

Exhibit No.: _____
Issues: Rate Design;
Facilities Extension Practices
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: ER-2010-0355
Date Testimony Prepared: November 24, 2010

MISSOURI PUBLIC SERVICE COMMISSION

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2010-0355

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

NOVEMBER 24, 2010

MGE Exhibit No. KCP&L-2202
Date 1/18/11 Reporter LMB
File No. ER-2010-0355

Exhibit KCP&L-2202

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

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

Q. WHO ARE YOU EMPLOYED BY?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science in Business Administration with a major in Accounting from the University of Missouri in Columbia. Upon graduation, I was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a Certified Public Accounting Firm in Kansas City, Missouri. I spent approximately 20 years working with TKWK or firms that were formed from former TKWK employees or partners. I was involved during that time in public utility consulting and financial accounting, concentrating primarily on rate cases for electric and gas utilities and financial audits of independent telephone companies across the United States. In 1992, I started Carleton B. Fox Co. Inc. of Kansas City which was an energy consulting company specializing in billing analysis and tariff 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 Company's
8 (KCP&L) discounted residential electric rates as well as certain facilities
9 extension practices of KCP&L.

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 MISSOURI ELECTRIC SERVICE**
19 **TERRITORY?**

20 A. Although not identical, MGE's service territory in the Kansas City metropolitan
21 area and in the St. Joseph area matches up well with KCP&L's Missouri service
22 territory (both KCP&L and KCP&L Greater Missouri Operations (GMO)).
23 Schedule MRN-1 is a map of the KCP&L service territory. The bold black line

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

3

4

1. RATE DESIGN

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

7 A. Under KCP&L's Residential Service Tariff – Schedule R, I am recommending
8 that the Commission eliminate: Rate B – Residential General Use and Space Heat
9 – One Meter; Rate C – Residential General Use and Space Heat – 2 Meters; and
10 Rate D (applicable to electric space and water heating). All of KCP&L's
11 residential customers would thereafter be served under Rate A – Residential
12 General Use.

13

14 Q. IN THE INTRODUCTION TO YOUR TESTIMONY, WHY DID YOU
15 CHARACTERIZE THESE RATES AS “DISCOUNTED”?

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

21

22

1 Q. CAN YOU PROVIDE AN EXAMPLE OF THIS DISCOUNT AND THE
2 MAGNITUDE OF THE DISCOUNT?

3 A. Yes. Take for example a customer with a natural gas furnace (no electric space
4 heating equipment) with electric usage of 623 Kwh for the month of November (a
5 winter month per KCP&L's tariffs). Under Rate A of KCP&L's residential rates
6 the usage charge would be \$57.94. If that same customer had electric space heat,
7 he or she would qualify for service under Rate B of KCP&L's residential rates and
8 the charge for the same 623 Kwh (before taking into account the space heating
9 usage) would have been \$41.30. At that usage level, the customer without the
10 electric space heat would pay \$16.64 more than the customer with space heat or
11 40% more.

12
13 Q. WHY SHOULD KCP&L'S DISCOUNTED RESIDENTIAL RATES BE
14 ELIMINATED?

15 A. KCP&L's discounted residential rates should be eliminated first, because these
16 discounted rates are being subsidized by KCP&L's Residential General Use rates.

17
18 Second, these discounted rates appear to serve as an incentive for customers of
19 KCP&L to use electricity for certain applications, including space and water
20 heating, when electricity is not the most efficient or effective fuel source for those
21 applications.

22
23

1

2 **Q. PLEASE EXPLAIN HOW KCP&L'S DISCOUNTED RESIDENTIAL**
3 **RATES ARE BEING SUBSIDIZED BY KCP&L'S RESIDENTIAL**
4 **GENERAL USE RATE.**

5 A. First, although I have not prepared a cost of service study in this case, I have
6 relied upon the study prepared by KCP&L witness Paul Normand. His study
7 results contained on page 19 of his direct testimony show that in the winter, the
8 rate of return contributed by general use residential customers (i.e., those paying
9 the non-discounted rate) is 7.218%, while the return of the residential all-electric
10 rate (Rate B) is 3.583% and the return of the residential separately metered rate
11 (Rate C) is 4.288%. Explained another way, the residential general use customers
12 overall rate of return was 113% of the total company rate of return of 6.396%
13 while the all electric rate and the separately metered rate were 56% and 67% of
14 the overall rate of return based on Mr. Normand's study.

15

16 **Q. WHY DO YOU STATE THAT KCP&L'S DISCOUNTED RESIDENTIAL**
17 **RATES APPEAR TO SERVE AS AN INCENTIVE FOR CUSTOMERS TO**
18 **USE ELECTRICITY FOR CERTAIN APPLICATIONS, INCLUDING**
19 **SPACE AND WATER HEATING, WHEN ELECTRICITY IS NOT THE**
20 **MOST EFFICIENT OR EFFECTIVE FUEL SOURCE FOR THOSE**
21 **APPLICATIONS?**

22 A. It is clear that KCP&L believes that these rates are an incentive based on the
23 following KCP&L materials:

- 1 • KCP&L's tariff language for Residential Service Rate B – Residential
2 General Use and Space Heat states that the rate is available to a customer
3 “when the customer has electric space heating equipment for the
4 residence”.
- 5 • KCP&L's website advertises the special rate for heat pumps and other
6 electric space heating equipment. Schedule MRN-2 is a copy of a page
7 from KCP&L's website which advertises the space heating rates and lists
8 the much lower rates available to customers with space heating equipment
9 compared to the rates available to customers who do not use electricity for
10 space or water heating.
- 11 • Schedule MRN-3 is a copy of an advertisement from a heating and cooling
12 contractor which touts discounted electric rates offered by KCP&L as a
13 reason for purchasing and installing electric heating equipment. Not only
14 does this advertisement point out that customers will get a discounted rate
15 by installing electric heating equipment, but also that this rate will apply to
16 all of the other electric usage in the home.

17 KCP&L's residential Rates C and D operate similar to Rate B and serve as a
18 similar incentive.

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

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Q. DO OTHER ELECTRIC UTILITIES IN MISSOURI WHICH ARE REGULATED BY THIS COMMISSION HAVE DISCOUNTED RATES SIMILAR TO KCP&L?

A. Not to my knowledge. Ameren and Empire do not have these types of discounted rates. Their rates are similar to KCP&L's Rate A - Residential - General Use with there being a flat energy charge in the summer season and a declining block rate in the winter season.

Q. WHAT IS YOUR RECOMMENDATION REGARDING KCP&L'S DISCOUNTED RATES?

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

2. FACILITIES EXTENSION PRACTICES

Q. DOES KCP&L OFFER ANY OTHER INCENTIVES FOR THE INSTALLATION OF ELECTRIC HEATING APPLIANCES?

A. Yes, Schedule MRN-4 is a copy of a "Heat Pump Subdivision Agreement" taken from the KCP&L website which offers residential developers certain incentives if their subdivisions of single family homes are equipped with heat pump equipment.

1 Q. WHAT ARE THOSE INCENTIVES?

2 A. As found on Schedule MRN-4, 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 KCP&L'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 KCP&L 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 Kansas City)
Power & Light Company to Modify Its Tariffs to)
Continue the Implementation of Its Regulatory Plan) Case No. ER-2010-0355

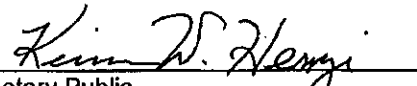
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

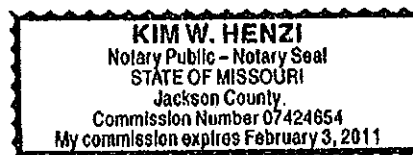
Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters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

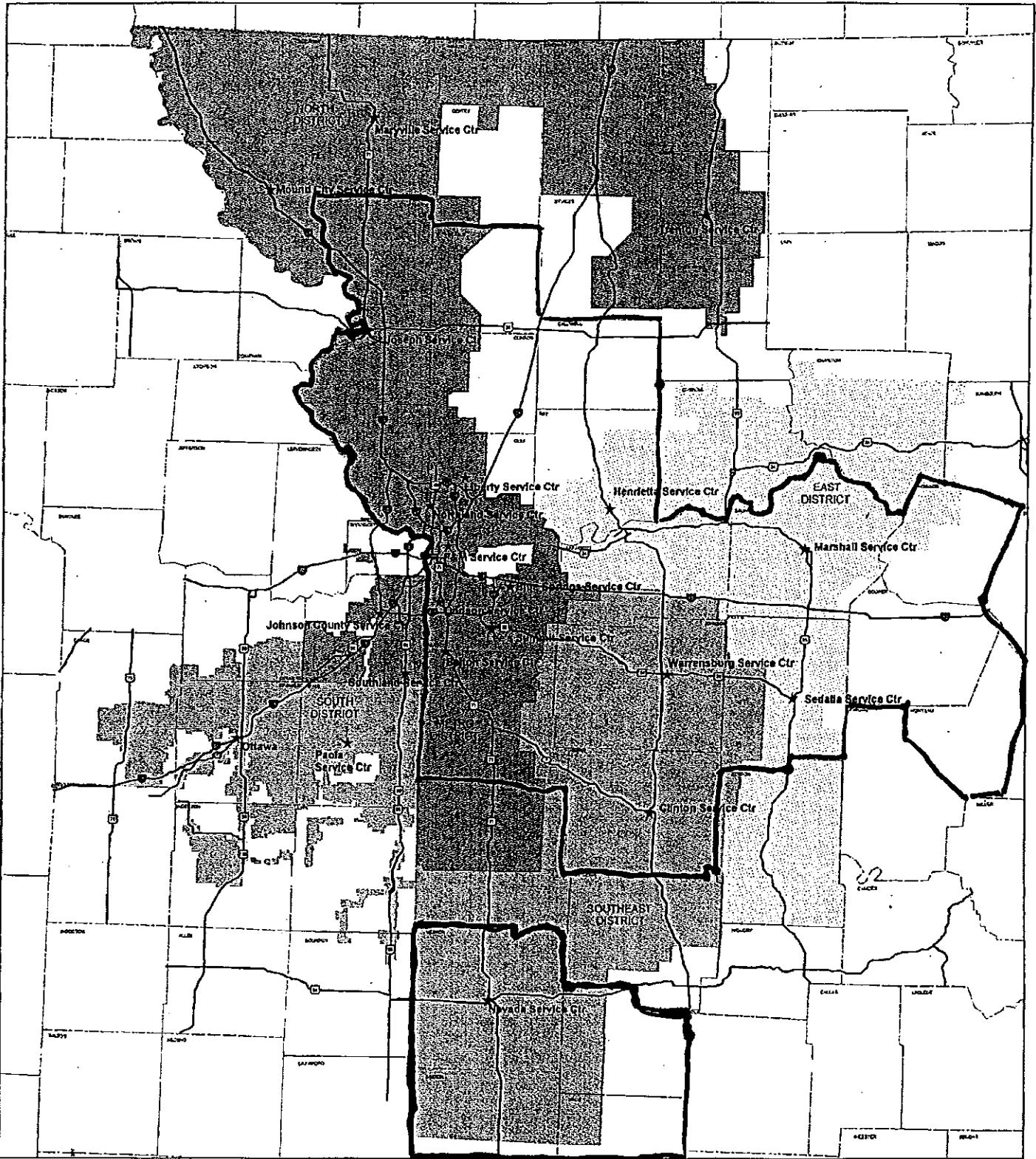

MICHAEL R. NOACK

Subscribed and sworn to before me this 23rd day of NOVEMBER 2010.


Notary Public

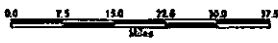
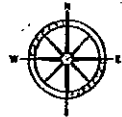
My Commission Expires: Feb. 3, 2011





Legend

- ★ Service Center
- County Boundary
- Highway



Confidential Note:
This document contains confidential and proprietary information belonging to KCP&L. The information is to be used only for the use of the individual or entity which it is being provided to KCP&L. This information contains any data or information of the individual or entity which is the subject of this document.

Service Territory

May 20, 2009



MISSOURI (KCP&L)

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 1RS1A w/o Heat Pump	Space Heat Rate 1RS6A w/ Heat Pump
Monthly Customer Charge	\$8.67/mo.	\$8.67/mo.
Summer (May 16 - Sept. 15)		
All Customers kWh/mo.	\$0.1050/kWh	\$0.1050/kWh
Winter (Sept. 16 - May 15)		
First 600 kWh/mo.	\$0.0944/kWh	\$0.0663/kWh
Next 400 kWh/mo.	\$0.0566/kWh	\$0.0663/kWh
Over 1,000 kWh/mo.	\$0.0473/kWh	\$0.0464/kWh

*Taxes are not included.

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, 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 rates schedules and other KCP&L energy-efficient residential products, visit www.kcpl.com.

Year 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 - 3

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

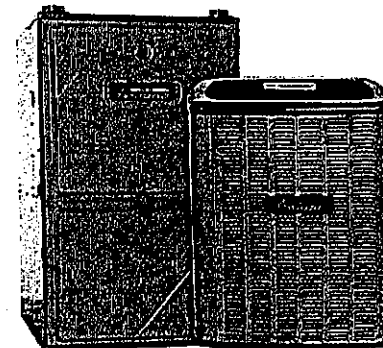
Your feedback means everything to us. It helps us improve and makes our company better. If you would like to participate in one of our FOCUS GROUPS, please email Wendy at wburrell@AnthonyPHC.com, or call her at 913-384-4440. The session will be an hour and a half, and we will reward you for your participation.

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

By: Kansas City Power & Light Company

Signature: _____
Developer Representative

Signature: _____
Energy Solutions

Developer Signer:

Printed Name:

Date: _____

Date: _____