

Exhibit No.:

Issue: "Termination of
Service/Rates"

Witness/Type of Exhibits: Beaudoin Rebuttal

Sponsoring Party: KCPL

Case No.: HO-86-139

REBUTTAL TESTIMONY OF

Bernard J. Beaudoin

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. HO-86-139

EXHIBIT NO. 13
Date 7/6/87 Case No. HO-86-139
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OFFICIAL CASE FILE
KANSAS PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY
OF
BERNARD J. BEAUDOIN
CASE NO. HO-86-139

1 Q. PLEASE STATE YOUR NAME.

2 A. Bernard J. Beaudoin.

3 Q. ARE YOU THE SAME BERNARD J. BEAUDOIN WHO HAS PREVIOUSLY FILED DIRECT
4 TESTIMONY IN THIS CASE?

5 A. Yes.

6 Q. MR. BEAUDOIN, WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

7 A. The purpose of my rebuttal testimony is:

8 1. To suggest modifications to KCPL's Plan for Commission
9 consideration in view of Staff's position on promotional
10 practices, and

11 2. to respond to Staff's conclusions regarding rejection of KCPL's
12 Plan.

13 Q. WHAT MODIFICATIONS TO KCPL'S PLAN DOES KCPL SUGGEST IN ORDER TO MEET
14 THE STAFF'S CONTENTION THAT KCPL'S PLAN IS A VIOLATION OF THE
15 COMMISSION'S PROMOTIONAL PRACTICE RULES?

16 A. Let me first briefly state why KCPL believes its offer of electric
17 boilers and alternative electric space heating equipment is
18 appropriate and should be authorized. Mr. Featherstone at page 42 of
19 his testimony argues that abandonment of a public utility service is
20 an unusual event and traditional ratemaking principles should not
21 apply in regard to the determination of the appropriate rate level to

1 be charged KCPL's steam customers. KCPL believes that this same
2 argument of unusual circumstance applies equally as well to the
3 appropriate method of compensating KCPL's steam customers for the
4 unusual inconvenience of switching from one form of heating supply to
5 another.

6 Because of this unusual circumstance, KCPL believes that the
7 Staff's traditional interpretation of promotional practices rules
8 should be rejected in order to alleviate the financial burden on
9 KCPL's existing steam customers due to the cost of conversion to
10 another steam supply source. KCPL's Plan, as described at pages 9 and
11 10 of my direct testimony, is a fair approach to compensation for
12 existing steam customers, since it gives the customers the precise
13 electrical equipment needed to supply their needs.

14 Staff has rejected KCPL's plan in part because KCPL has not given
15 steam customers a choice of gas boilers as well. It is true that
16 KCPL's Plan does not offer a gas boiler alternative. KCPL has not
17 kept secret its desire to have these steam customers become off-peak
18 electric customers. It should be noted, however, that KCPL has no
19 objection to KPL Gas Service offering free gas boilers to KCPL's
20 existing steam heat customers. In that event, KCPL would modify its
21 plan and propose to charge the applicable electric heat rate to those
22 customers accepting KCPL's electric boiler plan. KCPL would then
23 suggest that the applicable gas rates would be charged by KPL Gas
24 Service to those customers choosing to install gas boilers. Since it
25 is the interest of the customer that is really at issue here, the
26 steam customer would be free to choose that system (electric or gas)
27 which he feels would best serve his needs over the long run depending
28 on his view of future energy costs.

1 Q. WHAT IF THE COMMISSION AUTHORIZES KCPL TO TERMINATE CENTRAL STATION
2 STEAM DISTRIBUTION SERVICE, BUT DOES NOT ACCEPT KCPL'S PROPOSAL
3 REGARDING THE FURNISHING OF ELECTRIC BOILERS OR ALTERNATIVE ELECTRIC
4 SPACE HEATING EQUIPMENT?

5 A. In that event, KCPL is willing to forego a steam rate increase of \$3.2
6 million per year at this time, provided that the Commission allows
7 KCPL to terminate steam service to all customers prior to 1991. KCPL
8 believes that the savings (\$3.2 million per year) from the frozen
9 steam rate is a very real compensation to steam customers for the cost
10 incurred in switching to another form of heating service. KCPL and
11 Staff have stipulated to this \$3.2 million revenue deficiency on a
12 dollar basis only.

13 Q. AT PP. 32 AND 39 OF HIS TESTIMONY, MR. FEATHERSTONE HAS STATED SEVERAL
14 BASES FOR THE CONCLUSIONS REGARDING STAFF'S RECOMMENDATION TO REJECT
15 KCPL'S PROPOSAL TO PHASE-OUT AND DISCONTINUE THE CENTRAL DISTRICT
16 HEATING SYSTEM. DO YOU AGREE WITH THOSE CONCLUSIONS?

17 A. No. The fundamental disagreement between KCPL and Staff concerns the
18 viability of central station steam distribution service. KCPL's
19 analysis in its Conversion Study indicated that a fully rehabilitated
20 system would result in a steam cost of \$26.80/Mlb. Mr. Dahlen's
21 original long term rehabilitation analysis indicates that in 1987, the
22 price of steam should be \$9.97/Mlb. However, Mr. Levesque's revisions
23 to Mr. Dahlen's analysis shows that a more reasonable 1987 price is
24 \$17.26/Mlb, or over 70% more than KCPL is presently charging. It is
25 the price of steam that drives the customers' decisions to stay with
26 central station steam distribution service or convert to on-site gas
27 or electric installations. I do not believe that "aggressive"
28 marketing can prevail over such a pricing disadvantage. Even with

1 central station steam prices of less than \$10/Mlb, KCPL has lost many
2 customers over the past years to gas and electric options. It is
3 inconceivable that, as Staff's rehabilitation economic analyses
4 assume, no more customers will leave the system if steam prices
5 increase further. We do not know of any customer or potential
6 customer that has chosen to go with electric or gas installations for
7 anything other than economic reasons. The unavoidable rising costs of
8 central station steam distribution service, and a continually eroding
9 customer base, will not result in a viable steam heating system for
10 downtown Kansas City for any operator, especially one who is required
11 to meet the traditional utility service obligation to all customers in
12 its service territory.

13 Q. WHY HASN'T KCPL PURSUED THE SALE OF THE STEAM SYSTEM TO ANOTHER
14 OPERATOR?

15 A. KCPL has not pursued sale of its steam system because KCPL believes
16 that such a sale is not in the best interests of its customers. Both
17 Staff and KCPL analyses show that regardless of who operates the
18 system (be it KCPL or a hypothetical operator), steam prices must
19 increase significantly above present levels. The customer base will
20 unavoidably decrease. And that leads to continually increasing prices
21 as fixed costs must be distributed among fewer and fewer customers.

22 Further, Staff's testimony appears to indicate that a purchaser
23 must be unregulated to some extent in order for it to have a chance of
24 making the system viable. Indeed, Staff envisions that a purchaser
25 may only wish to serve some of KCPL's existing customers; apparently
26 the rejected customers are on their own. (See KCPL Exhibit ____,
27 (BJB), Schedule 1, which contains Staff's answers to certain KCPL
28 interrogatories).

1 I believe that all customers would be better off with KCPL's Plan
2 than with continued central station service under a new owner. Mr.
3 Levesque's rebuttal testimony shows that on-site electric boilers or
4 alternative electric space heating equipment have an overall cost
5 advantage over gas boilers in many instances, depending on the site
6 characteristics. Data from KCPL's test boiler program, described in
7 Mr. Mandacina's direct testimony, for the past heating season
8 indicates that the test boiler customers would have paid slightly less
9 for steam service under KCPL's applicable electric rate than what they
10 actually paid under existing steam rates. KCPL's Plan focuses capital
11 investment only where it is required -- for only those customers who
12 choose to accept KCPL's equipment offer. Under its Plan, KCPL will
13 have the opportunity to recover this capital investment through its
14 electric heat sales. The difference between KCPL's electric space
15 heating rate and the incremental cost of fuel for electric generation
16 during the winter heating season can yield a considerable contribution
17 to the carrying costs of the electric boiler installations.

18 Q. WHY DIDN'T KCPL'S STUDY CONSIDER GAS HEAT AS AN ALTERNATIVE TO ON-SITE
19 ELECTRIC EQUIPMENT?

20 A. As we have said, KCPL wishes to retain its steam heat customers as
21 electric customers. Moreover, KCPL is aware that its steam customers
22 have been approached by representatives of KPL Gas Service, and its
23 predecessor presenting the gas boiler option. KCPL's energy audits
24 have provided all the energy requirement information necessary for its
25 steam customers to acquire proposals and estimates from KPL Gas
26 Service or contractors on the cost of installation and operation of
27 gas systems. Thus, I believe there never was nor is there now
28 justification for KCPL to study gas heat per se. The issue for the

1 steam customer really comes down to one of which energy company (gas
2 or electric) can offer the best deal to the steam customer regarding
3 the installation and operating costs of the new installation. KCPL
4 stands by its original offer, but would not object at all if KPL Gas
5 Service were to match the same terms and conditions.

6 Q. WHY DOES KCPL BELIEVE ITS PLAN SHOULD NOT BE REJECTED BECAUSE OF
7 STAFF'S INTERPRETATION OF THE PROMOTIONAL PRACTICES RULES?

8 A. KCPL believes that its plan is fair compensation to its existing steam
9 customers for the unusual circumstance when a utility is discontinuing
10 an uneconomic form of energy service. Even Mr. Featherstone at page
11 39 of his testimony acknowledges the need for compensation should the
12 Commission approve the discontinuance of steam service. KCPL's plan
13 is the most comprehensive compensation package because it is precisely
14 tailored to each customer's individual energy needs. It provides the
15 equivalent steam service already received by each customer or in the
16 alternative provides an improved electric heating system at no more
17 cost than the electric boiler system. KCPL's plan is generous, fair
18 and non-discriminating among its existing steam customers. In this
19 unique case, the traditional prohibitions against furnishing free
20 electric boilers or equipment should not apply.

21 Q. MR. KETTER IN HIS TESTIMONY RECOMMENDS THAT ELECTRIC BOILER CUSTOMERS
22 BE CHARGED THE APPLICABLE ELECTRIC RATE. HAVE YOU ANY OBJECTION TO
23 THAT PROPOSAL?

24 A. No. As Mr. Levesque's cost estimates for electric boilers and the
25 results of our test boiler program indicate, many of KCPL's steam
26 customers could be better off economically as electric customers.

1 Q. WHAT ARE KCPL'S PRESENT INTENTIONS IN THE EVENT THAT ITS PLAN IS
2 REJECTED BY THE COMMISSION?

3 A. Rejection of the Plan will not enhance the viability of the system, or
4 change the fact that a sale of the system will not be in the interest
5 of its customers. In the interim, KCPL will continue to operate its
6 system, which requires that the \$3.2 million revenue deficiency
7 stipulated to by Staff and KCPL be reflected in increased rates.
8 Since under Staff's long-term rehabilitation scenario, as corrected by
9 Mr. Levesque, rates must be increased by a hypothetical purchaser to
10 about this level anyway, there is no basis to deny this increase to
11 KCPL.

AFFIDAVIT

STATE OF MISSOURI
COUNTY OF JACKSON

)
) ss.
)

Bernard J. Beaudoin, being first duly sworn, on his oath states: that he has participated in the preparation of the foregoing written testimony, in question and answer form, consisting of 7 pages, to be presented to the Public Service Commission of the State of Missouri in Case No. HO-86-139; that the answers therein contained were given by him; that he has knowledge of the matters set forth in said answers; and that such answers are true to the best of his knowledge and belief.

Bernard J. Beaudoin
Bernard J. Beaudoin

April, 1987. Subscribed and sworn to before me this 2nd day of

Carol Giles
Notary Public

My Commission Expires:

CAROL GILES
Notary Public, State of Missouri
Commissioned in Santa Fe County

My Commission Expires June 19, 1987

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the investigation)
of steam service rendered by) Case No. HO-86-139
Kansas City Power & Light Company)

AFFIDAVIT OF DERICK O. DAHLEN

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Derick O. Dahlen, of lawful age, on his oath states: That the following answers to Interrogatories of Kansas City Power & Light Company were given by him; and that such answers are true to the best of his knowledge and belief.

Question 1. Assuming that KCPL's steam system is purchased by a third party, what method or methods could that third party employ to recover the purchase price for the system?

Answer: The purchase price of the system, like all costs, could be recovered through rates paid by customers. To the extent that rates cover costs and to the extent that the purchase price is included in the costs which are used in setting rates, the purchaser of the system would have the opportunity to recover the purchase price of the system.

Question 2. Mr. Dahlen recommends (on page 47 of his testimony) that district heating suppliers and customers be allowed to enter into service contracts. Is it necessary, or helpful, to the viability of such suppliers' businesses to have a specific required term of service in these contracts? If so, please explain why and give any opinion held as to the length of term needed or desirable, along with all assumptions and considerations underlying that opinion.

Answer: Recommendations on page 47 of my testimony are based on the assumption that the KCPL steam system in Kansas City is abandoned. The viability of suppliers' businesses may be either harmed or aided by establishing a specific required term for contracts. The viability of suppliers' businesses would be harmed if the contract term sought by a customer was not the same as the term offered by the supplier. A specific contract term could, therefore, be a barrier to achieving a contract between the supplier and a customer. Alternatively, the viability of a suppliers' business could be aided to the extent that assurance of customer load would provide revenue stability.

Under the limited conditions specified in my prefiled testimony, the marketplace for fuels and for district heating as well as the specific circumstances of potential sellers and buyers of district heating should determine the term of contracts. I, therefore, have no opinion regarding the term of contracts which might be needed or desirable.

Question 3. One element of Mr. Dahlen's recommended request for proposals to purchase KCPL's steam system (on page 22 of his testimony) is that the prospective purchaser indicate which "[c]ustomers [are] to be served." Is it necessary or desirable for a purchaser of KCPL's steam system, or new district heating suppliers, to have the right to refuse to serve existing customers and/or accept new customers? If so, please explain why and give all as-

sumptions and considerations underlying that explanation.

Answer: The question addresses two different supplier situations---a purchaser of KCPL's steam system and a new district heating system. I will address each separately.

Some potential purchasers of KCPL's steam system may be unwilling to purchase the KCPL Kansas City district heating system if they would have the obligation to serve all customers within a specified service territory. Other purchasers may be willing to serve all customers within the service territory based on specific rules for interconnection. As I indicated in my prefiled testimony, proposals for the purchase of the KCPL steam system should indicate which customers are to be served.

In the circumstances in this case, I believe that potential purchasers' perceptions of the market opportunity for district heating in Kansas City should frame their proposals rather than requiring that all proposers commit to serving all customers within the service territory. A requirement to serve for potential purchasers goes beyond the service obligations implied by KCPL's moratorium on adding customers. I do not recommend imposing additional requirements on a potential purchaser of the system which might result in that potential purchaser declining to propose to purchase the system.

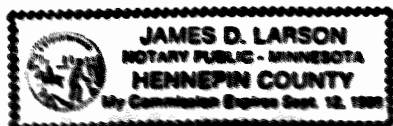
My recommendations on page 47 of my prefiled testimony refer to a situation that would exist after abandonment of the Kansas City district heating system if authorized by the Commission. Those recommendations are based on market conditions determining if and whether a boiler owner will provide service to a nearby building. If the Kansas City district heating system is abandoned, I believe that new suppliers should not have the obligation to serve any customers. Imposing the obligation to serve on a new supplier would have the effect of creating a barrier to entry of new suppliers which would not be in customers' best interests.

Question 4. Is the listing of elements for Mr. Dahlen's recommended request for proposals to purchase KCPL's steam system complete? If not, please state all other elements, or terms and conditions, which should be contained in the request for proposal.

Answer: The listing of proposal requirements on page 22 of my direct testimony is not complete and is not intended to be complete. The request for proposal requirements on page 22 are essential elements of the request. Additional elements could include: regulatory requirements, proposed marketing efforts, and financing of purchase. Preparation of a comprehensive request for proposals for the purchase of the KCPL Kansas City steam system is beyond the scope of the work we have performed in this case. I am, therefore, unable to provide a complete answer to the second part of the interrogatory regarding "all other elements, or terms and conditions, which should be contained in the request for proposal."


Derick O. Dahlen

Subscribed and sworn to before me this 20 day of March, 1987.



My commission expires _____


Notary Public
9-10-88