

Exhibit No.:
Issue: Rate Issues
Witness/Type of Exhibit: Featherstone,
Surrebuttal
Sponsoring Party: Missouri Public
Service Commission
Company: Kansas City Power & Light
Case No.: HO-36-139

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY DIVISION

SURREBUTTAL TESTIMONY
OF
CARY G. FEATHERSTONE

Jefferson City, Missouri
April, 1987

Exhibit No. 52
Date 4-10-87 Case No. HO-36-139
Reporter Byers

1 SURREBUTTAL TESTIMONY

2 OF

3 CARY G. FEATHERSTONE

4 KANSAS CITY POWER AND LIGHT COMPANY

5 CASE NO. HO-86-139

6 Q. Please state your name for the record.

7 A. Cary G. Featherstone.

8 Q. Are the you the same Cary G. Featherstone who has previously
9 filed direct and rebuttal testimony in this proceeding?

10 A. Yes, I am.

11 Q. What is the purpose of this surrebuttal testimony?

12 A. The purpose of this surrebuttal testimony is to respond to
13 certain statements made by Kansas City Power and Light Company (KCPL or
14 Company) witness Bernard J. Beaudoin in his rebuttal testimony respecting
15 the compensation and rates issue.

16 Q. Mr. Beaudoin states at page 2, lines 18 through 20, that
17 "KCPL has no objection to KPL Gas Service offering free gas boilers to
18 KCPL's existing steam heat customers." Should KPL Gas Service offer free
19 gas boilers to KCPL's existing steam heat customers?

20 A. No. The steam heat customers are not the responsibility of
21 KPL-Gas Service. KCPL is the utility making the request of the Commission
22 for the authority to be relieved of its Certificate of Convenience and
23 Necessity to provide steam service to the downtown Kansas City community.
24 KCPL has in the past held itself out to be "ready, willing and able to
25 supply public utility steam service", has an "obligation to serve all
26 customers indiscriminately" as stated at page 4 of Mr. Mandacina's
27 prefilled direct testimony in Case No. HO-83-274, attached to my prefilled
28

1 direct testimony in this proceeding as Schedule 4-4. KCPL has this
2 obligation to serve its steam customers, not KPL-Gas Service.

3 Q. At page 7, lines 5 through 7 of Mr. Beaudoin's rebuttal
4 testimony, he states that if KCPL's Conversion Plan is rejected by the
5 Commission "In the interim, KCPL will continue to operate its system,
6 which requires that the \$3.2 million revenue deficiency stipulated to by
7 Staff and KCPL be reflected in increased rates." Do you agree with KCPL's
8 position?

9 A. No. Staff is opposed to reflecting \$3.2 million in rates as
10 suggested in Mr. Beaudoin's rebuttal testimony. Staff has recommended
11 that the Commission reject KCPL's Conversion Plan and has suggested that
12 the Commission advise the Company of the conditions under which it would
13 reconsider termination. This recommendation appears on page 39, lines 1
14 through 22 of my direct testimony. Staff recommended that rates be frozen
15 in the event the Commission accepts the recommendation to reject the
16 Conversion Plan. The rate recommendation appears on page 36, lines 9
17 through 17 of my direct testimony.

18 Q. Why shouldn't the \$3.2 million revenue deficiency be
19 reflected in steam rates?

20 A. Because this will result in termination of the steam utility
21 system. Staff believes that any increase in steam rates will only cause
22 further significant declines in steam sales because the increased rate
23 would only accelerate the defection of customers from KCPL's steam system,
24 leading to a gradual death of the system and the accomplishment by default
25 of KCPL's plan to terminate steam service. Customers forced off the
26 system under these circumstances would be left on their own, forced to
27 find alternative source of heating supply. Those customers who were
28 unable to secure an economical alternative energy source would essentially

1 be captive customers and would be required to pay excessive steam rates.
2 If steam rates were increased by \$3.2 million, this would, in effect,
3 cause termination of the steam utility system without the benefit of an
4 orderly abandonment plan and consideration of the hardship on the steam
5 customers caused by abandonment of the steam system.

6 Also, it is unlikely that the Company would ever realize the
7 revenues if the \$3.2 million is included in rates, because as the
8 customers leave the system and fewer Mlbs. of steam are sold by the
9 Company, there will be less of a customer base to provide revenues. Since
10 the Company is operating its steam utility system at a financial loss
11 currently, it is not collecting sufficient revenues at existing rates.
12 Increasing steam rates at this time would only worsen the existing
13 situation.

14 Q. Is KCPL aware that increasing rates will cause a further
15 deterioration of the customer base?

16 A. Yes. Mr. Beaudoin stated at page 14, lines 25 through 27,
17 and page 15, lines 1 and 2, of his direct testimony that:

18 KCPL's present rates do not provide any return on existing
19 investment and do not even fully recover the annual
20 operating costs of the steam system. It is likely that a
21 doubling of rates would certainly cause some steam
22 customers to leave the system at a pace even more rapid
23 than contemplated in KCPL's Conversion Study.

24 Also, at page 4 of Mr. Beaudoin's rebuttal testimony, he
25 discusses his view that the customer base will "unavoidably decrease"
26 which "leads to continually increasing prices as fixed costs must be
27 distributed among fewer and fewer customers."

28 Q. What is Staff's recommendation regarding rates to be charged
if the Company is authorized to phase out steam service and offer electric
boilers and space heating equipment?

1 A. Staff is opposed to the Company offering of electric boilers
2 and space heating equipment because it is in violation of the Commission's
3 promotional practice rules. However, if KCPL is allowed to provide such
4 equipment, Staff is opposed to any increase in rates. It is Staff's
5 position that rates should be set to reflect the fact that steam utility
6 operations are not an ongoing concern and permit only the recovery of
7 prudent, out-of-pocket expenses required to continue safe and adequate
8 service or set a level which would maximize the Company's net income from
9 the system or minimize net losses for the remainder of the phase-out
10 period. The Commission should require KCPL to come forth with information
11 and analysis showing the appropriate rates to be charged during the
12 phase-out.

13 Q. Does this conclude your surrebuttal testimony?

14 A. Yes, it does.
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