EXHIBIT:	
WITNESS:	**DENNIS W. GOINS**
TYPE OF EXHIBIT:	**REBUTTAL TESTIMONY**
ISSUES:	**COST OF SERVICE, REVENUE SPREAD**
SPONSORING PARTY:	**U.S. DEPT. OF ENERGY**
CASE:	**ER-2012-0174**

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2012-0174

**IN THE MATTER OF
KANSAS CITY POWER & LIGHT COMPANY'S
REQUEST FOR AUTHORITY TO IMPLEMENT A GENERAL
RATE INCREASE FOR ELECTRIC SERVICE**

REBUTTAL TESTIMONY OF DR. DENNIS W. GOINS ON BEHALF OF THE U.S. DEPARTMENT OF ENERGY

September 5, 2012

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REBUTTAL TESTIMONY OF DR. DENNIS W. GOINS ON BEHALF OF THE U.S. DEPARTMENT OF ENERGY

INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Dennis W. Goins. I operate Potomac Management Group, an economics and management consulting firm. My business address is 5801 Westchester Street, Alexandria, Virginia 22310.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. Yes. I filed direct testimony on August 16, 2012, on behalf of the U.S. Department of Energy (DOE) representing the Federal Executive Agencies (FEA) served by Kansas City Power & Light Company (KCPL), including the Bannister Federal Complex operated by the National Nuclear Security Administration (NNSA) facility in Kansas City.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Staff witness Michael S. Scheperle regarding cost-of-service and Office of Public Counsel (OPC) witness Barbara A. Meisenheimer

(Meisenheimer Direct) regarding revenue spread. Witness Scheperle sponsors the Staff's class cost-of-service study (COSS) and *Rate Design and Cost-of-Service Report* (CCOS Report). Witness Meisenheimer did not conduct a class COSS. Instead, she uncritically accepted results from the BIP class COSS sponsored by KCPL witness Paul M. Normand "as a guide to setting rates,"[1] and then used these results to develop OPC's proposed revenue spread that produces significant interclass revenue shifts.

Q. ON THE BASIS OF YOUR REVIEW OF WITNESS SCHEPERLE'S AND MEISENHEIMER'S DIRECT TESTIMONY, DID YOU CHANGE ANY CONCLUSION OR RECOMMENDATION PRESENTED IN YOUR DIRECT TESTIMONY?

A. No. I continue to recommend that the Commission:

1. Reject KCPL's base-intermediate-peaking capacity methodology (BIP Method) for allocating fixed production costs to rate classes. Instead, KCPL should be required to use the four coincident peak methodology (4CP Method) that it used in its jurisdictional separation study.
2. Reject KCPL's proposed allocation of off-system sales margins. Instead, the energy component of such margins should be allocated using loss-adjusted kWh (energy) for each class.
3. Approve an across-the-board revenue spread of any rate increase granted to KCPL. An across-the-board spread is both reasonable and fair in this case.

[1] Meisenheimer Direct at 3:10-11.

ALLOCATING DEMAND-RELATED PRODUCTION COSTS

Q. DID THE STAFF AND KCPL USE THE SAME METHOD IN THIS CASE TO ALLOCATE DEMAND-RELATED PRODUCTION COSTS TO THE MISSOURI RETAIL JURISDICTION?

A. Yes. Both KCPL and the Staff used the 4CP Method to allocate these costs to the Missouri retail jurisdiction.

Q. DID STAFF EXPLAIN WHY IT CHOSE THE 4CP METHOD FOR THIS ALLOCATION?

A. Yes. In the *Staff Report: Revenue Requirement Cost of Service* (RRCOS Report) filed in this case, Staff explained its choice of the 4CP Method as follows:

> ***Since generation units and transmission lines are planned, designed, and constructed to meet a utility's anticipated system peak demands plus required reserves***, ***the contribution of each of the three individual jurisdictions*** [Missouri retail, Kansas retail, and wholesale] ***coincident to these system peak demands is the appropriate basis on which to allocate the costs of these facilities***.
>
> Thus the term coincident peak (CP) refers to the load, generally in kWs or MWs, in each of the jurisdictions that coincide with KCPL's overall system peak recorded for the time period used in the corresponding analyses.
>
> Staff utilized a 4CP method – based on the monthly seasonal coincident peaks of the four summer months in the test period – to determine the demand allocation factors, the same method that the Commission ordered in Case No. ER-2006-0314, and

which both KCPL and PSC Staff used in each subsequent KCPL rate case (Case Nos. ER-2007-0291, ER-2009-0089 and ER-2010-0355). ***The 4CP method is appropriate for a utility such as KCPL that experiences dominant demands in the four summer months (June through September) relative to the demands in the other eight months of the year***.[2] (Emphasis added.)

Q. DO YOU AGREE WITH THE 4CP METHOD USED BY STAFF AND KCPL IN THEIR JURISDICTIONAL SEPARATION STUDIES?

A. Yes. As I noted in my direct testimony, the 4CP Method properly reflects the key factors—coincident peak demands—that drive KCPL's need for generation resources.

Q. DID THE STAFF USE A DIFFERENT METHOD TO ALLOCATE DEMAND-RELATED PRODUCTION COSTS TO RATE CLASSES IN MISSOURI?

A. Yes. Instead of the 4CP Method that it used in its jurisdictional separation study, Staff used the BIP Method in its class COSS.

Q. DOES STAFF'S USE OF DIFFERENT METHODS TO ALLOCATE FIXED PRODUCTION COSTS IN ITS JURISDICTIONAL AND CLASS COST STUDIES CREATE MAJOR PROBLEMS?

A. Yes. Staff's use of different allocation methods ensures that the:

- Revenue requirement related to fixed production costs assigned to each class in the class COSS does not match each class' responsibility for fixed production costs assigned to the

[2] Staff RRCOS Report at 215:9-22.

Missouri retail jurisdiction in the jurisdictional separation study.

- Rates designed to recover each class' fixed production cost-related revenue requirement will not properly track cost responsibility.

Q. PLEASE EXPLAIN THE FIRST PROBLEM IN MORE DETAIL.

A. A simple example may help. Assume that multi-jurisdictional Utility X serves two retail customer classes—A and B—in Missouri. Class A and Class B have identical test-year coincident peak demands and are served at the same voltage, but A has a much higher load factor than B. Under the 4CP Method, each class would be responsible for the same amount of fixed production costs assigned to Utility X's Missouri retail jurisdiction because they have identical coincident peaks. For example, if their peak demands resulted in $10 million in fixed production costs assigned to the Missouri retail jurisdiction, each class would be responsible for $5 million (that is, half of the Missouri jurisdictional costs).

The problem arises when the $10 million in jurisdictional costs is allocated to the two Missouri retail classes using the BIP Method instead of the 4CP Method that initially determined Missouri's fixed production cost responsibility. Because Class A has a much higher annual load factor than Class B, the energy-weighted BIP Method used in the class COSS assigns Class A significantly more than $5 million of the $10 million in fixed production costs allocated to the Missouri retail jurisdiction. The cost over-assignment to Class A is directly related to the difference in class load factors—the higher Class A's load factor relative to Class B, the greater the over-assignment of fixed production costs to Class A.

Q. DOES THIS OVER-ASSIGNMENT OF FIXED PRODUCTION COSTS TO THE HIGHER LOAD FACTOR CLASS LEAD TO THE SECOND PROBLEM YOU CITED?

A. Yes. Rates should be designed to track cost of service. If a class' cost responsibility is not determined properly, then rates designed to recover costs assigned to that class will be inefficient and provide improper price signals. As a general rule, in a class COSS, a class should be allocated no more fixed production costs than the class caused to be allocated to the jurisdiction. In the example I just presented, if a class is responsible for $5 million in fixed production costs being assigned to the Missouri retail jurisdiction, it should also be responsible for $5 million in fixed production costs allocated in a Missouri retail class COSS. This can only occur if the same allocation method is used in the jurisdictional and class cost studies. In some cases, different jurisdictional and class cost allocation methods may yield similar class cost responsibilities on a jurisdictional and class basis. However, as shown in my direct testimony in which I presented a 4CP class COSS, the BIP Method and 4CP Method result in significantly different class cost allocations.

Q. ARE THE BIP CLASS COST STUDIES THAT STAFF AND KCPL CONDUCTED IDENTICAL?

A. No. The cost studies reflect different revenue requirements for the Missouri retail jurisdiction. In addition, although Staff and KCPL used the same BIP Method, Staff developed certain BIP allocation factors differently than KCPL. For example, the energy-based factor that Staff used to allocate fixed baseload plant costs in its class COSS reflects total test-year, loss-adjusted kWh by rate class. In contrast, KCPL used an energy-based factor that reflects annualized kWh by class based on a minimum-use month. While Staff used different approaches to develop certain BIP allocation factors, Staff's different approaches do not cure the

fundament flaw in the BIP Method. Specifically, the BIP Method inappropriately allocates all baseload plant costs and the vast majority of KCPL's total fixed production costs on the basis of customer energy use with little regard for the demands that customers impose on KCPL's system. This costing approach is inconsistent with fundamental utility planning practices that emphasize the need for sufficient production capacity to meet peak demands and provide adequate reserve capacity for reliability. In addition, as I noted in my direct testimony, the BIP Method does not properly align allocated baseload plant costs with fuel savings from baseload generation.

Q. DOES THE BIP METHOD USED IN STAFF'S CLASS COST STUDY RECOGNIZE THE CAPACITY VALUE OF BASELOAD PLANT?

A. No. The BIP Method used in both the Staff and KCPL class cost studies allocates all baseload capacity costs on the basis of energy use. This approach fails to recognize any meaningful capacity value of baseload capacity.[3]

Q. DID STAFF ADDRESS THE BIP METHOD'S IMPROPER ALIGNMENT OF ALLOCATED BASELOAD CAPACITY AND FUEL COSTS?

A. No. As I noted in my direct testimony, if baseload fuel costs assigned to a class are not matched with a class' relative use of baseload capacity, high load factor customers that are allocated a disproportionately large share of baseload capacity costs will not be allocated a disproportionately large share of fuel-cost savings from the baseload capacity. In its BIP cost study, Staff (like KCPL) did not separately identify fuel costs by capacity

[3] Staff corrected KCPL's improper allocation of off-system sales margins by allocating these margins on the basis of energy—which follows Commission precedent.

type. Instead, Staff allocated average monthly fuel costs on the basis of class energy (kWh) use—*ignoring any matching of fuel costs and customer energy use by capacity type*. As a result, cost of service for lower load factor classes is understated in Staff's BIP cost study, and overstated for higher load factor classes.

Q. SHOULD THE 4CP METHOD BE USED TO ALLOCATE FIXED PRODUCTION COSTS AMONG MISSOURI RETAIL RATE CLASSES AS WELL AS JURISDICTIONS IN WHICH KCPL OPERATES?

A. Yes. Contrary to witness Scheperle and Staff, the 4CP Method is superior to the BIP Method for allocating fixed production costs in the Missouri retail class COSS. Moreover, using the 4CP Method to allocate fixed production costs in both the jurisdictional and class cost studies ensures consistency in linking customer demands that drive KCPL's need for production capacity with the cost responsibility for fixed production costs ultimately assigned to each rate class.

REVENUE SPREAD

Q. DID KCPL PROPOSE ANY MAJOR INTERCLASS REVENUE SHIFTS ON THE BASIS OF RESULTS FROM ITS CLASS COSS?

A. No. KCPL proposed spreading its proposed rate increase on a uniform, across-the-board percentage basis to each class. As I noted in my direct testimony, this proposal is reasonable given the unreliability of results from KCPL's class COSS and the need to temper class rate increases during tough economic times.

Q. DID OPC WITNESSES MEISENHEIMER ALSO PROPOSE AN ACROSS-THE-BOARD REVENUE SPREAD?

A. No. OPC proposed shifting revenues to the higher load factor LPS class. More specifically, she recommended a revenue neutral shift of up to $5.5 million for LPS customers.[4]

Q. WHAT IS THE BASIS FOR HER RECOMMENDATION?

A. Witness Meisenheimer—who did not conduct a class cost study—appears to rely on results from KCPL's BIP COSS. She said the following:

> In my opinion, Mr. Normand's [BIP] CCOS results support some reduction in return for the Small General Service and Medium General Service classes offset by an increase in the return provided by the Large Power class.[5]

Q. DO YOU AGREE WITH THE REVENUE SPREAD PROPOSED BY WITNESS MEISENHEIMER?

A. No. Her proposed revenue neutral shifts are based on results from a flawed BIP class cost study that she accepted uncritically even though she apparently does not endorse or agree with all of KCPL's allocation methods.[6] As I showed in my direct testimony, results from KCPL's flawed class COSS should not be relied on as the basis for major interclass revenue shifts. The Commission should reject Witness Meisenheimer's proposed revenue spread.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes.

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[4] Meisenheimer Direct at 4:16-18.
[5] *Id*. at 4:2-5.
[6] *Id*. at 2:8-11. Witness Meisenheimer does not specify the allocation methods used by KCPL with which she (representing OPC) disagrees.

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AFFIDAVIT

Commonwealth of Virginia)
County of Fairfax) SS

Dennis W. Goins, being first duly sworn, on his oath states:

1. My name is Dennis W. Goins. I operate Potomac Management Group, an economics and management consulting firm. My business address is 5801 Westchester Street, Alexandria, Virginia 22310.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of the United States Department of Energy which I prepared in written form for introduction into evidence in the above-captioned docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information, and belief.

Dennis W. Goins

Subscribed and sworn to me this 4th day of September 2012.

Notary Public

BARBARA A. CUPP
Notary Public
Commonwealth of Virginia
179781
My Commission Expires Apr 30, 2014

My Commission Expires: 4-30-14