

Exhibit No.: \_\_\_\_\_

Issues: Rate Design;

Facilities Extension Practices

Witness: Michael R. Noack

Sponsoring Party: Missouri Gas Energy

Case No.: ER-2010-0356

Date Testimony Prepared: December 1, 2010

MISSOURI PUBLIC SERVICE COMMISSION

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2010-0356

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

DECEMBER 1, 2010

MGE Exhibit No. GMO-2202

Date 1/18/11 Reporter LMB

File No. ER-2010-0356

Exhibit GMO-2202

1

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS  
3 ADDRESS?

4 A. My name is Michael R. Noack and my business address is 3420 Broadway,  
5 Kansas City, Missouri 64111.

6

7 Q. WHO ARE YOU EMPLOYED BY?

8 A. I am employed by Missouri Gas Energy (MGE), a division of Southern Union  
9 Company (Company), as Director of Pricing and Regulatory Affairs.

10

11 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
12 EXPERIENCE.

13 A. I received a Bachelor of Science in Business Administration with a major in  
14 Accounting from the University of Missouri in Columbia. Upon graduation, I was  
15 employed by Troupe Kehoe Whiteaker & Kent (TKWK), a Certified Public  
16 Accounting Firm in Kansas City, Missouri. I spent approximately 20 years  
17 working with TKWK or firms that were formed from former TKWK employees  
18 or partners. I was involved during that time in public utility consulting and  
19 financial accounting, concentrating primarily on rate cases for electric and gas  
20 utilities and financial audits of independent telephone companies across the  
21 United States. In 1992, I started Carleton B. Fox Co. Inc. of Kansas City which  
22 was an energy consulting company specializing in billing analysis and tariff  
23 selection for large commercial and industrial customers. In July of 2000, I started

1 my employment with MGE. Presently, I hold, in good standing, a Certified Public  
2 Accountant certificate in the state of Kansas.

3

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
5 **PROCEEDING?**

6 A. The purpose of my testimony is to recommend that the Missouri Public Service  
7 Commission (Commission) eliminate Kansas City Power & Light Greater  
8 Missouri Operations Company's (GMO) discounted residential electric rates as  
9 well as certain facilities extension practices of GMO.

10

11 **Q. PLEASE DESCRIBE THE BUSINESS OF MGE IN THE STATE OF**  
12 **MISSOURI.**

13 A. MGE is a natural gas local distribution company ("LDC") providing natural gas  
14 service to approximately 515,000 customers in its Commission-certificated  
15 service territory in 30 counties in western Missouri.

16

17 **Q. HOW DOES MGE'S MISSOURI NATURAL GAS SERVICE TERRITORY**  
18 **COMPARE TO KCP&L'S AND GMO'S MISSOURI ELECTRIC**  
19 **SERVICE TERRITORY?**

20 A. Although not identical, MGE's service territory in the Kansas City metropolitan  
21 area, the eastern portion of the service territory and in the St. Joseph area matches  
22 up well with KCP&L's and GMO's Missouri service territory. Schedule MRN-I  
23 is a map of the KCP&L service territory including GMO. The bold black line on

1 the map depicts the MGE service territory (MGE's southwest Missouri territory is  
2 not shown).

3

4

**1. RATE DESIGN**

5 **Q. WHICH SPECIFIC RESIDENTIAL RATES ARE YOU**  
6 **RECOMMENDING THAT THE COMMISSION ELIMINATE?**

7 A. Under GMO's Residential Service Tariffs, I am recommending that the  
8 Commission eliminate: Rate MO870 – Residential Electric Space Heating for  
9 territory served as MPS; Rate MO920 – Residential Service – With Electric  
10 Space; and Rate MO922 – Residential Space Heating/Water Heating – Separate  
11 Meter. Rates MO920 and MO922 are rates for territory served as L&P. All of  
12 GMO's residential customers in the territory served as MPS would thereafter be  
13 served under Rate MO860 – Residential General Use and residential customers in  
14 the territory served as L&P would be served under Rate MO910 – Residential  
15 Service- General Use.

16

17 **Q. YOU USE THE PHRASES, "TERRITORY SERVED AS MPS" AND**  
18 **TERRITORY SERVED AS L&P". WHAT ARE YOU REFERRING TO**  
19 **WHEN YOU USE THOSE PHRASES?**

20 A. Territory served as MPS refers to the service area which was formerly known as  
21 Missouri Public Service Company while territory served as L&P refers to the  
22 service area which was formerly known as St. Joseph Light & Power Company.

23

1 Q. IN THE INTRODUCTION TO YOUR TESTIMONY, WHY DID YOU  
2 CHARACTERIZE THESE RATES AS "DISCOUNTED"?

3 A. I refer to the rates as discounted because a customer who qualifies for one of these  
4 discounted rates (due to the use of electric space and/or water heating equipment)  
5 pays a rate lower than the Residential - General Use rate for all of the electricity  
6 used in his or her house, not just on the applicable equipment. A customer  
7 without electric space heating equipment does not get this rate.

8

9

10 Q. CAN YOU PROVIDE AN EXAMPLE OF THIS DISCOUNT AND THE  
11 MAGNITUDE OF THE DISCOUNT?

12 Yes. Take for example a customer in GMO's territory served as L&P with a  
13 natural gas furnace (no electric space heating equipment) with electric usage of  
14 623 Kwh for the month of November (a winter month per GMO's tariffs). Under  
15 Rate MO910 of GMO's residential rates the usage charge would be \$50.15. If  
16 that same customer had electric space heat, he or she would qualify for service  
17 under Rate MO920 of GMO's residential rates and the charge for the same 623  
18 Kwh (before taking into account the space heating usage) would have been  
19 \$36.88. At that usage level, the customer without the electric space heat would  
20 pay \$13.27 more than the customer with space heat or 36% more.

21

22

1 Q. WHY SHOULD GMO'S DISCOUNTED RESIDENTIAL RATES BE  
2 ELIMINATED?

3 A. GMO's discounted residential rates should be eliminated first, because these  
4 discounted rates are being subsidized by GMO's Residential General Use rates.

5  
6 Second, these discounted rates appear to serve as an incentive for customers of  
7 GMO to use electricity for certain applications, including space and water heating,  
8 when electricity is not the most efficient or effective fuel source for those  
9 applications.

10

11

12 Q. PLEASE EXPLAIN HOW GMO'S DISCOUNTED RESIDENTIAL RATES  
13 ARE BEING SUBSIDIZED BY GMO'S RESIDENTIAL GENERAL USE  
14 RATE.

15 A. First, although I have not prepared a cost of service study in this case, I have  
16 relied upon the study prepared by GMO witness Paul Normand. His study results  
17 contained on pages 20 and 21 of his direct testimony show that in the winter, the  
18 rate of return contributed by general use residential customers for territory served  
19 as MPS (i.e., those paying the non-discounted rate) is 8.013%, while the return of  
20 the residential all-electric rate is 5.483%. Explained another way, the residential  
21 general use customers overall rate of return was 108% of the total company rate of  
22 return of 5.818% while the all electric rate was 101% of the overall rate of return  
23 based on Mr. Normand's study. For those residential customers in territory served

1 as L&P, the rate of return in the winter contributed by general use residential  
2 customers (i.e., those paying the non-discounted rate) is 7.396%, while the return  
3 of the residential all-electric rate is 4.027%. Explained another way, the  
4 residential general use customers overall rate of return was 126% of the total  
5 company rate of return of 5.770% while the all electric rate was only 93% of the  
6 overall rate of return based on Mr. Normand's study.

7  
8 **Q. WHY DO YOU STATE THAT GMO'S DISCOUNTED RESIDENTIAL**  
9 **RATES APPEAR TO SERVE AS AN INCENTIVE FOR CUSTOMERS TO**  
10 **USE ELECTRICITY FOR CERTAIN APPLICATIONS, INCLUDING**  
11 **SPACE AND WATER HEATING, WHEN ELECTRICITY IS NOT THE**  
12 **MOST EFFICIENT OR EFFECTIVE FUEL SOURCE FOR THOSE**  
13 **APPLICATIONS?**

14 **A.** It is clear that GMO believes that these rates are an incentive based on the  
15 following GMO materials:

- 16 • GMO's tariff language for Residential Service Rate MO870 – Residential  
17 Electric Space Heating states that "this rate applies when electric space  
18 heating has been permanently installed as the primary source of heat for  
19 the entire residential premise". For Residential Service Rate MO920 –  
20 Residential Service – With Electric Space Heating the tariff language  
21 states that the rate is "available for single-phase electric service for  
22 permanently installed electric space heating, general household lighting  
23 and appliances in a single private dwelling unit. Electric space heating

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must be the primary heating source and able to provide whole house heating.”

- KCP&L’s website advertises the special rate for heat pumps and other electric space heating equipment. Schedules MRN-2 and MRN-3 are copies of pages from KCP&L’s website which advertise the space heating rates and lists the much lower rates available to customers with space heating equipment compared to the rates available to customers who do not use electricity for space or water heating.
- Schedule MRN-4 is a copy of an advertisement from a heating and cooling contractor which touts discounted electric rates offered by KCP&L as a reason for purchasing and installing electric heating equipment. Not only does this advertisement point out that customers will get a discounted rate by installing electric heating equipment, but also that this rate will apply to all of the other electric usage in the home.

GMO’s residential Rate MO922 operates similar to Rates MO870 and MO920 and serves as a similar incentive.

As to electricity not being the most efficient or effective fuel source for those applications, please see the direct testimony of MGE witness John Reed.

1 Q. DO OTHER ELECTRIC UTILITIES IN MISSOURI WHICH ARE  
2 REGULATED BY THIS COMMISSION HAVE DISCOUNTED RATES  
3 SIMILAR TO GMO?

4 A. Not to my knowledge. Ameren and Empire do not have these types of discounted  
5 rates. Their rates are similar to GMO's Rate MO910 - Residential - General Use  
6 with there being a flat energy charge in the summer season and a declining block  
7 rate in the winter season. They are similar to GMO's Rate MO860 - Residential  
8 General Use with there being a declining block rate in the winter season.

9

10 Q. WHAT IS YOUR RECOMMENDATION REGARDING GMO'S  
11 DISCOUNTED RATES?

12 A. I recommend the specific residential rate classes should be eliminated and all  
13 customers be served under the Residential General Use tariffs.

14

15

16

## 2. FACILITIES EXTENSION PRACTICES

17 Q. DOES GMO OFFER ANY OTHER INCENTIVES FOR THE  
18 INSTALLATION OF ELECTRIC HEATING APPLIANCES?

19 A. Yes, Schedule MRN-5 is a copy of a "Heat Pump Subdivision Agreement" taken  
20 from the KCP&L website which offers residential developers certain incentives if  
21 their subdivisions of single family homes are equipped with heat pump  
22 equipment.

23

24

1 Q. WHAT ARE THOSE INCENTIVES?

2 A. As found on Schedule MRN-5, in return for the commitment to install heat pump  
3 equipment, KCP&L will waive the \$940.00 per lot deposit for providing  
4 distribution facilities, waive the \$450.00 per lot underground service charge and  
5 pay the developer a distribution construction cost allowance of \$150.00 per lot.

6

7 Q. ARE THOSE INCENTIVES REASONABLE, IN YOUR OPINION?

8 A. No. Similar to GMO's discounted residential rates, the facilities extension  
9 practices described above appear to serve as an incentive for developers to install  
10 electric space heating equipment when electricity is not the most efficient or  
11 effective fuel source for that application.

12

13 Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THOSE  
14 PRACTICES?

15 A. I recommend that GMO cease to offer the facility incentives to developers.

16

17 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

18 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

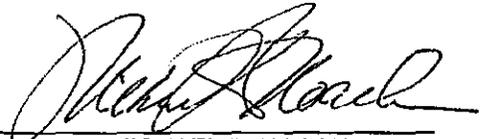
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater )  
Missouri Operations Company to Modify Its ) Case No. ER-2010-0356  
Electric Tariffs to Effectuate a Rate Increase )

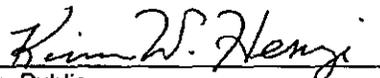
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF JACKSON )

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

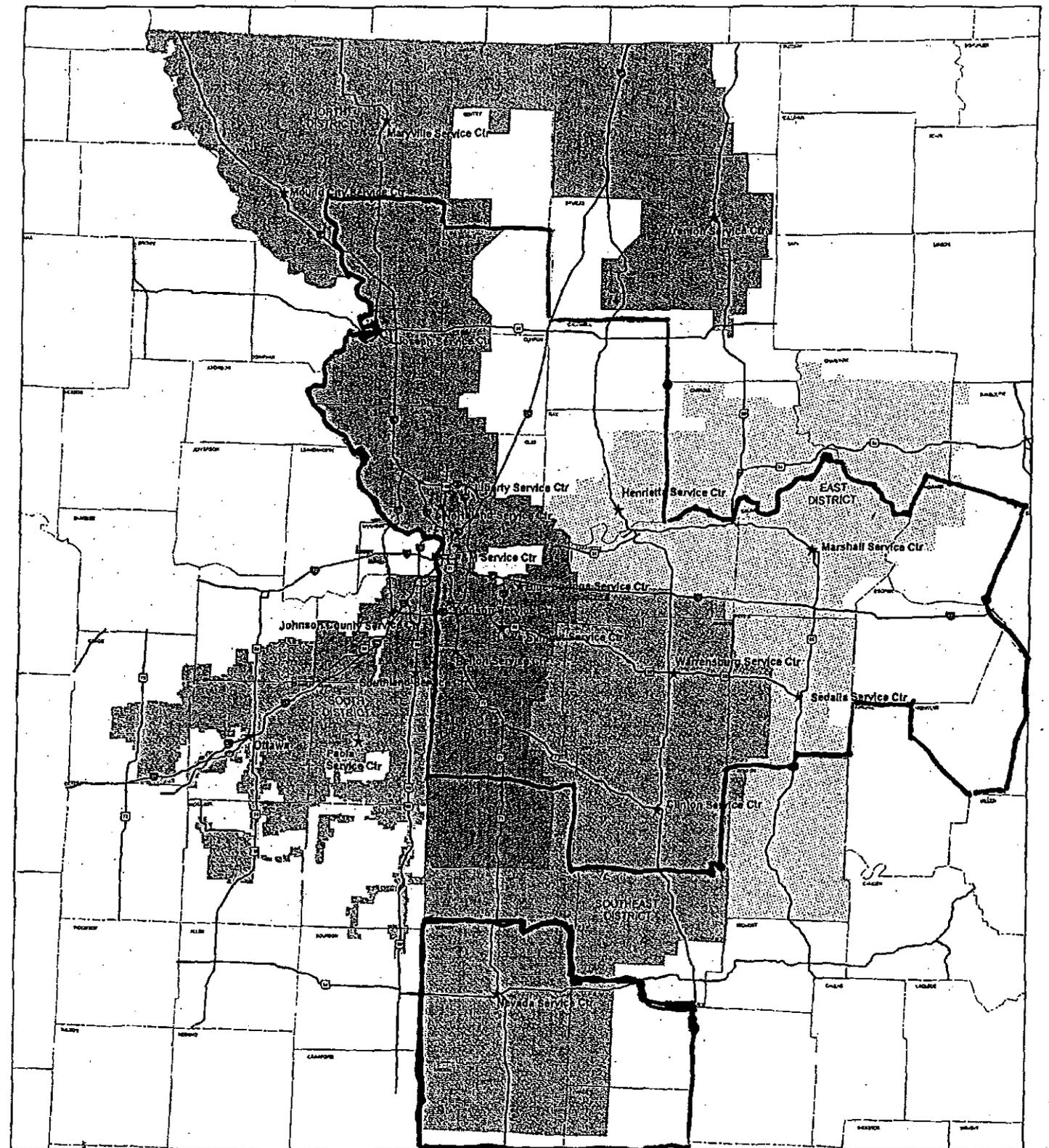
  
MICHAEL R. NOACK

Subscribed and sworn to before me this 23<sup>rd</sup> day of NOVEMBER 2010.

  
Notary Public

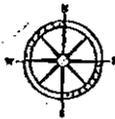
My Commission Expires: Feb. 3, 2011





**Legend**

- ★ Service Center
- ▭ County Boundary
- Highway

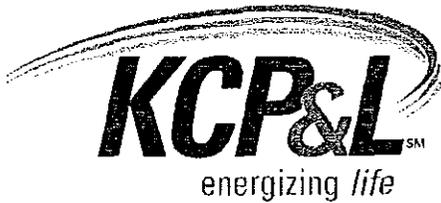


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**Service Territory**

May 20, 2009



**MISSOURI (formerly Aquila, St. Joseph Light & Power)**

**Residential space heat rate for heat pumps**

At KCP&L, we know you expect electricity to always be there. That is why we've worked hard to build one of the best reliability records in the industry. We also want you to feel comfortable while saving energy and dollars. To help you save, we offer low, eight-month winter space heating rates that are ideally suited for energy-efficient heat pumps.

*As the chart below illustrates, residential consumers save with KCP&L's eight-month winter residential electric space heat rate and an energy-efficient heat pump.*

*KCP&L Residential Electric Rate Comparison	Standard Rate MO910 w/o Heat Pump	Space Heat Rate MO920 w/ Heat Pump
Monthly Customer Charge	\$7.90/mo.	\$7.90/mo.
<b>Summer (June 1 - Sept. 30)</b>		
All Customers kWh/mo.	\$0.0905/kWh	\$0.0905/kWh
<b>Winter (Oct. 1 - May 31)</b>		
First 650 kWh/mo.	\$0.0805/kWh	
Over 650 kWh/mo.	\$0.0592/kWh	
First 1,000 kWh/mo.		\$0.0592/kWh
Over 1,000 kWh/mo.		\$0.0424/kWh

**\*Notes:** The prices do not include taxes or the Fuel Adjustment Clause (FAC). The FAC is a method of billing costs incurred by KCP&L for purchased power and variable fuel costs in the production of electricity. The FAC amount on customer bills is calculated by multiplying the FAC factor by the kWh used during the month. For more information about the FAC, visit [www.kcpl.com/about/RateRates.pdf](http://www.kcpl.com/about/RateRates.pdf).

**Register your heat pump**

Whether you are building a new home or replacing equipment in your existing home, you will need to register your heat pump with KCP&L. We'll apply the lower space heat rate to your account upon receipt of your proof of installation. There are two ways to register:

- Ask your dealer to complete the **KCP&L Dealer Heat Pump Notification Form** located on our Web site at [www.kcpl.com/apps/heatpump/hpform.cfm](http://www.kcpl.com/apps/heatpump/hpform.cfm), or
- Send us a copy of your heat pump invoice. Make sure it includes your name, address, date installed, your dealer's name and address, and the make, model and serial number of your new heat pump. Mail to **KCP&L Billing Services, P.O. Box 418679, Kansas City, MO 64141-9679** or fax to (816) 654-1391.

To qualify for KCP&L's eight-month winter space heat rate, the electric heating equipment, such as a heat pump, must be permanently installed and used throughout to heat your home. For more information about heat pumps, our complete rate schedules and other KCP&L energy-efficient residential products, visit [www.kcpl.com](http://www.kcpl.com).



**MISSOURI (formerly Aquila)**

## Residential space heat rate for heat pumps

At KCP&L, we know you expect electricity to always be there. That is why we've worked hard to build one of the best reliability records in the industry. We also want you to feel comfortable while saving energy and dollars. To help you save, we offer low, eight-month winter space heating rates that are ideally suited for energy-efficient heat pumps.

*As the chart below illustrates, residential consumers save with KCP&L's eight-month winter residential electric space heat rate and an energy-efficient heat pump.*

*KCP&L Residential Electric Rate Comparison	Summer All Customers (June 1 - Sept. 30)	Winter Standard Rate MO860 (Oct. 1 - May 31)	Winter Space Heat Rate MO870 (Oct. 1 - May 31)
Monthly Customer Charge	\$9.73/mo.	\$9.73/mo.	\$9.73/mo.
First 600 kWh/mo.	\$0.1015/kWh	\$0.1015/kWh	\$0.1015/kWh
Next 400 kWh/mo.	\$0.1045/kWh	\$0.0695/kWh	\$0.0548/kWh
Over 1,000 kWh/mo.	\$0.1098/kWh	\$0.0695/kWh	\$0.0454/kWh

**\*Notes:** The prices do not include taxes or the Fuel Adjustment Clause (FAC). The FAC is a method of billing costs incurred by KCP&L for purchased power and variable fuel costs in the production of electricity. The FAC amount on customer bills is calculated by multiplying the FAC factor by the kWh used during the month. For more information about the FAC, visit [www.kcpl.com/facinfo/MoFACrates.pdf](http://www.kcpl.com/facinfo/MoFACrates.pdf).

### Register your heat pump

Whether you are building a new home or replacing equipment in your existing home, you will need to register your heat pump with KCP&L. We'll apply the lower space heat rate to your account upon receipt of your proof of installation. There are two ways to register:

- Ask your dealer to complete the **KCP&L Dealer Heat Pump Notification Form** located on our Web site at [www.kcpl.com/apps/heatpump/hpform.cfm](http://www.kcpl.com/apps/heatpump/hpform.cfm), or
- Send us a copy of your heat pump invoice. Make sure it includes your name, address, date installed, your dealer's name and address, and the make, model and serial number of your new heat pump. Mail to **KCP&L Billing Services, P.O. Box 418679, Kansas City, MO 64141-9679** or fax to **(816) 654-1391**.

To qualify for KCP&L's eight-month winter space heat rate, the electric heating equipment, such as a heat pump, must be permanently installed and used throughout to heat your home. For more information about heat pumps, our complete rate schedules and other KCP&L energy-efficient residential products, visit [www.kcpl.com](http://www.kcpl.com).

# Comfort Zone

A Must Read For Your  
Indoor Comfort

Fall-Winter 2010

Win 1 Year of  
**FREE**  
ASAP Service  
for Trivia Winner  
Pg. 9

Warm Up Your Garage!  
Anthony Garage Heaters  
Page 5



Schedule MRN - 4

**ANTHONY**  
PLUMBING • HEATING • COOLING

Technicians You Can TRUST  
With Your House Keys!

INSIDE:  
HURRY! Lower your  
income taxes by \$1500 Pg. 6

If Pipes Could Talk Pg. 10



## Focusing on Our Customers

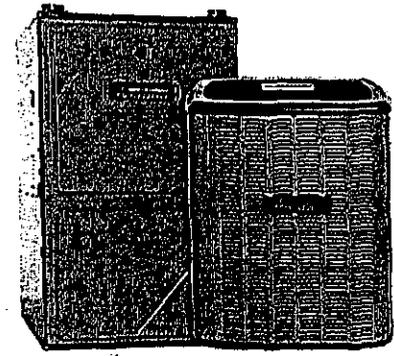
Your feedback means everything to us. It helps us improve and makes our company better. If you would like to participate in one of our FOCUS GROUPS, please email Wendy at [wburrell@AnthonyPHC.com](mailto:wburrell@AnthonyPHC.com), or call her at 913-384-4440. The session will be an hour and a half, and we will reward you for your participation.

## KCP&L Offers Discounted Electric Rate

(Few homeowners know about the discount)

Some homeowners have made the smart choice to benefit from lower electric bills as the result of installing a heat pump. If you could receive guaranteed lower electric rates for eight billing periods every year (September through May), would you say: "Sign me up"?

We handle the required paperwork to get you registered for the reduced electric rate. The lower electric rate includes all of the electric usage in your home: lights, refrigerator, TV, computer, garage door opener, hot tub, etc. In fact, during the first few months of the cooling season and in September, you can be cooling your home for approximately 35% less cost. It all starts when you call Anthony and schedule a free estimate!



Heating & Air Conditioning  
**Amana**



Kansas City Power & Light  
P. O. Box 418679  
Kansas City, MO 64141-9679

NBS No:

\*\*\*\* SAMPLE \*\*\*\*

RE: Subdivision:  
Location:  
Developer:

This document serves as an agreement between Kansas City Power & Light Company ("KCP&L") and

\*\*\*Developer Info\*\*\*

The undersigned commits the homes to be constructed in the subdivision development listed above consisting of xx single-family homes to be equipped with heat pump equipment. This agreement begins when primary and secondary distribution service is connected and will remain in effect for three years from the primary service connect date. KCP&L may extend this agreement for additional one-year periods if, in KCP&L's judgment, the Developer is making adequate progress on completing the subdivision. Extensions of time shall be granted as a written addendum to this agreement. Homes having multiple zoned heating cooling systems shall be equipped with a heat pump serving each zone.

A listing of the home addresses will be provided to KCP&L, when assigned by the governing agency and prior to the availability of the items listed below. Developer also agrees to meet the requirements specified in KCP&L's current ELECTRICAL SERVICE STANDARDS.

In return for this commitment, KCP&L will provide the following:

- 1. Waive the \$940.00 per lot deposit for providing distribution facilities. Amount waived: \$ xxx
  - 2. Waive the \$450.00 per lot underground service charge. Amount waived: \$ xxx
- Total amount waived: \$ xxx

3. Pay Developer distribution construction cost allowance of \$150 per lot. To be eligible for the distribution allowance payment, Developer agrees to provide KCP&L written notification of the completed house heat pump installation within 90 days of the dwelling's occupancy. Written notification shall include the subdivision's name, lot numbers and addresses, each homebuilder's name and phone number, and the amount of the reimbursement request.

Amount reimbursed: \$ xxx  
Total contract value: \$ xxx

In the event this agreement terminates prior to completion, as described above, Developer agrees to pay the underground service charge (Item 2) for homes that are either not constructed or not built with heat pumps, regardless of actions by future purchasers, successors and/or assignees.

By: \_\_\_\_\_  
Developer  
Signature: \_\_\_\_\_  
Developer Representative  
Developer Signer:  
Date: \_\_\_\_\_

By: Kansas City Power & Light Company  
Signature: \_\_\_\_\_  
Energy Solutions  
Printed Name:  
Date: \_\_\_\_\_