CURB: THE CITIZENS' UTILITY RATEPAYER BOARD OF THE STATE OF KANSAS

CURBside News

NEWS FROM THE WATCHDOG FOR RESIDENTIAL AND SMALL COMMERCIAL CONSUMERS OF UTILITIES DEC. 2009

Westar to consolidate and increase rates

On December 8, 2009, CURB joined Westar Energy, the Staff of the KCC, USD 259 from Wichita, the Kansas Industrial Consumer Group, the Kroger Company and the cities of Wichita and Lawrence in presenting the Commission with an agreement that would increase Westar's rates by $17.1 million and would consolidate and equalize the rates in Westar's North system (KPL) and Westar's South system (KGE).

The $17.1 million rate increase is less than the $19.8 million Westar requested in KCC Docket 09-WSEE-925-RTS. Pprior to entering settlement negotiations, CURB's audit witness had recommended the KCC only approve a $17.1 million increase. The Commission Staff also recommended an a similarly-reduced increase. Westar agreed with and accepted CURB's recommendation.

This is the final increase related to Westar's construction of a 665MW natural gas-fired generation facility near Emporia, Kansas and the construction of 150 MW of wind generating facilities at two locations. Construction of these generation facilities had been approved by the Commission in prior dockets, and the majority of the costs of their construction was included in the $130 million rate increase approved by the Commission last year.

The settlement increase will be split evenly between the North and the South systems and will be distributed among the classes in the same manner as the prior rate increase.

Recently, in a separate docket, (KCC Docket 09-WSEE-641-GIE) the Commission approved Westar's request to consolidate the rates of its North and South divisions. The decision culminated seventeen years of KCC efforts to move the two systems toward rate parity, which began when Westar (then called Western Resources) was created by the merger of the Kansas Gas and Electric system in southern Kansas and the Kansas Power and Light system in northern Kansas. At the time of the merger, KG&E had just brought the Wolf Creek nuclear power plant on line, and KG&E's rates were significantly higher than KP&L's

(See **Consolidation**, *page 2)*

Empire seeks 40% increase in base rates

On November 4, 2009, Empire District Electric Company filed a request with the Kansas Corporation Commission for a $5,203,483 increase in the rates of its Kansas electric customers. While the company characterizes this as an increase of about 25% in the total residential bill, the increase to base rates, exclusive of surcharges and fuel costs, is almost 40%.

Empire is a publicly-regulated electric, gas and water utility with about 215,000 customers that operates in southwest Missouri, northeast Oklahoma, northwest Arkansas and southeast Kansas. In Kansas, there are approximately 8660 residential electric customers (down 1.7% since the company's last rate case), and 1235 commercial electric customers (down 3.1%). However, Kansas residential and commercial customers are currently providing Empire 34% more in total revenues annually than they were providing in 2004.

Empire says the increase is justified because of its recent Investments in new generation

(See **Empire increase**, *page 2)*

Empire increase

(Continued from page 1)

and pollution control equipment, and costs incurred repairing damages from two major ice storms.

The company plans to come in again for yet another increase after KCPL's Iatan II plant in Weston, Missouri, is operational. Empire owns 12% (100MW) of this plant's projected output. The current projected date for Iatan II to begin operating is late summer in 2010.

Why does a utility that "offers one of the highest yields of any electric utility equity," (according to Value Line) need such a big increase in rates? CURB has engaged the services of a consultant to analyze the company's application for the answer.

A scheduling conference will be held on December 15. The KCC has until July 2, 2010 to make a decision on the proposed increase.

KCC Docket No. 10-EDPE-314-RTS

Consolidation

(Continued from page 1)

rates.

In approving rate consolidation, the Commission found that prior Commissions had taken specific actions to lower rates in Westar's South system to move toward rate parity, that both systems' rates are currently almost equal, and that the evidence supported moving forward to full rate consolidation as soon as is feasible. The Kansas Industrial Consumers, the City of Wichita and USD 259 all opposed consolidating rates.

CURB supported consolidateing the rates of the North and South systems. CURB presented evidence that, for residential and small commercial customers, the current rates of both systems are almost equal, and the net rate change resulting from consolidation would be unnoticeable. Further, taking into account expected future expenditures, CURB found that neither system's customers would be disadvantaged by consolidating rates now.

The Commission urged the parties to collaborate in a new proceeding to determine how and when rate consolidation would be finalized. The collaboration took place as the parties were settling the 09-925 rate case. The parties created a set of proposed rates and presented them to the Commission. The rates would consolidate each of the current bill riders (fuel cost adjustment, transmission delivery charge, environmental charge and property tax charge) into a single system-wide rate for each rider. Base rates for North and the South system were then equalized. The end result is that all residential customers on the Westar system will now pay exactly the same rate.

The Commission's decision on whether to accept the agreement is pending.

KCC Docket Nos. 09-WSEE-641-GIE and 09-WSEE-925-RTS

Three coops opt for deregulation

Responding to the opportunity provided by a new law permitting electric cooperatives of any size to opt out of regulation by the Kansas Corporation Commission, three Kansas coops have exercised that option.

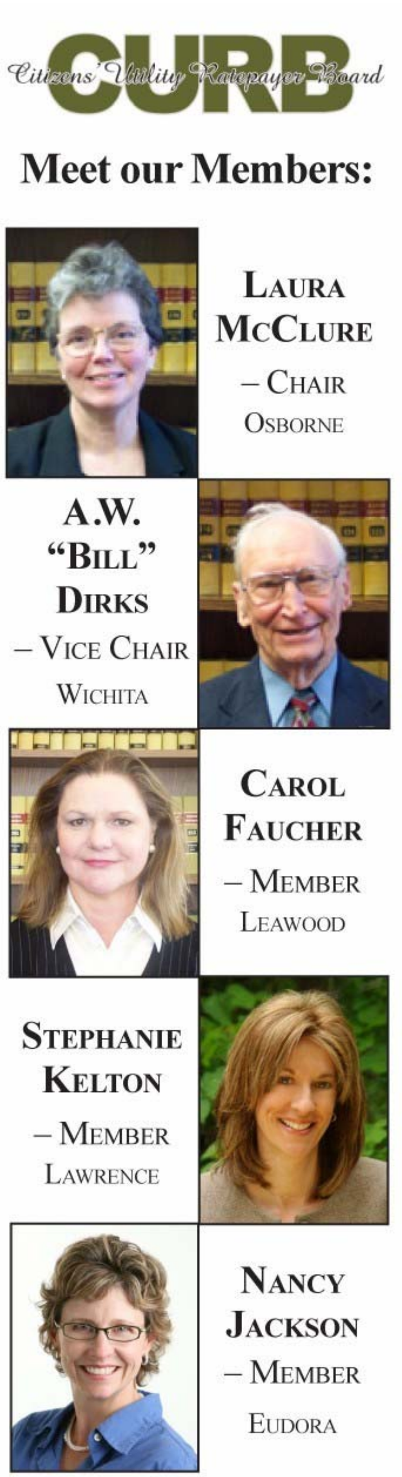
On September 28, 2009, the KCC issued an order affirming Sunflower Electric Power's election to deregulate. Sunflower provides wholesale generation and transmission service to six western Kansas coops.

On the same date, the KCC also affirmed the election of Tri-County Electric Cooperative to deregulate. Tri-County, which is based in Hooker, Oklahoma, has only a few customers outside the panhandle of Oklahoma. It serves the Elkhart area in the far southwestern corner of Kansas.

On October 21, 2009, the KCC issued an order affirming the election of Kansas Electric Power Cooperative to deregulate. KEPCo provides generation and transmission service to 19 cooperatives in Kansas.

From now on, these coops will be subject to rate regulation by the KCC only if 5% of the coop's total customers, or 3% of the customers in any given rate class, petition the KCC for an investigation of its rates or tariffs. The KCC would then have the obligation to investigate, and would have the power to order new rates or tariffs if it finds them unreasonable. The coops will also remain subject to any federal regulations that apply to electric cooperatives.

KCC Docket Nos. 10-SEPE-072-DRC, 10-TCEE-139-DRC & 10-KEPE-225-DRC



Atmos GSRS: old and new cases collide

As regular readers of the CURBside are aware, CURB's appeal of the KCC decision on Atmos' Gas Safety and Reliability Surcharge has been winding its way through the appellate courts for a little over a year. We appealed the KCC's decision not to determine the return on equity for Atmos, which would be used to calculate the return when Atmos implements a GSRS in the future. The KCC instead chose to allow Atmos to utilize the average of other utilities' returns on equity to calculate the return.

The Court of Appeals dismissed CURB's appeal on procedural grounds, but hinted that CURB would have won if the court had reviewed our appeal on the merits. Recently, the Kansas Supreme Court granted CURB's petition for review, agreeing to review the Court of Appeals decision.

Unlike the Court of Appeals, the Supreme Court is not facing a statutory deadline for decision; it could be quite a while before its opinion is issued. As yet, no date has been set for argument in the case.

In the meantime, Atmos reapplied for a GSRS tariff at the KCC. On December 11, the KCC approved a settlement agreement between company and Staff, which would revise their previous settlement (the settlement that CURB appealed), and calculate the return on the GSRS tariff using the average of the recommendations of Staff's and Atmos's witnesses in the previous case. This would result in a slightly higher return on the GSRS.

Since the issue of how the tariff is to be calculated is pending before the Kansas Supreme Court, CURB did not believe that the KCC has jurisdiction to act in this matter at this time. We filed a motion with the KCC to stay the KCC proceedings until the court issues its opinion. At an evidentiary hearing on November 4, 2009, the KCC heard arguments on CURB's motions, and heard testimony from witnesses supporting the new settlement.

The Commission denied CURB's motions on December 11 at an open meeting at which only one commissioner was in attendance. We will be filing a petition for reconsideration.

Prior to the evidentiary hearing, the KCC filed a motion with the Supreme Court to stay CURB's appeal until the KCC issues its decision, although its reasons for doing so weren't clearly stated. CURB has filed a response opposing the stay. The court's ruling on the motion is pending. We'll keep you posted on further developments.

KCC Docket Nos. 08-ATMG-280-RTS and 10-ATMG-133-TAR; Kansas Supreme Court Case No. 101452

More rate increases; KCPL to file fourth rate case under 2004 regulatory plan

Kansas City Power & Light Company (KCPL) is expected to file this month the fourth rate case contemplated under the regulatory plan approved by the KCC in Docket No. 04-KCPE-1025-GIE (1025 Docket). The regulatory plan approved in the 1025 Docket contemplated $1.3 billion in investment by KCPL in the following projects: (1) an additional 500 MW of coal-fired generation at the Iatan site near Weston, Missouri (Iatan 2); (2) an additional 200 MW of new wind generation to be installed in 2006 and the potential addition of an additional 100 MW of wind generation to be installed in 2008; (3) transmission and distribution projects; and (4) environmental improvements to existing generation plants at Iatan 1 and LaCygne 1.

As reported in the September 2009 CURBside, the Commission approved a $59 million rate increase in July 2009. That was the third KCPL rate case under the regulatory plan, and included the costs of environmental upgrades to Iatan 1. This rate case will address costs related to the construction of the Iatan 2 coal-fired plant, as well as prudence issues related to construction costs incurred at Iatan 1 and 2. While this rate case was intended to be the final in a series of four rate cases filed under KCPL's regulatory plan, it is anticipated that an abbreviated rate filing will follow this final rate case to true-up actual costs incurred in the Iatan 2 construction project.

Consumers should look for public hearings to be held in April or May of 2010. Any rate increases approved by the Commission will go into effect in October or November.

Empire requests ECA decrease

Empire District Electric has filed its annual "true-up" filing for its energy charge adjustment, and for once, the news is good for customers. Empire is forecasting a 2.5% lower energy charge for the coming year, mostly attributable to lower natural gas prices.

The energy charge adjustment, or ECA, is the portion of your bill that pays for the fuel costs of power generation: coal, uranium, natural gas and fuel oils, including the transportation costs of those items. Also included in Empire's ECA is the cost of financial hedges on those fuels. Hedges are financial instruments that are utilized to reduce fuel cost volatility. Fuel expenses are passed through to customers as a separate line-item surcharge, and do not include a markup for shareholder profits.

Empire's ECA is re-set annually based on forecasted costs for the coming year. If the company's forecasts are low compared to actual costs, the true-up results in an increase of the ECA. If forecasts are high—as they were this year—then customers are credited over the course of the following year for the amounts over-collected by the company.

Empire's ECA collected about $267,000 too much from its Kansas customers in 2009, so that amount is going to be returned to customers as a credit against ECA costs in 2010. That amounts to about 80 cents a month for customers who use 1000 kwh a month.

Although Empire's recent request for a 40% base rate increase is bad news for customers, at least there is some good news about the ECA.

KCC Docket No. EDPE-365-ACA

ITC secures certificate to operate Spearville-Knoll line

On November 13, 2009, ITC Great Plains filed an application for a certificate of convenience to operate a transmission line it plans to build from Spearville to Knoll, Kansas. This is the first phase of the so-called KETA project, which was proposed by the Kansas Electric Transmission Authority and awarded to ITC as the sole company that expressed interest in building it.

The second phase of the project, now in the route-planning stage, will extend the line from Knoll to a point near Axtell, Nebraska. The project was divided into two phases because Nebraska has yet to complete the approval process for siting the Nebraska portion of the line. Where the line will cross the

Nebraska border has yet to be determined.

ITC already has received approval from the KCC to build the entire line, and the KCC has also approved the siting permit for the Spearville-Knoll segment. However, ITC must apply for a certificate to operate the line because it will traverse the certificated service territories of Victory Electric Cooperative, Midwest Energy, Western Cooperative Electric Association and Mid-Kansas Electric Company.

These utilities had an opportunity to object to ITC operating a transmission line in their territory by November 26. None of the utilities filed an objection. CURB intervened to monitor the docket, but had no objections to the application. As expected, the KCC approved ITC's application on December 9, 2009.

KCC Docket No. 10-ITCE-350-COC

Westar Energy proposes two new energy-efficiency programs

Westar Energy has requested Commission approval of two new energy-efficiency programs. Westar's requests follow the guidelines outlined in the Commission's two generic energy-efficiency dockets, 08-GIMX-441-GIV and 08-GIMX-442-GIV.

The first of the two programs is an air-conditioning cycling program, called "WattSaver." The WattSaver program is intended to help reduce the system peak load and thus defer the need for additional capacity. This program will accomplish this primarily by cycling (i.e., turning on and off) a participant's central air conditioner or other appliances during peak usage times between June 1 and September 30.

Customers who qualify for Westar's WattSaver program will receive a programmable thermostat (including installation) that can be cycled via paging or radio signals. During peak usage periods, Westar will send signals to the thermostat that will cycle the participants' air conditioners or other appliances off and on for intermittent periods.

By cycling air conditioners during peak usage periods i9n the summer, Westar hopes to displace the need to use expensive natural gas to meet demand. Westar predits that the program can reduce peak demand by 60 MW by year five of the program. The proposed program will provide and install 60,000 thermostats at a cost just over $26 million.

The second energy-efficiency program proposed by Westar is a Building Operator Certification Program (BOC). BOC is a nationally-recognized competency-based training and certification program for building operators designed to improve the energy efficiency of commercial and industrial buildings. Westar, in conjuncttion with the Midwest Energy Efficiency Alliance (MEEA), will offer the opportunity to participate and receive certification in the BOC program to any building operator employed by a commercial or industrial customer of Westar Energy. Westar estimates that the BOC Program will cost $832,589 over a five-year period and will certify 238 participants. The program is projected to yield 11,178,860 kWh in annual energy savings.

A Commission decision on these two programs is expected later this year.

KCC Docket Nos. 09-WSEE-636-TAR & 09-WSEE-738-MIS

CURB to join settlement on pension costs

CURB will be joining the KCC Commission Staff, Westar Energy and Kansas Gas Service in reaching a non-unanimous settlement agreement on the appropriate accounting and rate treatment of the pension and retirement costs for the two utilities. The settlement, if approved, would allow Westar and KGS to establish two tracking mechanisms that would allow for true-ups on an annual basis between rate cases.

The parties are still working on a final draft, but plan to file their settlement with the Commission soon. Even if the Commission approves it, however, the docket will not be resolved, as several utilities have made competing proposals to the Commission.

This docket is a generic docket that was opened in March 2007 to address the utilities' concerns with conflicts between the requirements of regulatory accounting of pension and retirement costs and the standards of accounting for financial reporting. The trackers will ensure that the monies targeted for pension and retirement costs that are recovered through customer rates will be kept in separate trust accounts and used only for the authorized purpose.

Although CURB would prefer to keep these costs embedded in base rates, the settlement was the result of give-and-take on both sides. Staff and CURB agreed to allow a tracker if the companies agreed to alter their original request to add an additional tracker, and the utilities agreed not to request a return on the amounts flowed through the trackers.

Several utilities that operate in jurisdictions outside Kansas have proposed to be allowed to account for pension and retirement costs in a manner consistent with how it's done in other jurisdictions. Additionally, KCPL has requested the KCC honor the terms of its regulatory plan that provided for a different treatment of pension and retirement costs than the settlement would provide.

This case has been a prime example of the necessity of having good consultants to help us sort out the details of utility proposals. We're attorneys, not accountants, and this is a docket in which the accountants have done most of the negotiating as the attorneys listened and struggled to understand the finer points of regulatory and financial accounting. It has indeed been a struggle. We're confident that our accounting consultant, Andrea Crane, has advised us well, but honestly: we have to take her word for it. After one long negotiation session in this docket, the attorneys all agreed that running in front of a speeding semi would be preferable to spending one more hour listening to dueling accountants. We were joking, of course: we're grateful for the accountants who love and understand their profession and are willing to help the attorneys understand it better.

KCC Docket No. 07-GIMX-1041-GIV

KCC Hears Unanimous Settlement of MKEC Rate Case

On December 4, 2009, the Kansas Corporation Commission held a hearing to consider a unanimous settlement of the rate case filed by Mid-Kansas Electric Company, LLC (MKEC) in June 2009. Parties to the settlement included the Commission Staff, the Western Kansas Industrial Consumers Group, the Kansas Electric Power Cooperative, the Kansas Power Pool, and CURB.

MKEC was formed in 2005 by five electric distribution cooperatives and one company owned by a sixth electric distribution cooperative, for the purpose of acquiring the electric generation, transmission, and distribution assets formerly owned by Aquila.

MKEC had requested a $16.4 million increase in the retail rates for the five electric distribution companies. The settlement reduced the retail rate increase to $12.7 million. MKEC had also requested a $10.03 million increase in its wholesale rates. The settlement reduced the wholesale rate increase to $6.5 million.

MKEC's electric distribution companies include: Lane-Scott Electric Cooperative, Inc., Prairie Land Electric Cooperative, Inc., Victory Electric Cooperative Association, Inc., Western Cooperative Electric Association, Inc., Wheatland Electric Cooperative, Inc., and Southern Pioneer Electric Company.

The Commission took under advisement the parties' recommendation to approve the unanimous settlement and is expected to issue an order on or before January 11, 2010.

KCC Docket No. 09-MKEE-969-RTS

Changing of the guard

Incoming NASUCA president Mary Healey hands outgoing president David Springe an award for distinguished service during his two terms leading NASUCA.

Dave Springe's been in the office for almost two weeks straight, and we hardly know how to act. We haven't seen him this much in ages. After two years of serving as the president of the National Association of State Utility Consumer Advocates, Dave turned over the reins to a new president on November 18. So now he won't be traveling nearly as much as he has been during his tenure with NASUCA.

As a result of the wide exposure Dave received as NASUCA president, he's more in demand as a speaker these days, so he is still getting invitations to speak at conferences. But the days of seeing Dave mostly coming and going are over.

For us in the CURB offices, that's a good thing. We've watched Dave come in sleep-deprived from flight delays more than once. Many times we've seen him start his workday just about the time the rest of us were heading for home. Despite all the travel, he always remained in touch with the office no matter where he was: he dealt with CURB problems while he was on the road, in the air, and on his rare days off. He never neglected his duties as the leader of CURB, but we know he was often exhausted by the effort to do justice to both jobs. We worried a bit about him, even as we were proud of his accomplishments.

We're sure his family is happy to have him home more often. The staff of CURB certainly is. Welcome back! ♦

CURBside is brought to you by the Staff of CURB:

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The good news: natural gas prices are still down, and your winter heating bill—we're hoping—should be lower.

The bad news: almost across the board, your electric bill is going up.

Westar rates are up $200 million this year. KCPL just had its third rate increase in as many years, and will be filing for another increase next week. MKEC, the old Aquila West-Plains system, is increasing retail rates by $12.7 million. Finally, Empire has filed a rate case to increase base rates nearly 40%. Sunflower and KEPCO have voted to remove themselves from KCC regulatory jurisdiction, so they will be able to increase rates any time they choose, with their members' approval, of course.

Don't look for your utility costs to decrease in the future, with environmental regulation costs going up, transmission costs going up and the increased cost of meeting the new legislatively-created mandate to acquire renewable resources.

Next, we are going to get "smart". Smart meters, smart grid, smart rates and smart consumers are the new rage in the industry circles. Westar is turning the entire town of Lawrence into a "smart grid" experiment, providing meters that can read usage every hour, along with interactive web access. The long term goal of this new rage is to be able to charge you, the customer, different prices at different times of the day. You'll need to be smart enough to know how much power costs at the time you choose to use it. It could be exciting and save you money. Or it could be another thing you have to add to your growing list of worries. Regardless . . . over time, you will have to become a smarter energy consumer.

However, all that is for the year ahead. For the present, as we move into the holiday season, I am ever mindful of those among us that are experiencing extreme hardship due to the economic downturn. Nevertheless, I am always optimistic. I believe that the best in people comes out during the hardest of times. So at this time especially, I urge everyone to dig a little deeper and donate to those in need, extend a hand a little further to help those that need help, and to smile a little brighter to lift a spirit that may be down.

On behalf of the Board, and the staff here at CURB, I wish you the best of holiday seasons and the hope for a better year ahead.

—Dave Springe

In-depth analysis:

SPP stalls out on the transmission super highway

The Southwest Power Pool's Board of Directors has approved a cost-allocation methodology that will allocate funding for new transmission projects on a "highway-byway" basis.

The costs of "highways", which are large-scale transmission projects of 300kV or greater, will be allocated regionally to transmission owners based on their historic use of the region's energy. The costs of "byways", which are transmission projects of less than 300kV, will be allocated primarily to the utility in whose service territory the project is built.

SPP will have to revise its Open Access Transmission Tariff to implement the highway-byway plan. Approval by the SPP's board and the Federal Energy Regulatory Commission will be required, as well. But final approval of the highway-byway plan is expected some time next year.

How to allocate the costs of new large-scale transmission highways has been a source of major disagreement among members of the Southwest Power Pool for several years. SPP members in the High Plains region are enthusiastic supporters of rapid expansion of large-scale transmission projects that will enable wind-rich areas to export renewable energy to load centers farther east. They have argued that the SPP region as a whole will benefit from a more efficient and reliable grid, so the costs should be spread over all of the members.

Less enthusiastic are members in areas without viable wind resources to exploit, such as Ozark-area utilities, and members located in states where there is no requirement that utilities utilize renewable energy. Non-profit municipal utilities at the eastern edge of the Great Plains also fear that their customers will bear more than their fair share of the costs of developing the transmission to move power from High Plains wind farms to the east. So there is widespread concern among many SPP members that these ambitious plans to upgrade the SPP grid will result in their customers getting stuck with more than their fair share of the costs, especially if the need for all this new transmission has been overstated.

Another nagging concern keeps the members uneasy: the current estimates of costs to build the large high-voltage highway projects don't include the costs of constructing the multiple byway lines that will be needed to connect generators to the highways (dubbed "on-ramps"), plus other byways to connect purchasers of power to the highways ("off-ramps"). But without on-ramps and off-ramps, those transmission super-highways can't be used. There is general concern among many members that the hidden costs of all the byways that will need to be constructed is going to make the true costs of the super-highway system much larger than anticipated.

Despite these concerns, the SPP Board's agreement on the highway-byway plan is viewed as overcoming a significant challenge in the ongoing process of planning for a more-efficient regional grid. However, more daunting challenges remain to be overcome before SPP's ambitious plans will become reality.

Now that the cost-allocation issue is almost settled, the focus of SPP members is shifting towards the question of which projects will be built first. Members in areas that want transmission projects—and want them *now*!—are clamoring for faster approval of their projects.

In response to their complaints that the transmission planning process at SPP is so excruciatingly slow that it is impeding the development of wind power, SPP has bifurcated its procedures. While revamping its long-term planning process to make it more efficient, at the same time it has decided to develop a fast-track process for expedited approval of a short list of large-scale trans-mission projects that studies have repeatedly identified as economically beneficial to the region. Although members pushing for expedited approval were happy with the change, the disagreements over which projects will comprise the Priority Project list have been at least as rancorous as the disagreements over how to allocate the costs of the projects.

And "expedited" approval is almost an oxymoron in SPP-land: beginning last spring with a list of roughly 120 proposed projects, SPP's various committees had winnowed the candidates for the Priority Project portfolio down to about ten projects by early autumn. Six months of preliminary deliberation is virtually jet-speed for SPP.

Then, shortly before the Board's annual meeting in late October, SPP's Market Operations and Planning Committee announced its recommendation: conduct further studies on three proposed transmission projects and a voltage reactor, assuming existing generation resources and assuming *no* projected future wind projects. Projects that would complete the so-called X-Plan (which had been an earlier effort to develop a portfolio of large-scale transmission projects in the High Plains designed to export wind power) had been dropped off the list.

Of particular significance to Kansans was the fact that two X-plan projects, the Spearville-Comanche-Wichita project and the accompanying Woodward-Comanche project across the Oklahoma border, had been scratched from the Priority Project list. Although being knocked off the list didn't mean that SPP wouldn't eventually approve the construction of these projects, it did mean that the projects were being pushed to the back burner. It also meant that there would be no guarantee that they would be approved for regional funding.

The companies that plan to build those two projects have repeatedly declared that they won't begin building without regional funding in place, so the news that the projects had been dropped off the list was devastating to wind-farm proponents. They have been promoting the lines as an essential first step toward turning the High Plains into a massive wind-energy production zone.

The rationale for regional funding of large-scale transmission projects to transport wind power was developed out of necessity. The windiest areas of the country are generally quite sparsely populated and have been served primarily by rural electric coops. Utilities traditionally have only built enough transmission infrastructure necessary to serve their service territories, and maybe a line or two connected to another utility so they can buy or sell surplus power as needed. As a result, the grid has developed as a patchwork of small, poorly-connected transmission grids designed primarily to serve a particular set of customers.

Thus, grids in areas like western Kansas don't have enough surplus transmission available to transport more power than the customers in the area need, and aren't designed to transport power over long distances. Furthermore, while rural areas welcome the prospect of jobs and revenues that a lot of wind farms would bring, the rural population in areas like western Kansas isn't growing and doesn't provide a big enough market for the power that would be produced by large-scale wind generation projects. If the High Plains region is going to exploit wind for profit, a market must be found for the power.

A potential market exists in more heavily-populated urban areas with increasing demand for energy to power modern appliances, computers and other electronic devices. Urban areas are also seeking ways to clean up their air by reducing combustion of fossil fuels. Utilizing more wind power would serve both goals. So several states have passed legislation requiring their utilities to acquire or produce a portion of their energy from renewable resources, usually ten to twenty percent of their total sales of energy. But urban areas don't have the wide-open spaces required for wind farms, and tend to be located in areas where the wind isn't strong enough or constant enough to make a wind farm economically viable. Thus, utilities in those areas comprise a rich potential market for wind power generated elsewhere.

So if the windy High Plains region is to become the home of large-scale wind farms generating power for the urban Midwest, large-scale transmission lines will be required to move the power. Wind developers might be able to secure the financing for such projects, but don't have the power of eminent domain to force unwilling property owners to allow transmission lines to be built on their property. Utilities have that power, but small rural coops simply can't obtain the kind of financing that such large-scale projects require. Even if they could, their small customer bases would be crushed under the burden of huge rate increases that couldn't possibly be justified on a cost-of-service basis. Thus, the consensus has been reached that the funding for these projects is going to have to come from somewhere else.

But from where? Wind proponents have concluded that the answer should be—from the region as a whole. By spreading out the costs over many customers in a larger region, the impact of the costs of large-scale projects on individual customers is reduced.

But what's the justification for asking customers in Louisiana to help pay for transmission to aid wind development in western Kansas? Why would they agree to do that? Because, proponents say, by building large-scale transmission projects, the regional grid will become more interconnected, and generation could be dispatched more efficiently over farther distances. Surplus power could be moved around more easily, as well, fostering a more responsive and competitive power market, which would benefit all customers in the region.

Thus, if everyone in the region benefits, proponents reason, then it's only fair that everyone in the region should contribute to the cost of providing those benefits. And now that several states require their utilities to provide ten to twenty percent of their power from renewable resources, but are located in areas unsuitable for wind development, proponents point out that those utilities should share in the costs of building the lines that will deliver renewable energy to their citizens.

So that's why regional cost allocation has become the mantra of everyone who wants more wind power: to build more wind farms, we have to build lines to transport the power they produce, and the only practical way to get enough money to build those lines is to convince everyone in the region to contribute.

The easiest way to convince everyone to contribute is to prove to them that the lines will provide benefits that outweigh the costs. SPP has thus been frantically doing study after study, trying to determine which projects will provide the most economic benefits to the most members of SPP. Those are the projects that will make the Priority Project short list, and receive expedited approval to begin construction.

This should be a fairly straight-forward process, right? SPP has a huge staff of experts. Engineers create computer models that mimic the operation of the current grid, identify its deficiencies and propose solutions. Economists estimate what costs those deficiencies are imposing on the members. Other experts estimate the costs of the proposed solutions. Market experts calculate how the market will be affected by improvements to the grid. More experts calculate cost-benefit ratios to the various SPP members, and others determine the potential impact on a typical customer's bill.

But one problem continually crops up: when planning for improvements to the grid, how do you go about determining what your long-term goals are? Are you trying to build a grid to transport the power from ten 100MW wind farms, or thirty of them, or more? If you assume that every wind farm that has been proposed will actually be built, you come up with one answer. If you make a more cautious assumption, you come up with another answer. Since the projects that rank highest in studies in benefits versus costs are more likely to be built sooner than later, the assumptions made in these studies can make or break the future of a given project.

And no matter how hard the members of SPP try to take an objective view of each study as it is presented, the fact remains that when the SPP staff presents a study that assumes a lot of wind farms will be built, the members from areas that won't have wind farms decry the study as overestimating the need for transmission, that its cost/benefit assessments are distorted in favor of the wind-rich areas. If the study assumes a modest number of wind farms will be built, areas anticipating a lot of wind farms decry the benefit/cost assessments as biased toward wind-deprived areas, and will result in too little transmission to support a healthy wind industry.

There are valid reasons for why it's so hard to make a reasoned, sensible estimate of the number of wind farms that will be built in the next ten or twenty years. Wind developers generally spend years securing the agreements of numerous landowners before deciding where they can build a wind farm. But without firm plans for the transmission in place to transport the power, the wind developers won't make firm commitments to build. Landowners don't like to encumber their land with agreements that ultimately may never be executed, so securing a firm location for a wind farm is often an elusive, arduous process.

Complicating the process, transmission developers won't make a final commitment to build a line unless they know they will have power to transport and enough customers contributing to the cost of the line to recover their investment and provide a profit to their shareholders. And shareholders won't invest unless they have confidence that their investment will be recovered. Without a firm commitment from the wind developers to build wind farms, the transmission developers can't offer their shareholders much assurance that the line will turn a profit.

So a lot of proposals for wind farms are floating around out there, waiting for someone else to make a commitment that will enable them to make a commitment, and so on. Not all of them will be built, but some of them will—eventually.

Thus, all of the influences on the process of building wind farms and transmission are highly interdependent and yet wildly independent at the same time. Although it's fairly certain that *some* wind generation facilities will be built over the next decade or so, the answer to the question of *how much* wind generation will be built over the next ten or twenty years—and exactly *where*—is virtually anybody's guess. And until you have a firm answer to the question of how many wind farms and where they will be built, the answer to how much transmission we'll need in the next ten or twenty years is anybody's guess.

All of this uncertainty about the validity of inputs to the studies is driving the members to distrust the validity of the SPP process itself. But whether a member accepts SPP's assumptions about the region's future transmission needs largely depends on where the member sits: in the wind-swept regions of the High Plains, in a smog-choked Midwestern city, or in a swampy backwater in east Texas. It depends very little on whether the inputs are actually reasonable or not. But it leads the slightly paranoid to suspect more sinister pressures at work.

Certainly, a bit of paranoia and legitimate disappointment factored into the reactions of various stakeholders to the recent events at the SPP meetings in late October. The gnashing of teeth among the Kansas and Oklahoma pro-wind factions was loud and virulent when the MOPC announced the newer, shorter Priority Project list in October. SPP was bombarded with letters from various state officials and industry leaders. Newspapers (which will benefit from the better economy if their communities get wind farms) also put pressure on SPP. Attendance at the Regional State Committee and board meetings in late October reached record numbers as the various factions squared off in an effort to pressure the members who vote at the meetings.

To be fair, even some folks who don't have a stake in the matter questioned the MOPC's recommendation that the costs and benefits of the Priority Projects should be studied assuming that no additional wind generation would be built at all. With so many states now requiring utilities to buy or generate energy with renewable resources, studying these projects' economic benefits without assuming some level of future wind generation does seem pointless. The only conclusion one can make is that the MOPC found the option attracttive because it enables the SPP staff to dodge entirely the controversial task of deciding what level of future generation to assume. This way, everyone is equally unhappy.

At any rate, the Regional State Committee, made up entirely of members of state utility commissions in the SPP footprint, refused to endorse the MOPC's recommendations and urged the Board of Directors to put the Spearville-Comanche-Wichita and Comanche-Woodward projects back on the Priority Projects list. The Board did so, but without revising the MOPC's recommendation to remove future wind from the analyses of the projects.

The new analyses are due for presentation to the RSC and the board in January 2010. There is no reason whatsoever to expect that the outcome of January's meetings will be a consensus on the Priority Projects. It's a sure bet that no matter the outcome, many members will be unhappy with the results, perhaps enough to delay approval of the plan for another year or more.

Reporting on SPP's progress towards approval of a comprehensive plan for upgrades to the regional grid is a lesson in learning to recognize almost imperceptible, incremental change, an exercise like watching the bark thicken on a tree, or observing the erosion of a rock by water. At a distance, SPP's progress seems irreparably stalled, either by ineptitude or bureaucratic paralysis. With all those experts at its disposal, why can't it make a decision that will hold up?

But up close, one begins to recognize that the fact that the SPP ever reaches a decision at all is almost miraculous. Why? Because, unlike our nation, SPP is the closest thing to pure, multilateral democracy one ever sees these days. SPP is governed by its members. Every person comes to the table to represent the specific interests of the entity he or she represents. Other than the general agreement that building more transmission would be a good thing for the nation, there's very little evidence that any SPP member is willing to subordinate its own interests in pursuit of the general public interest.

Further, there's no two-party system to force the fierce partisans of any given position to choose one side or the other. The majority rules—if you can muster a majority. If not, then you are forced to lobby the others—or whine loudly—until someone gathers enough votes to push through a decision. Without a majority, no decisions of importance are made.

At first thought, pure democracy sounds like it might be a refreshing change from the nasty partisan bickering that passes for statesmanship at the state legislature or in Congress, where our representatives often accomplish little more than becoming adept at tossing verbal grenades across the aisle. However, SPP instead is a textbook example of why democracy, in some circumstances, utterly fails. Although there's some semblance of objectivity on the Board of Directors, which has a healthy sprinkling of outsiders to the electric industry, the individual members of SPP have very little to gain from abandoning advocacy of pure self-interest in the interest of the greater good. While it might be a bit unfair to compare an SPP meeting to a gathering of kindergartners, the absence of a responsible adult in either case makes the results sadly predictable. No good decisions are going to be made while everyone is screaming for cookies.

Far be it from an advocate on behalf of utility customers to make recommendations that would assist SPP to efficiently and rapidly approve the construction of billions of dollars of transmission lines that is going to increase rates for decades, but it's hard to resist. Regional transmission organizations were created to serve the national interest and the public interest, not the specific interests of individual utilities or industries. But SPP's current structure makes it nearly impossible to move forward on important initiatives in a timely fashion.

So here's our suggestion: What SPP needs is a benevolent dictator, to make important decisions on behalf of the public as a whole. The SPP already has a president, of course, but it needs a leader with the authority to override the paralysis of ambivalence, and to impose order on the chaos of unchecked desires. SPP needs someone with the authority to act on behalf of the public at large.

You know. Like your kindergarten teacher. Someone who will make everyone sit down and be quiet; someone who will guide the group into making good decisions for everyone; and most importantly—someone who will be in charge of handing out the cookies. ♦ ***–Niki Christopher***