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MISSOURI PUBLIC SERVICE COMMISSION

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2010-0356

SURREBUTTAL TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

January 12, 2011

MGE Exhibit No. GMO-2204
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SURREBUTTAL TESTIMONY OF MICHAEL R. NOACK

CASE NO. ER-2010-0356

JANUARY 2011

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SURREBUTTAL TESTIMONY OF MICHAEL R. NOACK

CASE NO. ER-2010-0356

JANUARY 2011

INTRODUCTION

1

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 **A.** My name is Michael R. Noack and my business address is 3420 Broadway, Kansas City,
4 Missouri 64111.

5

6 **Q. ARE YOU THE SAME MICHAEL R. NOACK THAT PREVIOUSLY FILED**
7 **DIRECT TESTIMONY IN THIS CASE?**

8 **A.** Yes.

9

10

PURPOSE

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 **A.** The purpose of my testimony is to respond to the rebuttal testimony of Tim Rush of
13 KCP&L Greater Missouri Operations Company ("GMO" or the "Company") as it relates
14 to the rate design and line extension issues raised by MGE and Michael Scheperle of the
15 Missouri Public Service Commission Staff ("Staff") as it relates to MGE's rate design
16 issues.

17

18

19

1
2 **RESPONSE TO REBUTTAL TESTIMONY OF TIM RUSH**

3 **A. Rate Design**

4
5 **Q. DOES GMO OPPOSE MGE'S PROPOSAL TO ELIMINATE DISCOUNTED**
6 **ELECTRIC SPACE HEATING RATES FOR RESIDENTIAL CUSTOMERS?**

7 **A. Yes.**

8
9 **Q. ON WHAT BASIS DOES GMO PROPOSE TO CONTINUE ITS USE OF**
10 **DISCOUNTED ELECTRIC SPACE HEATING RATES FOR RESIDENTIAL**
11 **CUSTOMERS?**

12 **A. In his rebuttal testimony (pp. 9 – 14), Mr. Rush indicates that MGE's proposal to**
13 **eliminate GMO's discounted electric space heating rates for residential customers should**
14 **be rejected because:**

- 15 1. MGE has not prepared or presented a comprehensive rate design proposal
16 addressing all customer classes.
- 17 2. MGE has not prepared a study to support its proposal to eliminate GMO's
18 discounted electric space heating rates for residential customers.
- 19 3. MGE's characterization of GMO's residential electric space heating rates
20 as being subsidized by general use residential customers is wrong because
21 GMO's residential electric space heating rates produce a positive return on
22 investment for GMO.
- 23 4. MGE's characterization of GMO's residential electric space heating rates
24 as being subsidized by GMO's residential general service rates is wrong

1 because they recover short-term variable costs and provide a contribution
2 to recovery of GMO's fixed costs.

3 5. Eliminating GMO's discounted residential electric space heating rates will
4 cause rate shock.

5 6. MGE has an "ulterior motive" for proposing to eliminate GMO's
6 discounted residential electric space heating rates.

7
8 **Q. HOW DO YOU RESPOND?**

9 A. First, because MGE's primary concern with GMO's rate design relates to discounted
10 residential electric space heating rates, we have limited our rate design recommendations
11 to that topic. That MGE has not made rate design proposals for any other GMO customer
12 class is no reason to diminish MGE's rate design concerns related to GMO's discounted
13 residential electric space heating rates.

14
15 Second, MGE did not need to conduct its own separate study to support elimination of
16 GMO's discounted residential electric space heating rates; GMO's own CCOS provides
17 ample evidence supporting such elimination. GMO witness Normand's CCOS study, as
18 shown on Tables 3A and 3B on pages 20 and 21 of his direct testimony, indicates that the
19 winter rate of return for the electric space heating customers of the former MPS territory
20 is 5.483%, while the return for the general use customers is 8.013% and the return for the
21 residential class as a whole is 6.940%. For the former St. Joseph Light & Power (L&P)
22 territory the winter rate of return for the electric space heating customers is 4.027%,
23 while the return for the general use customers is 7.396% and the return for the residential
24 class as a whole is 5.915%. Therefore, addressing GMO's third and fourth points above,

1 whether characterized as a "subsidy", a "discount", or GMO's apparently preferred term
2 of "under-recovery", Mr. Rush does not dispute that the residential electric space heating
3 customers produce a significantly lower rate of return for GMO than general use
4 residential customers. Nor does Mr. Rush address in any meaningful way the reality that
5 GMO's electric space heating rates are portrayed as "discounted" in advertising
6 apparently intended to induce the purchase and installation of electric appliances in
7 GMO's service territory. (Schedule MRN-4 to my direct testimony)

8
9 Fifth, on the topic of rate shock, GMO provides no evidence whatsoever of potential bill
10 impacts that may result from elimination of its discounted residential electric space
11 heating rates. Absent such evidence, it is difficult to assess the validity of GMO's rate
12 shock concerns.

13
14 Sixth, as to MGE's so-called "ulterior motive", I would simply reply that MGE's desire
15 to benefit its gas service business is no more "ulterior" than GMO's desire to benefit its
16 electric service business. MGE's goal is simply to level the playing field by eliminating
17 discounted residential electric space heating rates.

18
19 **Q. HAS MR. RUSH OFFERED, OR CITED, ANY ADDITIONAL COST BASIS IN**
20 **HIS REBUTTAL TESTIMONY AS SUPPORT FOR CONTINUATION OF**
21 **GMO'S DISCOUNTED RESIDENTIAL ELECTRIC SPACE HEATING RATES?**

22 **A.** No. Although Mr. Rush uses the words "cost-based" a number of times, the only cost
23 basis for GMO's discounted residential electric space heating rates that I have seen in this
24 record is GMO witness Normand's CCOS, which shows that discounted residential

1 electric space heating rates produce a significantly lower overall return than general use
2 residential rates. In my opinion, therefore, GMO's own evidence supports elimination of
3 its discounted residential electric space heating rates.
4

5 **Q. HAS MR. RUSH OFFERED AN ALTERNATIVE RATE DESIGN PROPOSAL**
6 **TO ADDRESS MGE'S CONCERNS REGARDING GMO'S DISCOUNTED**
7 **RESIDENTIAL ELECTRIC SPACE HEATING RATES?**

8 A. No. In fact, GMO's rate design proposal – across the board percentage increase for all
9 rates – will only exacerbate the current situation, making the disparity, and hence the
10 discount, between GMO's electric space heating residential rates and its general use
11 electric rates even greater than it is today.
12

13 While Mr. Rush has briefly mentioned the use of summer/winter rates – which he seems
14 to suggest might be used by other Missouri electric providers (Ameren Missouri and
15 Empire) - as a possible way to address this issue, he makes no concrete proposal in this
16 regard. The type of rates that Ameren Missouri and Empire Electric have is a reasonable,
17 although not the only reasonable way to eliminate GMO's discounted residential electric
18 space heating rates. Both Ameren Missouri and Empire have a flat summer rate and a
19 declining block rate in the winter. The electric heating customers benefit from the second
20 step rate, while everyone pays basically the same rate for the non-heating portion of their
21 electric bill.
22

23 GMO has a similar type of rate structure right now for its residential customers: a
24 uniform flat summer rate for all residential customers (electric heating and non-electric

1 heating), but a declining block rate for the general use customers in the winter and an
2 even lower declining block rate for electric heating customers in the winter. As an
3 example of this, for the former L&P territory, the first step rate for a general use
4 residential customer of GMO in the winter is \$0.0805/kWh, while the first step rate for a
5 residential customer with electric space heat in the winter is \$0.0592/kWh. Assuming
6 two households (one with electric space heat and one without) use the same number of
7 kWhs before having to turn on the electric space heat, the house without electric space
8 heat pays 36% more for their electricity in the first step of GMO's declining block rates.

9

10 **Q. ARE THERE OTHER ALTERNATIVES?**

11 **A.** Yes. In addition to eliminating GMO's discounted residential electric space heating rates
12 (MGE's primary proposal), increasing the disparity between GMO's electric space
13 heating residential rates and its general use residential rates (GMO's primary proposal),
14 implementing summer/winter pricing (like Ameren Missouri, Empire and GMO's non-
15 residential classes), another alternative is to move towards elimination of GMO's
16 discounted residential electric space heating rates by reducing the disparity between those
17 rates and GMO's general use residential rates. This may be simpler to achieve and is
18 certainly more consistent with the general considerations regarding rate design offered by
19 Mr. Rush on pages 11 and 12 of his rebuttal testimony (i.e., cost-based, less likely to
20 result in customer dissatisfaction, moving toward a more simplified rate structure, etc.)
21 than increasing the disparity between discounted residential electric space heating rates
22 and general use residential rates as proposed by GMO.

23

24

1 Q. ON PAGE 18 OF HIS REBUTTAL TESTIMONY, MR. RUSH POINTS OUT AN
2 INCIDENT IN KANSAS WHERE THE RATE DESIGN CAUSED A PROBLEM.
3 SINCE HE BROUGHT UP KANSAS, WHAT DID THE KANSAS
4 CORPORATION COMMISSION (KCC) DO TO KCPL'S KANSAS ELECTRIC
5 SPACE HEATING RATES IN THE LAST CASE (DOCKET NO. 10-KCPE 415-
6 RTS) WHICH WAS JUST RECENTLY DECIDED?

7 A. The KCC used an alternative rate design, offered by KCPL and prepared by Mr. Rush,
8 which significantly reduced the discounts and moved the winter rates closer to cost. Prior
9 to the reduction in the discounts, the first step of the electric heat rate was 65% of the
10 general use rate and the second step was 49% of the general use rate. Mr. Rush's
11 proposal, which was accepted by the Kansas Commission, made the first step of the
12 electric heat rate 90% of the general use rate and the second step 79% of the general use
13 second step.

14
15 In reducing KCPL's residential electric space heating discount, the KCC concluded:
16 "KCPL's current rate structure must be redesigned to move customer classes closer to the
17 principal [sic] of cost causation. Each rate class should pay rates based on its costs so
18 that the rate design equalizes the rates of return for all the different classes." (Order: 1)
19 Addressing Prudence; 2) Approving Application, In Part; & 3) Ruling On Pending
20 Requests Docket No. 10-KCPE-415-RTS page 123) The KCC went on to say: "In
21 making its decision, the Commission has reviewed all proposals submitted by the parties
22 and has weighed and balanced their strengths and weaknesses. The Commission has also
23 considered the impact the various proposals will have on ratepayers. With this in mind,
24 the Commission makes the following rulings. The Commission adopts KCPL's

1 alternative rate design proposal presented in Rush Rebuttal Schedule TMR2010-5 but
2 adjusted for the Commission's decision on revenue requirement. The Commission finds
3 changes to the winter energy charges for residential subclasses contained in this proposal
4 will reduce discounts and move the winter rates closer to cost." (Order: 1) Addressing
5 Prudence; 2) Approving Application, In Part; & 3) Ruling On Pending Requests Docket
6 No. 10-KCPE-415-RTS page 125)

7
8
9 **B. Facilities Extension Practices**

10 **Q. MR. RUSH, ON PAGE 20 OF HIS REBUTTAL TESTIMONY, STATES THAT**
11 **MGE IS TRYING TO MISCHARACTERIZE THE LINE EXTENSION**
12 **PROGRAM OF GMO. IS THAT WHAT YOU ARE TRYING TO DO?**

13 **A.** No. I agree with Mr. Rush that MGE has very similar terms and conditions in our tariff
14 sheets to what GMO has in theirs but only with respect to commercial accounts. For new
15 residential accounts, MGE's tariff only allows an allowance for a line extension of up to
16 75 feet. The customer could install every possible natural gas appliance but MGE by
17 tariff cannot give an additional allowance. On the other hand, the heat pump subdivision
18 agreement, which is Schedule MRN-4 to my direct testimony, says nothing about load
19 characteristics or estimated revenue that is found in GMO's tariff. It simply says that if
20 you put in a heat pump GMO will waive your \$940 per lot deposit and waive the \$450
21 per lot underground service charge. In addition, GMO will pay \$150 for every heat pump
22 installation within 90 days of the dwelling occupancy.

23

1 Q. MR. RUSH DOES NOT CONSIDER THESE WAIVED COSTS OR PAYMENTS
2 AN INCENTIVE. DO YOU AGREE?

3 A. No, I do not. There is not a comparable agreement that I could find for a customer who
4 does not install a heat pump, nor could I find any other occurrence where GMO will pay
5 an amount if you put in a particular appliance. (This does not include payments made
6 under the various energy efficiency programs GMO has in place.) Mr. Rush even points
7 out on page 15 of his rebuttal testimony that the "Heat Pump Subdivision Agreement"
8 helps gets them "in front of the developer".

9
10 Q. FINALLY, ON PAGE 16 OF HIS REBUTTAL TESTIMONY, MR. RUSH
11 STATES THAT I HAVE MADE ADDITIONAL CLAIMS CONCERNING THE
12 EFFICIENCY AND EFFECTIVENESS OF NATURAL GAS. DID YOU
13 ADDRESS THAT IN YOUR TESTIMONY?

14 A. No, I did not. On page 7 of my direct testimony, I state "As to electricity not being the
15 most efficient or effective fuel source for those applications, please see the direct
16 testimony of MGE witness John Reed."

17

18 RESPONSE TO REBUTTAL TESTIMONY OF MICHAEL SCHEPERLE

19

20 Q. ON PAGE 13 OF MR. SCHEPERLE'S REBUTTAL TESTIMONY, HE STATES
21 THAT STAFF DOES NOT SUPPORT MGE'S RECOMMENDATION TO
22 ELIMINATE THE DISCOUNTED ELECTRIC RATE SCHEDULES AND THAT
23 STAFF DOES NOT OPPOSE ELECTRIC SPACE HEATING RESIDENTIAL

1 RATES BUT RATHER RECOMMENDS THAT THE CUSTOMERS ON SUCH
2 RATE SCHEDULE(S) BE MOVED CLOSER TOWARD GMO'S COST TO
3 SERVE THEM. DID STAFF PROPOSE A RATE DESIGN THAT IN ANY WAY
4 MOVES THOSE SCHEDULES TOWARD GMO'S COST TO SERVE THEM?

5 A. No. Staff's proposal - an equal percentage increase for each of the different residential
6 rates - will widen the difference between the general use residential rate and the
7 discounted electric space heating rate.

8
9 MR. SCHEPERLE, ON PAGE 13 GOES ON TO STATE THAT SINCE STAFF'S
10 CLASS COST OF SERVICE STUDY FOR THE FORMER MPS TERRITORY
11 INDICATES THAT THE ELECTRIC SPACE HEAT RATE IS WITHIN 99% OF
12 GMO'S COST TO SERVE THAT CLASS, THE RATE IS NOT DISCOUNTED.
13 DO YOU AGREE WITH THAT STATEMENT?

14 A. No, I do not. Heating and cooling contractors advertise this electric space heat rate as a
15 discounted rate. (Schedule MRN-4 to my direct testimony) If a customer on GMO's
16 space heating rate uses electricity but does not use their electric space heating equipment,
17 that customer still pays significantly less than a customer who does not have electric
18 space heating. Take for example two customers on the former MPS system, one with
19 electric space heating and one without. They both use 1,500 Kwh without any usage for
20 space heating. The customer with electric space heating would pay \$115.25 under rate
21 code MO870 while the customer without electric space heating would pay \$133.18 under
22 rate code MO860 or 16% more. On the former St. Joseph Light & Power system, the
23 customer with electric space heating would pay \$88.30 under rate code MO920 while the

1 customer without electric space heating would pay \$110.55 under rate code MO910 or
2 25% more.

3
4 Also, Mr. Scheperle fails to point out that the table on page 4 of the Class Cost of Service
5 Report indicates that the electric space heat rate of the former L&P territory is
6 significantly under-recovered. Because Staff has recommended an equal percentage
7 increase, the gap between residential general use and the space heat rates will increase.

8
9 **CONCLUSION**

10
11 **Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

12 **A.** GMO'S discounted residential electric space heating rates are not cost-based and should
13 be eliminated. If the Commission believes that outright elimination of GMO's
14 discounted residential electric space heating rates will result in rate shock, then the
15 disparity between the electric space heating residential rate and the general use residential
16 rate should be reduced significantly.

17
18 Finally, GMO's practice of providing incentives – in the form of reduced facilities
19 extension costs as well as outright payments – for the installation of electric appliances
20 should be eliminated.

21
22 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

23 **A.** Yes.

