

Exhibit No.: 402
Issues: Rate Design
Witness: Maurice Brubaker
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
and Midwest Energy Consumers Group
Case No.: ER-2012-0174
Date Testimony Prepared: October 8, 2012

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December 04, 2012
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Missouri Public
Service Commission

**BEFORE THE PUBLIC SERVICE
COMMISSION OF THE STATE OF MISSOURI**

_____)
In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
_____)
Case No. ER-2012-0174
Tracking No. YE-2012-0404

Surrebuttal Testimony and Schedules of
Maurice Brubaker

On behalf of
**Missouri Industrial Energy Consumers
and
Midwest Energy Consumers Group**

October 8, 2012



BRUBAKER & ASSOCIATES, INC.

DEC MEL Exhibit No. 402
Date 10-29-12 Reporter KF
File No. ER-2012-0174

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)
)

Surrebuttal Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,**
3 **Chesterfield, MO 63017.**

4 **Q ARE YOU THE SAME MAURICE BRUBAKER WHO HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 **A Yes. I have previously filed direct testimony on August 16, 2012 and rebuttal**
7 **testimony on September 5, 2012 in this proceeding regarding rate design issues.**

8 **Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**
9 **THAT TESTIMONY?**

10 **A Yes. This information is included in Appendix A to my direct testimony on rate design**
11 **issues.**

12 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

13 **A I am appearing on behalf of Missouri Industrial Energy Consumers ("MIEC") and**
14 **Midwest Energy Consumers Group ("MECG"). These companies purchase**

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1 substantial amounts of electricity from Kansas City Power & Light Company ("KCPL")
2 and the outcome of this proceeding will have an impact on their cost of electricity.

3 **Q WHAT IS THE SUBJECT OF YOUR SURREBUTTAL TESTIMONY?**

4 **A** In my surrebuttal testimony, I will respond to certain portions of the rebuttal
5 testimonies of KCPL witnesses Normand and Rush, and MPSC Staff witness
6 Scheperle.

7 The fact that I may not respond to a particular point or position should not be
8 interpreted as an endorsement.

9 **Response to KCPL**

10 **Q AT PAGE 3 OF HIS REBUTTAL TESTIMONY, MR. NORMAND TAKES ISSUE**
11 **WITH THE STATEMENT MADE IN YOUR TESTIMONY, AS WELL AS IN THE**
12 **TESTIMONY OF DR. GOINS, THAT HIS BIP APPROACH IS OBSCURE AND**
13 **INAPPROPRIATE. IN RESPONSE, HE CLAIMS IT IS WELL RECOGNIZED IN THE**
14 **INDUSTRY AND STATES THAT HE HAS USED THIS APPROACH AS WELL AS**
15 **SIMILAR METHODS FOR OVER 30 YEARS. PLEASE RESPOND TO MR.**
16 **NORMAND'S TESTIMONY.**

17 **A** I readily acknowledge that Mr. Normand has proposed the BIP method on a number
18 of occasions, and for a number of years. I also acknowledge that it is described in
19 the National Association of Regulatory Utility Commissioners ("NARUC") *Electric*
20 *Utility Cost Allocation Manual* ("Manual"), but the fact that it is described in the Manual
21 does not mean that it is endorsed by anyone, rather it is simply an explanation of the
22 method.

1 What Mr. Normand has not rebutted, and indeed cannot rebut, is that BIP is
2 an obscure and arcane method that has not found support in the industry. In this
3 regard, please refer to Schedule MEB-COS-SR-1 which is the response to MIEC
4 Data Request No. 2.1 in Case No. ER-2010-0355. In response to the request to
5 identify rate proceedings he was aware of where the BIP method was adopted, all
6 that Mr. Normand was able to provide was a reference to the November 2010
7 decision by the Kansas Corporation Commission in the KCPL Iatan 2 rate case. I
8 would certainly think that if Mr. Normand had succeeded in selling the BIP method
9 during the last 30 or so years that he has been promoting it, that he would be able
10 find at least one instance where it was adopted by a Commission prior to 2010.

11 When, in this case, he was invited to detail prior proceedings where the BIP
12 method had been proposed, and where it may have been approved, he did not
13 provide any additional information. (See Schedule MEB-COS-SR-2, which is Mr.
14 Normand's response to MIEC Data Request No. 1-4 in this proceeding.)

15 **Q AT THE BOTTOM OF PAGE 4 OF HIS REBUTTAL TESTIMONY, MR. NORMAND**
16 **SUGGESTS THAT STAFF'S APPROACH TO THE ALLOCATION OF**
17 **GENERATION FIXED COSTS WAS SIMILAR TO HIS METHOD. DO YOU**
18 **AGREE?**

19 **A No. The only similarity between the two methods is the witnesses both refer to them**
20 **as a "BIP" method. The difference between Mr. Normand's approach and Mr.**
21 **Scheperle's approach is like the difference between night and day. At pages 9-11 of**
22 **his rebuttal testimony, Mr. Scheperle lays out the substantial differences between his**
23 **approach and Mr. Normand's. On page 10, he observes:**

24 "In this case KCPL's methodology disproportionately allocates energy
25 to certain classes, ..."

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1 The differences are highlighted very effectively by Table 1 appearing on
 2 page 3 of Mr. Scheperle's rebuttal testimony. In this table, he presents the indexes of
 3 return for various customer classes under Mr. Normand's (referred to as KCPL)
 4 method, Staff's method, DOE's 4CP method and the three methods that I have
 5 submitted. What is most striking is that the results of the cost of service studies, as
 6 measured by the index of return, are within a fairly narrow range when comparing
 7 Staff's study, DOE's study and the three studies that I have presented. This is
 8 summarized below:

<u>Indexes of Return for Major Classes</u>				
<u>Class</u>	<u>KCPL</u>	<u>Staff</u>	<u>DOE</u>	<u>Industrial</u>
	<u>(1)</u>	<u>(2)</u>	<u>4CP</u>	<u>A&E - 4NCP</u>
			<u>(3)</u>	<u>(4)</u>
Residential	0.98	0.53	0.49	0.42
SGS	1.98	2.13	1.84	2.02
MGS	1.28	1.55	1.31	1.42
LGS	1.05	1.29	1.34	1.42
LPS	0.54	1.16	1.28	1.38
Total	1.00	1.00	1.00	1.00

Source: Scheperle Rebuttal Testimony, page 3.

9 In substantial contrast, the KCPL (Normand) results are materially different,
 10 and most dramatically so for customers with high load factors, and customers with
 11 low load factors. This is shown most clearly by comparing the results for the
 12 Residential class and the Large Power Service ("LPS") class.¹ KCPL (Normand) has
 13 an index of return of 0.54 for the LPS class, while Staff has 1.16 and the other studies
 14 are between 1.28 and 1.38. For the Residential class, KCPL (Normand) shows an
 15 index of return of 0.98 while for Staff it is 0.53 and for the other studies it ranges

¹The results for Small General Service, Medium General Service, and to a lesser degree for Large General Service, are not as different because the load factors of these classes are closer to the system average load factor.

1 between 0.42 and 0.49. Essentially, KCPL's (Normand's) results are substantially out
2 of step with the results produced by widely accepted cost of service methodologies.
3 KCPL (Normand) produces an index of return for the Residential class that is
4 essentially twice that for the traditional studies, and an index of return for the LPS
5 class that is roughly one-half that produced by the traditional studies. These
6 significant disparities are a clear indicator that Mr. Normand's study is out of the
7 range of accepted methodologies.

8 **Q ON PAGE 5 OF HIS TESTIMONY, MR. NORMAND FURTHER STATES THAT YOU**
9 **LIMITED YOUR PRESENTATION TO THE MAJOR CLASSES, AND DID NOT**
10 **BREAKDOWN THE STUDIES BY SEASON OR ANY FURTHER DETAIL. IS MR.**
11 **NORMAND CORRECT?**

12 **A** No. All Mr. Normand would have had to do was to look at the workpapers supplied in
13 association with my direct testimony. The workpapers contain the results of class
14 cost of service studies using my recommended method (and the alternatives as well)
15 in exactly the same rate schedule, voltage level and seasonal detail as Mr.
16 Normand's studies.

17 **Q IS KCPL WITNESS RUSH AS ENAMORED WITH MR. NORMAND'S BIP METHOD**
18 **AS IS MR. NORMAND?**

19 **A** No. At page 4 of his testimony, Mr. Rush states the following:

20 **Q: Do you consider the BIP allocation method superior to the**
21 **other methods proposed?**

22
23 **A:** No. I would not say that any one method is superior. Each
24 method provides a mathematically correct way to allocate costs.
25 The analyst is challenged to find a method that best represents
26 their respective belief of how the costs occur. The Commission in
27 their judgment of the facts of this case must evaluate the methods

1 to determine which options produce a fair and reasonable result.
2 There is ample room for reasonable minds to disagree.

3 **Q IN YOUR DIRECT TESTIMONY YOU MADE RECOMMENDATIONS FOR MODEST**
4 **ADJUSTMENTS TO THE LARGE GENERAL SERVICE (“LGS”) AND LPS RATE**
5 **DESIGNS. WHAT IS KCPL’S RESPONSE TO YOUR PROPOSALS WITH**
6 **RESPECT TO THESE TWO RATES?**

7 **A** As indicated on page 12 of his rebuttal testimony, Mr. Rush supports this rate design
8 proposal.

9 **Response to Commission Staff**

10 **Q AT PAGE 4 OF HIS REBUTTAL TESTIMONY, MR. SCHEPERLE INDICATES**
11 **THAT YOUR FILED STUDY WAS PERFORMED ONLY FOR THE “LARGE RATE**
12 **GROUPS,” AND NOT FOR THE SUBGROUPS. IS HE CORRECT?**

13 **A** He is correct that the material provided in direct testimony was limited to the broad
14 customer groups, however as I noted previously in response to Mr. Normand, the full
15 details of these cost of service studies appear in workpapers provided to Mr.
16 Scheperle and to others.

17 **Q DO THE RATES OF RETURN FOR THE SUBGROUPS WITHIN THE LARGE RATE**
18 **GROUPS AFFECT YOUR RECOMMENDATION WITH RESPECT TO THE**
19 **MOVEMENT OF TOTAL CLASS REVENUE REQUIREMENTS?**

20 **A** No. My recommendations are purposely limited to the total change, or movement
21 toward cost of service, for the broad customer groups. To Mr. Scheperle’s point
22 about different rates of return within the large customer groups, there is no reason

1 that individual subgroups within the broad group cannot receive separate and
2 different adjustments based on their individual results. What is important at a high
3 level is that the broad classes move closer to cost of service, which is what I have
4 proposed.

5 **Q AT PAGES 7 AND 8 OF HIS REBUTTAL TESTIMONY, MR. SCHEPERLE TAKES**
6 **SOME EXCEPTION TO YOUR RATE DESIGN PROPOSAL FOR LGS AND LPS**
7 **RATES. STAFF EXPRESSES A CONCERN THAT NO INFORMATION IS**
8 **PROVIDED ABOUT CUSTOMERS WHO MIGHT SWITCH. DO YOU CONSIDER**
9 **THIS TO BE A SIGNIFICANT PROBLEM?**

10 **A** No. First, I would point out that the degree of adjustment to these classes' rate
11 structure is the same as the degree of adjustment which I proposed in the prior case,
12 and which was approved. In that prior case, we did allow KCPL to build in a small
13 amount of revenue to account for a potential migration of customers. However, it
14 appears from KCPL's response to discovery in this case that no such migration
15 actually occurred. Specifically, please see Scheduled MEB-COS-SR-3, which is
16 KCPL's response to MCEG Data Request No. 7-12.

17 **Q WHAT DOES THIS RESPONSE INDICATE?**

18 **A** It indicates that since January 1, 2007, no customer has migrated from the LPS rate
19 to a different rate. That would obviously include the time since the rates in the
20 preceding rate case went into effect. Accordingly, I do not believe it is necessary or
21 appropriate to build into the rate design an allowance for a rate migration.

1 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A Yes, it does.

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BRUBAKER & ASSOCIATES, INC.

Company Name: KCPL MO
Case Description: 2010 KCPL Rate Case
Case: ER-2010-0355

Response to Vuylsteke Diana Interrogatories – Set MIEC_20101129
Date of Response: 12/09/2010

Question No. :2.1

Please identify all regulatory proceedings of which Mr. Normand is aware where the regulatory commission adopted the base-intermediate-peak method of cost allocation that Mr. Normand has proposed in this case.

RESPONSE:

Mr. Normand does not keep or maintain a list of the adoption of the base, intermediate and peak allocation procedure in his associated regulatory proceedings. Mr. Normand is, however, well aware of its development and use as an appropriate and reasonable allocation method for production allocation.

Additionally, in the report and order issued on November 22, 2010 by the Kansas Corporation Commission regarding the recent KCP&L rate case (10-KCPE-415-RTS) the Commission expressed its support and adoption of the base, intermediate and peak allocation procedure.

Attachment: Q2.1 MO Verification.pdf

DATA REQUEST– Set MECG_20120518

Case: ER-2012-0174

Date of Response: 06/06/2012

Information Provided By: N/A

Requested by: Woodsmall David

Question No. : 1-4

Please provide a listing of all proceedings known to Mr. Normand in which the "base, intermediate, peak" cost allocation method has been proposed. For each such proceeding, please provide the name of the utility, the docket number, the approximate date of filing, the jurisdiction, the name of the witness and the party sponsoring the witness, the cost of service study itself along with the supporting testimony and a statement as to whether or not the Commission adopted the proposed "base, intermediate, peak" cost of service study.

Response:

Mr. Normand has always advocated the use of a production stacking method of allocation for production plant class allocation. This method is described in the attached NARUC Electric Utility Cost Allocation Manual (See the attached file "Cost Allocation Manual Pages.pdf."). Mr. Normand's preferred approach is the use of the Probability of Dispatch method. This approach has not been used in recent years as it is quite data intensive and many utility clients have divested generation assets. Instead, he has substituted this detailed Probability of Dispatch approach with an equivalent, time differentiated approach called the Base, Intermediate, Peak (BIP) method.

Mr. Normand does not maintain a list of the use of the BIP method by other parties, consultants, or other jurisdictions. Please see the response to Question #1-3 for testimony details of each study.

Attachment:

Q1-4 Cost Allocation Manual Pages.pdf

Q1-4 MO Verification.pdf

Company Name: KCPL MO
Case Description: 2012 KCP&L Rate Case
Case: ER-2012-0174

Response to Woodsmall David Interrogatories – Set MEGG_20120622
Date of Response: 07/11/2012

Question No. :7-12

Since January 1, 2007, please identify all Missouri customers that have migrated from KCPL's Large Power tariff to another KCPL tariff. For each customer identified, please provide that customers monthly billing determinants for the 12 months preceding the migration from the Large Power tariff.

RESPONSE: (do not edit or delete this line or anything above this)

No customers have migrated from a Large Power rate to a different rate.

Attachment: Q7-12 MO Verification.pdf