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Sponsoring Party: Missouri Public
Service Commission
Company: Kansas City Power
and Light Company
Case No.: HO-86-139

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY DIVISION

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. HO-86-139

REBUTTAL TESTIMONY

OF

JAMES L. KETTER

Jefferson City, Missouri
April, 1987

OFFICIAL CASE FILE
MISSOURI PUBLIC SERVICE COMMISSION

Exhibit No. 50
Date 1-10-87 Case No. HO-86-139
Reporter Boys

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

State of Missouri)) ss
County of Cole)

James L. Ketter
James L. Ketter

Subscribed and sworn to before me this 7th day of April, 1987

My Commission expires

Judith Fritsch
Notary Public
JUDY FRITSCH
NOTARY PUBLIC STATE OF MISSOURI
COLE CO.
MY COMMISSION EXP. JULY 31, 1989
ISSUED THRU MISSOURI NOTARY ASSOC.

1 REBUTTAL TESTIMONY

2 OF

3 JAMES L. KETTER

4 KANSAS CITY POWER AND LIGHT COMPANY

5 CASE NO. HO-86-139

6 Q. Please state your name for the record.

7 A. James L. Ketter.

8 Q. Are you the same James L. Ketter who has previously filed
9 direct testimony in Kansas City Power and Light Company's (KCPL or Company)
10 Case No. HO-86-139?

11 A. Yes, I am.

12 Q. What is the purpose of this rebuttal testimony?

13 A. The purpose of this rebuttal testimony is to rebut state-
14 ments made by Randy J. Lennan of Kansas Power and Light Company and Company
15 witnesses Robert H. Graham and Bernard J. Beaudoin in their prefiled direct
16 testimony.

17 Q. What statements, made by Mr. Lennan, will you be addressing
18 in this rebuttal testimony?

19 A. Mr. Lennan states on page 2 of his prefiled direct testimony
20 that:

21 If KCP&L is allowed to implement its proposal, it is only fair
22 that we be allowed to make a similar offer. We would request
23 authority to provide on-site gas-fired boilers and chillers and
to charge rates which are equivalent on a BTU basis to those set
by this Commission for KCP&L's steam service until 1995.

24 Q. Why are you addressing this proposal of KPL Gas Service
25 (KPL) to install gas-fired boilers and chillers on customer premises?

26 A. This offer is similar to KCPL's Conversion Plan for electric
27 equipment. It would provide steam customers with consideration for the
28 purpose of inducing them to consider a gas alternative but, like KCPL's

Rebuttal Testimony of
James L. Ketter

1 Plan, it is prohibited by 4 CSR 240-14.020 (5). This section of the rule
2 prohibits the provision of free or less than cost or value equipment by gas
3 or electric companies and their affiliates. The consideration offered by
4 KPL's proposal involves the provision of gas boilers and chillers on
5 customer premises. The equipment provided would be an inducement to select
6 gas service since it would eliminate the up-front capital costs of
7 converting to an on-site gas boiler. The promotional incentive to induce a
8 customer to choose a utility service is the kind of activity the rule
9 specifically prohibits.

10 A further problem with this proposal is that it prices gas based
11 on central station steam costs. I addressed this issue in my direct
12 testimony in my discussion of KCPL's proposal and concluded that if steam
13 service is provided by an on-site electric boiler, the appropriate electric
14 rate should be charged. Similarly, it is my recommendation that if steam
15 service is provided by an on-site gas boiler, that the gas be priced from
16 the appropriate gas tariff and not from rates based on steam service from
17 Grand Avenue. Under KPL's proposal, the energy would be priced on an
18 equivalent BTU basis with central station steam rates. This steam rate
19 would not be appropriate since it would not reflect the cost of providing
20 steam service from a on-site boiler.

21 Q. What statements by Mr. Beaudoin will you be addressing in
22 this rebuttal testimony?

23 A. Mr. Beaudoin states on page 15 of his prefiled direct
24 testimony that:

25 KCPL also recognizes that the transition from steam utility
26 service to ownership of on-site facilities presents an inconvenience and hardship on its remaining downtown steam customers.
27 Therefore, in addition to providing the up-front capital investment for the conversion equipment, KCPL is willing to accept
28 some operating and return losses by phasing-in the requisite

Rebuttal Testimony of
James L. Ketter

rate increase in order to further mitigate the impact on its valued steam customers. KCPL believes that the phase-in is part of the transition price that must be paid in order to implement the Plan on a rigorous conversion schedule with the cooperation of its steam customers.

Q. What are you rebutting in Mr. Beaudoin's statement?

A. I will address the proposal to have KCPL provide the up-front capital investment of converting from steam to electric service. I will also address the impact of the rate phase-in as proposed by KCPL.

I recognize there are transition costs when utility service is terminated, but as I stated in my direct testimony, providing the up-front capital investment for the conversion equipment is prohibited by 4 CSR 240-14.020, since it constitutes an inducement to select electric service. Absent this inducement, customers would examine the alternatives available to them and I assume would choose the one that they believe to be in their best interest from an economic standpoint.

The steam rate phase-in proposed by KCPL would provide steam customers with an inducement to exercise their option to purchase the electric equipment prior to 1995, thereby ensuring that these customers will be charged electric rates. The impact of KCPL's rate phase-in proposal can be seen by looking at the test boiler at Home Savings shown on Schedule 4 of my direct testimony. The metered steam for the months of October, November, and December of 1986 was 1551 MLBs, which reflects a unit cost of \$12.88 per MLB of steam. The table below shows the result of a 22% increase over four years (unit prices include applicable taxes).

<u>Year</u>	<u>22% Phase-in Price Per MLB</u>	<u>13.5% Phase-in Price Per MLB</u>
Base	\$12.88	\$12.88
1	15.71	14.62
2	19.17	16.59
3	23.39	18.83
4	28.53	21.37

1 The table indicates that the cost of steam will be almost double
2 by the third year, meaning that the steam customers with on-site electric
3 equipment will have an incentive to purchase this equipment and be charged
4 the appropriate electric rate. Converting the highest separately metered
5 space heating rate from the General Service Schedule in May 1992 of 5.369¢
6 per Kwh from Schedule 5 of my direct testimony to an equivalent steam rate
7 gives \$15.73 per MLB of steam. As stated in my direct testimony the
8 General Service Schedule would be an appropriate tariff for an on-site
9 electric boiler.

10 These numbers change due to the reduced phase-in amount of 13.5%
11 a year agreed to by the company in the Hearing Memorandum. Also, the
12 increase for the General Service rates have been reduced due to the
13 reduction of the federal income tax. With these changes, the fourth year
14 steam rate would reach \$21.37 per MLB. The electric rate would peak in
15 1992 at 4.901¢ per Kwh or an equivalent steam rate of \$14.36 per MLB.

16 Clearly the escalating steam rates as proposed by the company in
17 the phase-in plan provide the customers with an incentive to purchase the
18 on-site electric equipment prior to 1995. I also wish to reiterate my
19 position that if KCPL is authorized to install on-site electric equipment,
20 the customers should be charged the appropriate electric rate from the time
21 of installation, not from the time that ownership of the equipment passes
22 to the customer.

23 In summary, the offer of free electric equipment would attract
24 steam customers, despite the fact that the electric option is the most
25 expensive alternative to steam. This is verified in Schedule 12 of the
26 direct testimony of Staff consultant witness Derrick Dahlen. Schedule 12
27 indicates that the price of steam district heating as well as gas will not
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Rebuttal Testimony of
James L. Ketter

1 exceed \$20 per MMB until after 1998. Given the rate phase-in proposed by
2 the company, customers will very likely buy the on-site electric equipment
3 before 1995 because of the escalating steam rates.

4 Q. On page 4 of his direct testimony, Mr. Graham discusses the
5 equipment options that KCPL is proposing for its steam customers. He
6 states that:

7 KCPL is proposing to offer these equipment options to
8 alleviate to some extent the financial burden of our steam
9 customers in converting from central station steam service.

10 What aspect of this statement are you rebutting?

11 A. I do not believe that this plan is a means to alleviate the
12 financial burden on KCPL customers, but a means to induce conversion to
13 electric service.

14 Q. What could KCPL do to alleviate the financial burden of the
15 termination of steam service?

16 A. If KCPL was really interested in alleviating the financial
17 burden that termination of the steam system will cause its customers, it
18 could simply leave steam rates at their present level. This would give the
19 customers relief from the high cost of steam, while allowing them time to
20 examine the various heating alternatives available to them.

21 Q. On pages 6 through 9 of his direct testimony, Mr. Graham
22 discusses the energy audits that KCPL provided to its steam customers.
23 What aspects of that testimony are you rebutting?

24 A. I will address the energy audits as they relate to the
25 promotion aspects of the Promotional Practices Rule. The energy audits
26 provided by KCPL through the Energy Masters Corporation are a form of
27 inducement to KCPL's steam customers to select electricity as an alter-
28 native to steam service. Therefore, it is a violation of Commission Rule 4

Rebuttal Testimony of
James L. Ketter

1 CSR 240-14.020(2) which prohibits the furnishing of consideration by a
2 utility for work done on property not owned by the utility.

3 The energy audits provided information on the energy needs of
4 each building and the electric equipment that would meet the needs of each
5 building. Energy Masters performed audits that specifically identified the
6 heating and cooling needs of each building and the electric equipment
7 alternatives that were available and ignored gas options that may be
8 beneficial for the steam customers.

9 The audits performed by Energy Masters constitute an inducement
10 to convert from steam service to electric service because of the work done
11 on the customer's property to specify the electric equipment and design the
12 installation of electric equipment. The work performed by Energy Masters
13 included the sizing of electric equipment, layout of proposed on-site
14 boilers and site preparation for electric equipment. All this work on the
15 was performed on the customers' premises. On page 7 of Mr. Graham's direct
16 testimony he outlines the contents of the studies, plus his Schedule 1
17 provides a copy of the completed audit for Home Savings.

18 The Promotional Practices Rule allows utilities to render
19 technical or engineering assistance in 4 CSR 240-14.010(G)(8). It is my
20 opinion that the energy audits went beyond what is contemplated by the
21 rule. Utility marketing personnel or sales representatives can and do
22 provide technical or engineering assistance to utility customers without
23 violating the Promotional Practices Rule. Technical or engineering
24 assistance can be provided to customers to determine the utility service
25 needs of a customer and utility representatives should answer customers'
26 questions concerning equipment operation and load requirements. However,
27 the audits being conducted by Energy Masters go beyond what is permitted
28 under the rule. Staff witness Bashamp, provides further discussions of the

Rebuttal Testimony of
James L. Ketter

1 audits and he quantifies the impact of the cost of these audits at 91¢ per
2 MBS in his rebuttal testimony.

3 The Promotional Practices Rule allows a further exception for
4 studies to determine comparative capital costs and expenses to show the
5 desirability or feasibility of selecting one form of energy over another in
6 4 CSR 240-14.020(2). This exception does not apply to the energy audits
7 because the audits did not provide comparative costs and expenses. They
8 were conducted solely to promote the electric option.

9 Finally the Staff recommends the cost of the audits should not
10 be recovered in the steam rates as stated in the direct testimony of Staff
11 witness Sharon White.

12 Q. Does this conclude your testimony?

13 A. Yes, it does.
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