

EXHIBIT

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Cost of Service/

Rate Design

Meisenheimer/Direct

Public Counsel

ER-2010-0356

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

**Kansas City Power & Light
Greater Missouri Operations Company**

Class Cost of Service and Rate Design

CASE NO. ER-2010-0356

December 1, 2010

OPC Exhibit No. 404
Date 2/17/11 Reporter ML
File No. ER-2010-0356

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of)
KCP&L Greater Missouri Operations)
Company for Approval to Make Certain)
Changes in its Charges for Electric Service) **ER-2010-0356**

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




Barbara A. Meisenheimer

Subscribed and sworn to me this 1st day of December 2010.



KENDELLE R. SEIDNER
My Commission Expires
February 4, 2011
Cole County
Commission #037004782



Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2011.

**Kansas City Power & Light
Greater Missouri Operations Company**

Class Cost of Service and Rate Design

ER-2010-0356

**Direct Testimony
of
Barbara Meisenheimer**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

3 A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
4 P. O. 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor for
5 William Woods University.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

7 A. I hold a Bachelor of Science degree in Mathematics from the University of
8 Missouri-Columbia (UMC) and have completed the comprehensive exams for a
9 Ph.D. in Economics from the same institution. My two fields of study are
10 Quantitative Economics and Industrial Organization. My outside field of study is
11 Statistics.

12 I have been with the Office of the Public Counsel since January 1996. I have
13 testified before the Missouri Public Service Commission (Commission) on
14 economic issues and policy issues in the areas of telecommunications, gas, electric,
15 water and sewer. In rate cases my testimony has addressed class cost of service,

1 rate design, miscellaneous tariff issues, low-income and conservation programs and
2 revenue requirement issues related to the development of class revenues, billing
3 units, low-income program costs, incentive programs and fuel cost recovery.

4 Over the past 15 years I have also taught courses for the following
5 institutions: University of Missouri-Columbia, William Woods University, and
6 Lincoln University. I currently teach undergraduate and graduate level economics
7 courses and undergraduate statistics for William Woods University.

8 **Q. HAVE YOU TESTIFIED IN PAST KANSAS CITY POWER & LIGHT GREATER MISSOURI**
9 **OPERATIONS COMPANY RATE CASES?**

10 A. Yes. I testified in Kansas City Power & Light Greater Missouri Operations
11 (KCP&L GMO) Case No. ER-2005-0436 regarding class cost of service and rate
12 design and in Aquila Inc. Case No. EO-2002-384 regarding GMO service area that
13 was previously acquired from Aquila Inc. I testified on class cost of service and rate
14 design in Aquila Inc. Case No. EO-2002-384. I also testified on class cost of service
15 and rate design issues in KCP&L Case No. ER-2006-0314 and Case No. ER-2007-
16 0291.

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 A. My direct testimony addresses Public Counsel's class cost of service and rate design
19 recommendations as well as economic and public policy considerations that Public
20 Counsel encourages the Commission to consider in resolving the issues in this case.

1 **II. COST OF SERVICE AND RATE DESIGN**

2 **Q. HAS PUBLIC COUNSEL PREPARED A CCOS STUDY FOR THIS CASE?**

3 **A. No.**

4 **Q. HAVE YOU REVIEWED THE CCOS STUDY SUBMITTED BY GMO IN THIS CASE?**

5 **A. Yes.**

6 **Q. ARE YOU SATISFIED TO USE THE CCOS STUDY RESULTS PRESENTED IN THE**
7 **DIRECT TESTIMONY OF GMO WITNESS PAUL NORMAND AS A GUIDE TO SETTING**
8 **CLASS RATES IN THIS CASE?**

9 **A. Yes.** In recent cases, Public Counsel prepared and filed electric class cost of
10 service studies that utilize Time of Use based allocations and other methods
11 different from the Staff and Company. However, in this case, Public Counsel had
12 insufficient internal and consulting resources available to develop the Time of
13 Use allocators. As a result, although Public Counsel does not endorse or agree
14 with each of the Company's allocation methods, I have reviewed the allocations
15 and methods and am satisfied to use the Company's study results as a guide in
16 setting rates.

17 **Q. HAS THE COMPANY PROPOSED SHIFTS IN CLASS REVENUE RESPONSIBILITY**
18 **BASED ON THE CCOS STUDY RESULTS?**

19 **A. No.** GMO witness Tim Rush indicates that the Company prefers an equal
20 percentage increase to all non-fuel rate elements for all rate classes.

1 Q. WHAT SHIFTS IN CLASS REVENUE RESPONSIBILITY ARE SUGGESTED BY THE CCOS
2 RESULTS SHOWN IN TABLE 3A AND 3B OF MR. NORMAND'S TESTIMONY?

3 A. Mr. Normand's COSS Table 3A results show that for the MPS service area the
4 Residential class average rate of return is 5% higher than the system average rate
5 of return and the return provided by the Small General Service class is 137% of
6 the system average return. In contrast, the Large General Service class is at
7 approximately 86% of the system average return and the Large Power class is
8 providing a return of only 69% of the system average return. In my opinion, Mr.
9 Normand's CCOS results support some reduction in the return provided by the
10 Residential and Small General Service classes offset by an increase in the return
11 provided by the Large General Service class and the Large Power class.

12 Mr. Normand's COSS Table 3B results show that for the LP service area
13 the Residential class average rate of return is 14% higher than the system average
14 rate of return and the return provided by the Small General Service class is 134%
15 higher than the system average return and the Large General Service class is
16 approximately 24% higher than the system average return. In contrast, the Large
17 Power class is providing a return of only 65% of the system average return. In
18 my opinion, Mr. Normand's CCOS results support some reduction in the return
19 provided by the Residential, Small General Service and Large General Service
20 class offset by an increase in the return provided by the and Large Power class.

1 Q. WHAT LEVEL OF REVENUE NEUTRAL SHIFTS DO YOU RECOMMEND?

2 A. Generally, Public Counsel recommends that, where the existing revenue structure
3 departs greatly from the class cost of service, the Commission should impose, at a
4 maximum, class revenue shifts equal to one half of the "revenue neutral shifts"
5 indicated by the class cost of service study. Revenue neutral shifts are shifts that
6 hold overall company revenue at the existing level but allow for the share
7 attributed to each class to be adjusted to reflect the cost responsibility of the class.

8 Based on the Company's CCOS study for the MPS service area, the rate
9 base associated with the Large Power class is \$242,837,322. Currently, the
10 Company estimates that the Large Power class provides a 4.008% return
11 compared to the system average return of 5.818%. The maximum revenue neutral
12 shift I would recommend would increase the Large Power class by one half of the
13 "revenue neutral shifts" indicated by the class cost of service study or \$2,197,678
14 [$\$242,837,322 * \frac{1}{2} * (5.818\% - 4.008\%)$]. The Company's CCOS study for the
15 MPS service area indicates that the rate base associated with the Large General
16 Service class is \$190,927,040. Currently, the Company estimates that the Large
17 General Service class provides a 4.995% return compared to the system average
18 return of 5.818%. The maximum revenue neutral shift I would recommend would
19 increase the Large General Service class by one half of the "revenue neutral
20 shifts" indicated by the class cost of service study or \$785,665 [$\$19,0927,040 * \frac{1}{2}$
21 $* (5.818\% - 4.995\%)$]. The Residential and Small General Service classes should
22 receive a revenue neutral reduction equal to the combined revenue neutral
23 increase to the Large General Service and Large Power classes

1 (\$2,983,243=\$2,197,678 +\$785,665). The Small General Service class should
2 receive a greater share of the reduction since Small General Service is
3 substantially farther above cost than the Residential class. I'd recommend that
4 Small General Service receive approximately 87% (\$2,598,395) of the combined
5 \$2,983,243 revenue neutral reduction and Residential receiving the remaining
6 13% (\$384,948) of the combined reduction.

7 Turning to the LP service area, the Company's CCOS study indicates that
8 the rate base associated with the Large Power class is \$139,138,505. Currently,
9 the Company estimates that the Large Power class provides a 3.748% return
10 compared to the system average return of 5.77%. The maximum revenue neutral
11 shift I would recommend would increase the Large Power class by one half of the
12 "revenue neutral shifts" indicated by the class cost of service study or \$1,406,690
13 [$\$139,138,505 * \frac{1}{2} * (5.77\% - 3.748\%)$]. The Residential, Small General Service
14 and Large General Service classes should share in a revenue neutral reduction
15 equal to the revenue neutral increase to the Large Power class. The Small
16 General Service class should receive the greatest share of the reduction since
17 Small General Service is substantially farther above cost than the Large General
18 Service class and Residential class. I'd recommend that Small General Service
19 receive approximately 78% (\$1,096,754) followed by Large General Service
20 receiving 14% (\$197,980) of the revenue neutral reduction and Residential
21 receiving the remaining 8% (\$111,957) of the revenue neutral reduction.

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1 Q. UNDER CERTAIN CIRCUMSTANCES MIGHT YOU RECOMMEND LESSER REVENUE
2 NEUTRAL SHIFTS THAN THE MAXIMUM SHIFTS DISCUSSED ABOVE?

3 A. Yes. To level the rate impacts on customers facing substantial increases
4 associated with combining the impacts of revenue neutral shifts and revenue
5 requirement increases with the rate impacts of customers receiving decreases,
6 Public Counsel recommends that if the Commission determines that an overall
7 increase in revenue requirement is necessary, then no customer class should
8 receive a net decrease as the combined result of: (1) the revenue neutral shift that
9 is applied to that class, and (2) the share of the total revenue increase that is
10 applied to that class. Likewise, if the Commission determines that an overall
11 decrease in revenue requirement is necessary, then no customer class should
12 receive a net increase as the combined result of: (1) the revenue neutral shift that
13 is applied to that class, and (2) the share of the total revenue decrease that is
14 applied to that class.

15 Q. AT THIS TIME ARE YOU PROPOSING A LESSER REVENUE NEUTRAL SHIFT?

16 A. No.

17 Q. HOW DO THE COMPANY'S CURRENT RESIDENTIAL AND SMALL GENERAL SERVICE
18 CUSTOMER CHARGES COMPARE TO THE CUSTOMER RELATED COSTS SUGGESTED
19 BY MR. NORMAND'S CCOS STUDIES?

20 A. For the MPS service area, the Residential Service customer charges do differ from
21 the cost results from Mr. Normand's studies. For example, for the Residential
22 class, the General Use customer charge is only \$9.73 compared to a cost of

1 \$11.35. The Residential Other Use customer charge is \$16.03 compared to a cost
2 of only \$9.77. There are also differences between the current customer charges
3 for Small General Service and the Company's calculated customer related costs.
4 For example, for the Small General Service class, customer charges range from
5 \$16.03 to \$16.11, while the class's average cost is \$17.56.

6 For the LP service area, the Residential Service customer charges differ
7 from the cost results from Mr. Normand's studies. For example, for the
8 Residential class, the General Use customer charge is \$7.90 compared to a cost of
9 \$11.91. The Residential Other Use customer charge is \$8.69 compared to a cost
10 of \$11.15. There are also differences between the customer charge rates and the
11 Company's calculated customer related costs for Small General Service. For
12 example, the Limited Demand General Service customer charges is \$15.65
13 compared to a cost of \$19.189 while the General Use customer charge is \$32.31
14 compared to a cost of only \$21.59.

15 **Q. WHAT IS YOUR POSITION ON CHANGES TO THE RESIDENTIAL AND SMALL**
16 **GENERAL SERVICE CUSTOMER CHARGES?**

17 **A.** In this case, Public Counsel encourages the Commission to keep customer charges
18 as low as possible. Low customer charges can encourage greater subscription and
19 shared use of the system resulting in benefits to all customers. Greater recovery
20 through use based charges provides an incentive to conserve by aligning bill
21 reductions with reduced usage. If contrary to Public Counsel's recommendation
22 the Commission decides to raise customer charges, I recommend that any upward
23 adjustments be limited to ½ the difference between the current customer charge

1 and the customer related cost estimated by Mr. Normand's class cost of service
2 studies.

3 **III. ECONOMIC CONSIDERATIONS**

4 **Q. SHOULD ECONOMIC CONSIDERATIONS FACTOR INTO THE COMMISSION'S DECISION**
5 **IN THIS CASE?**

6 A. Yes. While a class cost of service study provides the Commission with a general
7 guide for cost based rates, the Commission must, on a case by case basis, balance the
8 results of a cost of service study with other relevant factors that go into the rate
9 making decision process. Public Counsel has argued and the Commission has
10 recognized that other relevant factors to consider in setting rates include the value of
11 a service, the affordability of service, rate impacts, and rate continuity. In recent
12 years, Missourians have faced significant rate increases and substantial economic
13 challenges. In this case, Public Counsel urges the Commission to decide issues in a
14 manner that reasonably minimizes the impact on Residential and Small General
15 Service customers.

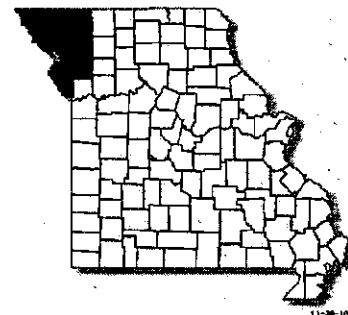
16 **Q. PLEASE COMMENT ON THE RATE OF UNEMPLOYMENT IN GMO'S SERVICE AREA.**

17 A. According to the Company's Tariff, GMO serves portions of 24 counties in Western
18 and Northern Missouri through its MPS system and serves portions of 10
19 Northwestern counties through its L&P system.

GMO-MPS



GMO-L&P



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These counties have experienced high unemployment in recent years. As illustrated below, according to the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, the unemployment rate in many of these counties has increased substantially since 2005.

Local Area Unemployment Statistics GMO-MPS

County	2005	2006	2007	2008	2009	Increase 2005-2009
Barton	5.00%	5.20%	8.60%	9.20%	10.80%	116%
Bates	6.30%	5.60%	6.00%	7.10%	10.30%	63%
Benton	6.10%	5.40%	5.90%	6.80%	10.00%	64%
Buchanan	5.80%	4.50%	4.40%	5.20%	8.60%	48%
Carroll	5.30%	4.60%	5.00%	7.00%	10.50%	98%
Cass	5.90%	5.10%	5.70%	6.50%	9.20%	56%
Cedar	4.60%	4.30%	4.30%	5.10%	8.50%	85%
Clay	5.40%	4.90%	5.10%	5.90%	9.60%	78%
Clinton	5.50%	4.70%	5.30%	6.20%	8.90%	62%
Dade	4.80%	4.40%	4.50%	5.30%	8.90%	85%
Daviess	5.20%	4.50%	4.80%	5.50%	7.90%	52%
Grundy	5.20%	4.60%	4.50%	4.90%	7.60%	46%
Harrison	6.00%	5.10%	5.60%	6.60%	9.60%	60%
Henry	6.40%	5.70%	5.80%	6.90%	10.20%	59%
Jackson	4.60%	4.00%	4.60%	5.20%	8.40%	83%
Johnson	5.50%	4.80%	5.10%	6.10%	9.50%	73%
Lafayette	4.70%	4.20%	4.40%	5.10%	7.80%	66%
Livingston	4.30%	4.30%	4.10%	4.80%	7.40%	72%
Mercer	5.50%	5.00%	5.20%	6.20%	8.80%	60%
Pettis	4.50%	3.90%	3.90%	4.80%	7.80%	73%
Platte	5.40%	5.20%	5.30%	6.30%	9.80%	81%
Ray	5.90%	5.60%	6.50%	7.00%	9.90%	68%
St. Clair	4.80%	4.40%	4.90%	5.60%	8.00%	67%
Vernon	5.10%	4.60%	4.90%	5.90%	9.40%	84%

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Local Area Unemployment Statistics GMO-L&P

County						Increase
	2005	2006	2007	2008	2009	2005-2009
Andrew	5.10%	4.00%	3.90%	4.80%	7.80%	53%
Atchison	4.70%	3.90%	4.30%	4.70%	7.40%	57%
Buchanan	5.80%	4.50%	4.40%	5.20%	8.60%	48%
Clinton	5.40%	4.90%	5.10%	5.90%	9.60%	78%
Dekalb	5.80%	5.30%	5.20%	6.20%	9.40%	62%
Gentry	4.40%	4.00%	4.10%	4.50%	6.50%	48%
Holt	4.50%	4.00%	5.00%	5.00%	7.20%	60%
Nodaway	3.70%	3.40%	3.70%	4.20%	6.40%	73%
Platte	4.50%	3.90%	3.90%	4.80%	7.80%	73%
Worth	4.00%	3.80%	4.60%	5.50%	7.70%	93%

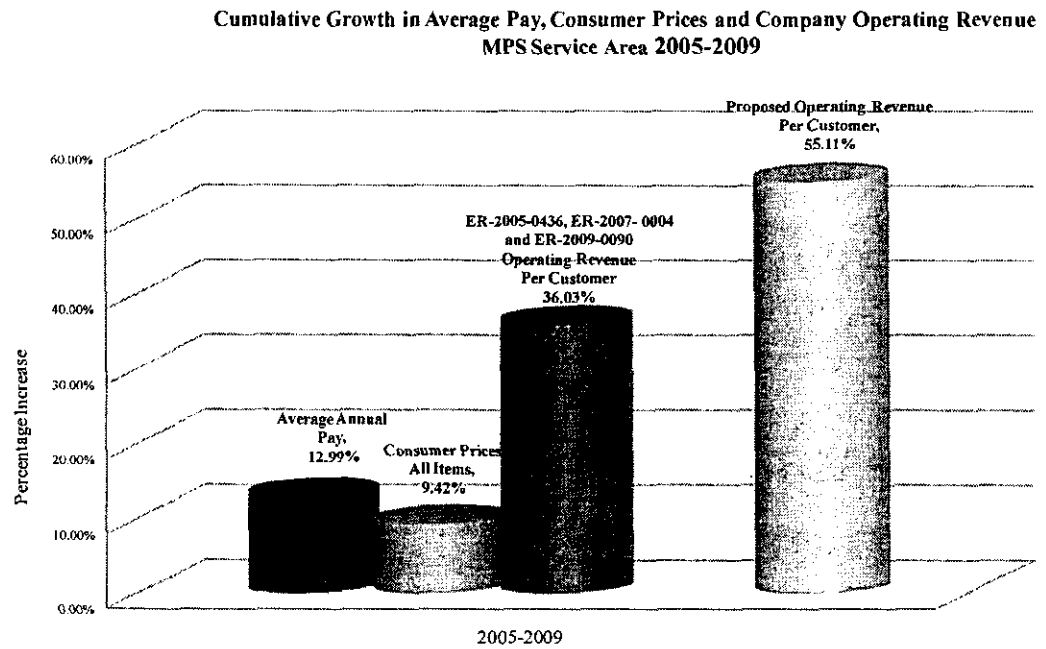
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3 **Q. PLEASE COMMENT ON RECENT RATE INCREASES THAT HAVE IMPACTED GMO'S**
4 **SERVICE AREA.**

5 From 2006 to 2009, investor owned utility customers in portions of GMO's service
6 area have been impacted by significant rate increases. In rate cases, GMO increased
7 companywide electric rates three times for a total of almost \$132M on the MPS
8 system and almost \$35M on the L&P system. Missouri American Water increased
9 companywide water rates twice for a total of almost \$63M impacting communities
10 such as Warrensburg, Platte County and St. Joseph. Missouri Gas Energy and
11 Atmos increased rates in 2007. In addition, already in 2010, rate increases have
12 been approved for Atmos and Empire District Gas.

13 **Q. PLEASE COMMENT ON WAGES AND PRICES IN THE AREA.**

14 **A.** Based on data obtained from the US Bureau of Labor Statistics, for the period 2005-
15 2009, workers' average pay has exhibited a higher percentage of growth than
16 consumer prices. However, the percentage of increase in pay is far less than the
17 percentage of growth in current operating revenue per customer and will be less than

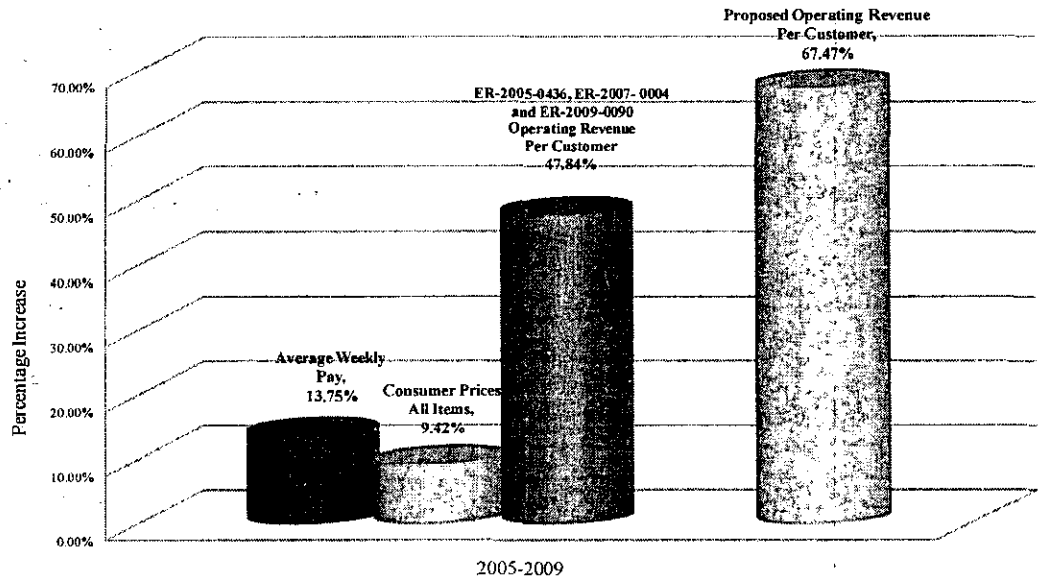
1 one fourth of the growth in operating revenue per customer that will exist if GMO's
2 \$97.9M proposed increase is granted. The diagram shown below illustrates these
3 comparisons.



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5 The GMO-MPS service area diagram illustrates a 12.99% increase in
6 average pay for the combined period 2005-2009, while the increases granted in ER-
7 2005-0436, ER-2007-0004 and ER-2009-0090 combined with the proposed increase
8 in this case will equate to more than a 55% increase in operating revenue per
9 customer for the MPS service area.

Cumulative Growth in Average Pay, Consumer Prices and Company Operating Revenue
L&P Service Area 2005-2009



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The GMO-L&P service area diagram illustrates a 13.75% increase in average pay for the combined period 2005-2009, while the increases granted in ER-2005-0436, ER-2007-0004 and ER-2009-0090 combined with the proposed increase in this case will equate to more than a 67% increase in operating revenue per customer for the L&P service are.

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Q. HAVE CONSUMERS EXPRESSED CONCERNS ABOUT THEIR ABILITY TO AFFORD UTILITY RATE INCREASES?

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A. Yes. Customers testifying in the recent public hearings have regularly voiced frustration and concerns about the burden of additional rate increases given the current state of the economy. Some customers have testified that they must work

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1 extra hours or two jobs just to make ends meet. Some have testified that they must
2 choose between paying utility bills and buying food and medicine.

3 **Q. WHAT DO YOU BELIEVE SHOULD BE THE COMMISSION'S FOCUS IN RESOLVING THIS**
4 **CASE?**

5 **A.** In this case, the Commission should focus on ensuring that GMO tightens its belt
6 just as consumers are doing. The Commission should closely scrutinize GMO's
7 costs and rate of return in order to minimize any customer rate increases. The
8 Commission should also focus on allowing customers greater control over their
9 electric bills.

10 **Q. HOW MIGHT THE COMMISSION DECIDE IN A MANNER THAT MINIMIZES THE RATE**
11 **IMPACT ON CONSUMERS?**

12 **A.** With respect to the rate of return, the Commission is generally presented with a
13 range of returns that are considered reasonable by financial analysts. Setting rates to
14 produce a return at the lower end of the range can provide GMO the opportunity to
15 earn a reasonable return while also minimizing the rate increase imposed on
16 consumers. To allow customers greater control over electric bills, the Commission
17 should reject any proposals to increase the Residential or Small General Service
18 customer charges in this case.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 **A.** Yes.