by the KCC, would permit Westar to recover non-capital costs of the storm. Capital expenditures include the replacement of utility poles, lines and transformers, which would be recovered over the long term like other capital expenditures.

Westar said that it has about \$7 million in its storm reserve fund, which would reduce the amount it would seek to recover from customers. Exclusion of

(See Ice Storm, Page 3)

Ice Storm Costly to Customers

(Continued from P. 1)

of capital expenditures would bring the amount sought for recovery down to approximately \$27 million.

Historically, unusual storm damages have been recovered through accounting orders that permitted recovery over a period from three to five years. However, these extremely high costs may justify recovery over a longer period to reduce the impact on rates.

There is an additional question of whether customers in Westar's KGE service territory should bear the bulk of the costs of the storm, given that the damage in the KGE territory was much more extensive than in the company's KPL service territory.

CURB will be monitoring this docket to ensure that the costs recovered do not include expenditures that would normally have been made. We want to also make sure that if tree-trimming costs for Westar drop in the next few months because of the extensive trimming done in January as a result of the storm, that customers are credited with those savings in considering how much the company may recover for the storm.

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Ice Buildup on Gas Meters Can Be Dangerous

The ice storm that knocked out electric power in many Kansas communities in early January was also responsible for a fire in an apartment building in Lawrence that was caused by ice buildup on a gas meter.

Ice encasing a pressure regulator on a gas meter plugged up a vent on the regulator, causing the pressure of the natural gas sent to the furnace to rise from a normal level of three pounds per square inch to thirty pounds. The additional pressure caused the control valve on the furnace to fail. The result was a small fire.

Aquila, Inc. immediately issued a press release alerting its Lawrence customers to the problem of excessive ice buildup on gas meters, asking them to call customer service if they observed excessive ice covering their natural gas meters. Customers should not attempt to clear the ice from the meter themselves.

Of particular concern is ice buildup on the pressure regulator, which is shaped sort of like a flying saucer. The regulator is located on the pipe that comes out of the ground, and controls gas flowing to the meter. If the vent on the under side of the regulator becomes clogged with ice or snow, the regulator can fail. If it fails in the closed position, the flow of

natural gas to the home is shut off. If it fails in the open position, as did the meter that caused the fire in Lawrence, a potentially dangerous situation is created.

Chuck Hoag, operations manager for Aquila's Lawrence offices, suggested that customers take time to look at their gas meters whenever buildup of ice or snow may be a concern.

The company also reminds customers to make sure that heating and dryer vents are not blocked by ice or snow, as well, to prevent carbon monoxide poisoning.



The pressure regulator on this natural gas meter is the round object at the top of the meter. Some regulators are installed in a horizontal position. Find yours by following the supply pipe from where it comes out of the ground. The pressure regulator will be located somewhere on the supply pipe before it enters the main body of the meter.



Ice buildup need not be this severe to be dangerous. This buildup was caused by lack of guttering on the home.

Dodge City Schools Consider Wind Power

According to a recent Associated Press story, the Dodge City School District is close to finalizing a plan to study the feasibility of placing a wind turbine or two on the grounds of the high school to supplement the electricity the district receives from Aquila, Inc.

The high school alone typically uses \$350,000 worth of electricity a year, prompting the school board to seek ways to cut the district's utility costs.

The school board is expected to vote soon to hire the Mid-American Manufacturing Technical Center at Kansas State University to study the potential costs and savings of installing wind generation, the suitability of the site and the number of turbines that would be required.

The location of the high school is thought to be a potentially good site for a wind turbine because it is on high ground and is in a fairly windy area. The study is expected to last five weeks and cost \$3,730.

KCC to Westar: OK Not to Fund Pension Liability

On January 13, 2005, the Kansas Corporation Commission granted Westar Energy's application for an accounting authority order (AAO) to defer funding a \$17 million pension liability for the time being.

A company's pension fund assets are funds set aside for future retirement obligations to retirees. When economic conditions are good, favorable interest rates and dividends contribute to the growth of the funds calculated to be necessary to meet future retirement obligations. However, when the economy is in a downturn, the funds may not be growing sufficiently to meet those obligations. For 2005, Westar's pension funds reflect a \$17 million liability for 2005.

If Westar did not contribute the cash to fund this liability, it would incur a charge against equity of \$33 million. The company instead wanted to book the liability to a regulatory account, which would allow the company not to fund the liability without taking a charge against equity. It claimed that future economic improvement will cause the pension fund to grow sufficiently to eliminate the asset in the near future.

CURB filed an objection to the company's request, noting that the company's assertion that economic improvement will eliminate the asset in the near future was sheer speculation. CURB also objected on

the grounds that since Westar had sufficient cash on hand to increase shareholder dividends by several million this year, it should also be required to fund its pension liability.

CURB is concerned that if the projected economic improvement does not materialize, the liability will only be larger next year, and the charge to equity will be even greater when Westar opts to fund the liability.

Staff supported Westar's application, but requested a few conditions be placed on the transaction. The Commission approved the application with the specified conditions.

The Commission's Order also stated that "if economic conditions improve, the accounting procedure permitted by this Order will be reversed," but did not provide any guidance whatsoever as to how much improvement would be required to trigger reversal, or who will bear the burden to bring forth the evidence of improvement.

Likewise, the Order stated that Westar would be required to file for a modification of the regulatory asset by the end of 2005 if economic conditions do not improve, but again, set no standard for determining whether conditions have or have not improved. Given that there was no evidence in the record describing the current economic conditions with specificity, CURB doubts that the Commission will be able to determine next year whether there was any change since the previous year. ♦

Gov. Sebelius Announces Wind Power Policy

On January 14, Governor Kathleen Sebelius announced that she had decided to accept the recommendations of the Natural Resources Sub-Cabinet Team concerning development of wind power in Kansas.

Headed by former governor and Secretary of Wildlife and Parks Mike Hayden, the team had been assigned to follow up on the work of last year's Wind and Prairie Task Force by identifying specific areas of untilled tallgrass prairie in the Flint Hills that should be protected from wind power development.

Instead of identifying specific areas to be protected, Hayden's team came forth with a broad recommendation to limit wind development inside a boundary drawn around a large area of the Flint Hills along major highways: U.S. 24 on the north, K-77 on the west, U.S. 400 on the south, and K-99 and K-4 on the east.

Although large segments of untilled tallgrass prairie exist within the boundaries, the area to be known as the "Heart of the Flint Hills" also contains several communities, including Junction City, Manhattan, Emporia and Eldorado, as well as the Fort Riley Military Reservation.

The recommendations of the sub-cabinet team included exercising restraint in developing wind farms within this area

until local governments develop siting guidelines for wind farms, an economic development study of possible impacts of wind power on tourism in the Flint Hills is completed, and the state develops a method of funding conservation easements in the Flint Hills to discourage development on or near intact tallgrass prairie segments.

However, it isn't clear how siting guidelines can be applied within counties that have no zoning. State law does not permit counties to selectively regulate wind farm siting without implementing a comprehensive zoning plan for the entire county. Resistance to adopting zoning regulations is strong in many of these counties, yet there is continuing pressure on local governments to "do something" about preventing wind farm development in scenic areas.

Governor Sebelius also offered her "vision for Kansas." She encouraged electric power developers to build at least 1,000 megawatts of wind power capacity in Kansas by 2015. That is approximately nine times the amount of wind capacity currently operating in the state.

Integrating a large increase in wind capacity into the existing electrical grid in Kansas may be challenging. Although large utility systems can absorb the variations of wind power with relative ease, a massive development of wind in rural areas of the state may tax existing transmission systems beyond their capacity.

Building up the transmission grid to accommodate a large increase in wind farms will be costly to consumers, especially if the increase in capacity isn't accompanied by a corresponding increase in load. Accurate information about how much of our capacity we can economically meet with wind is sorely needed.

Additionally, CURB is concerned that lower-cost generation sources may be curtailed in order to absorb wind power's frequent spikes. Although the costs of wind power are becoming competitive with other types of electric generation, curtailing lower-cost generation to accommodate wind power may ultimately increase the overall cost of service for Kansans.

Although there are obvious environmental benefits to be derived from decreasing our dependence on fossil fuels for electricity generation, it is important to remember that these benefits have corresponding costs. As a state, we need accurate information to make sound policy choices as we move forward in integrating new resources into the electric systems of Kansas.

Sealing Winter Out

Most storm windows reduce air leakage, but don't stop it entirely. Properly applied, a plastic covering can make a window almost airtight.

One of the most effective ways to seal a leaky window is to seal it from the inside with clear heat-shrink plastic, ad-

hered to the frame around the window for the best seal. A hair dryer will shrink the plastic to fit wrinkle-free. It's easier to install inside and will stay in better shape than plastic exposed to outdoor conditions. The plastic is almost invisible, so it won't be noticeable behind blinds, curtains or drapes.

Heat-shrink plastic is also easy to remove when spring arrives and you're ready to let in some fresh air.

EPA Buys Gray County Green Tags

The United States Environmental Protection Agency (EPA) recently announced that it will be purchasing green tags for its Kansas City, Kansas facilities from Aquila, Inc. The green tags represent the environmental attributes of wind power generated at the Gray County Wind Farm near Montezuma, Kansas. Aquila purchases most of the wind power generated by the Gray County facility.

Beginning November 1, the EPA will purchase certificates for three years that represent 8.3 million kWh used by EPA's regional office and laboratory facilities in Kansas City.

Additionally, the EPA also announced other green tag purchases for its facilities in Denver and San Francisco from wind and geothermal energy plants in Colorado and California.

Annually, the EPA purchases certificates representing about

79% of its total electrical usage nationwide.

What are "Green Tags"?

"Green tags" are issued to generators of renewable energy, and represent the amount of emissions and other pollutants that were avoided by producing "green" energy. Green tags represent the unbundled environmental attributes of renewable energy, packaged in a form that can be bought and sold separately from the energy itself.

Generators of renewable energy can sell the green tags to others who want to buy green energy, but may not have direct access to energy produced from renewable sources.

For example, many states and companies nationwide have made commitments to purchase a minimum amount of their energy from renewable sources. However, many of them do not have direct access to green energy. By purchasing green tags, these customers support the generation of green energy without actually receiving the green energy itself.

Additionally, some states have imposed what are called minimum portfolio standards on public utilities, requiring them to produce a certain portion of their power from renewable sources. Utilities that do not have a present need to build a new plant can buy green tags to satisfy the portfolio standards.

Also called Tradable Renewable Credits (TRCs) or Renew-

able Energy Credits (RECs), green tags help support the development of renewable energy by bringing buyers and sellers together in a commodity marketplace.

Green tags can be purchased directly from utilities or through a broker. Brokers usually add a fee to the cost of the tags for handling the transaction. Although the green tag market has been around for a few years, buyers are cautioned to thoroughly check out the validity of the green tags before purchase, as most standards governing the certification and sale of green tags are not mandatory, but depend on voluntary compliance with agreed-upon standards by the providers of the tags.

Consumers should also be aware that some green tag brokerages are selling green tags through multi-level marketing operations that encourage consumers to become brokers and to recruit others into the business. While these companies may be operating legally, consumers who simply want to purchase green tags should be wary of investing in multi-level schemes that may never pay off. Green tags are available directly from utilities or brokers who don't do multi-level marketing.

Consumers should also keep in mind that green tags have no resale value. They aren't like stocks and bonds that can be resold. They may be an investment in a cleaner future, but they are not an investment in the sense that they generate income for the buyers or grow in value. ♦

It's cold outside and Dave's been thinking electric thoughts...

Consumer Counsel's Corner

I'm sure you have all received your heating bills, so I don't have to remind you about high natural gas prices. Through a strict regimen of conservation at my house, or what I like to call thermostat abuse, we've managed to keep our heating costs at a reasonable level. Of course, our friends know to bring a sweater when they come to visit.

If you are feeling bad about your heating costs, you might start looking at your electric bill, too. The cost of providing electric service is likely to increase in the coming years.

As noted in this edition of the CURBside, the Commission just increased rates to the electric customers of Aquila by about 11%. Westar Energy is due to file a rate case in May 2005, so KPL and KGE customers can probably expect to see their electric rates go up early next year. While CURB fights hard in these rates cases to keep rates as low as possible, some broad trends are at work that will likely force rates up over time.

After years of having adequate power generation resources to meet our needs in Kansas, we are entering a period where some large power plants will need to be built to meet our future electricity demand. Building power plants seems to be somewhat cyclical.

We build plants, and then have a period where we don't need to build plants. Given that these large plants take years to build, and we are likely at the end of one of those "don't need to build" cycles, expect power plant construction costs to force rates up over time.

The high natural gas prices you pay on your heating bills also affect your electric rates. Most electric utilities use natural gas-fired turbines to provide power in peak usage periods—hot summer days when every air conditioner in the state is running at full blast. This higher natural gas cost will eventually force your electric rates up.

Environmental issues are also going to affect your electric rates over time. There is a strong push nationwide to further restrict emissions from coal-fired power plants. Regardless of where you stand on environmental issues, Kansas has a lot of coal-fired power plants, and retrofitting them to meet any new mandates will carry a price tag in the hundreds of millions of dollars.

There is also a big push going on in the state to build transmission lines, and to support electric generation from renewable resources. The governor recently announced a voluntary initiative for the utilities in the state to acquire 1000 megawatts of electricity from renewable resources by 2015. Again, regardless of where you stand on the issue, renewable resources are not free, and will be paid for in your electric rates.

To see all these issues come into play, examine the KCPL docket going on in Kansas right now. KCPL is working on its future resource plan, which includes a new coal-fired power plant, environmental upgrades to its existing plant, increased spending on transmission and distribution infrastructure, the purchase of wind power and an increased effort towards conservation and efficiency programs. While I applaud KCPL for bringing these issues forth and trying to work constructively with all parties to reach an agreement on how to proceed, the bottom line is that KCPL electric rates are going to have to increase to meet future electric customer needs.

While I suppose I don't have a lot of good news for you, I hope what we have learned from our heating bills can be used over time to soften the blow on your electric bills. We all have to be more energy conscious. We all should actively monitor how and when we are using energy, and conserve where we can. Over time, we have to make smart choices with our purchases, whether we're buying furnaces, air conditioners, insulation, refrigerators or light bulbs. Buy for long-term efficiency, not short-term cost. At the end of the day, we probably can't stop increases in the rates for electricity or natural gas, but we can control how much we use.

Join me in a little thermostat abuse...it's not just for winter any more!

--Dave Springe

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Kansas coal-fired electric plant on a cold winter's day
Westar Energy's Lawrence Energy Center—Lawrence, Kansas

Photo courtesy of Kansas Geological Survey

Don't forget to visit CURB's website: <http://curb.kcc.state.ks.us/>

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