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Witness: Tim Woolf
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Sponsoring Party: Sierra Club
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

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) Case No. ER-2014-0370
FOR ELECTRIC SERVICE)**

**Surrebuttal Testimony of
Tim Woolf**

**On Behalf of
Sierra Club**

June 5, 2015

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1 **1. INTRODUCTION AND SUMMARY**

2 **Q. Please state your name, title, and employer.**

3 A. My name is Tim Woolf. I am a Vice President at Synapse Energy Economics, located at
4 485 Massachusetts Avenue, Cambridge, MA 02139.

5 **Q. Have you testified previously in this docket?**

6 A. Yes, I provided direct testimony on April 16, 2015.

7 **Q. On whose behalf are you testifying in this case?**

8 A. I am testifying on behalf of Sierra Club.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to clarify my position regarding the Company's proposed
11 residential customer charge and cost allocation in response to Commission Staff Witness
12 Michael Scheperle, Office of the Public Counsel (OPC) Witness David Dismukes, and
13 Missouri Department of Economic Development Division of Energy (DE) Witness
14 Martin Hyman, as well as to respond to several issues regarding decoupling raised by
15 MIEC Witness Greg Meyer and KCP&L Witness Tim Rush in rebuttal testimony.

1 **2. RATE DESIGN**

2 **Q. Has the Missouri Public Service Commission commented on the impacts of higher**
3 **residential customer charges since you filed your direct testimony?**

4 A. Yes. In the Commission’s April 29, 2015 Order in Ameren’s rate case (File No. ER-
5 2014-0258), the Commission rejected Ameren’s request to increase the residential
6 customer charge from \$8.00 to \$8.50, stating:

7 The Commission must also consider the public policy implications of
8 changing the existing customer charges. There are strong public policy
9 considerations in favor of not increasing the customer charges.
10 Residential customers should have as much control over the amount of
11 their bills as possible so that they can reduce their monthly expenses by
12 using less power, either for economic reasons or because of a general
13 desire to conserve energy. Leaving the monthly charge where it is gives
14 the customer more control.¹

15 **Q. Have any other parties in this case recommended that KCP&L’s proposed**
16 **residential customer charge be rejected?**

17 A. Yes. Staff, OPC, and DE recommend that the Company’s proposed \$25.00 residential
18 customer charge be rejected. As noted by Staff Witness Michael Scheperle, Staff Witness
19 Robin Kliethermes takes the same position as Sierra Club, recommending that the
20 residential rate design take into account the policy objectives of encouraging and
21 rewarding energy conservation and sending accurate price signals, and that the residential
22 customer charge be increased only by the same percentage that all other residential

¹ Missouri Public Service Commission Report and Order, File No. ER-2014-0258, In the Matter of Union Electric Company, d/b/a Ameren Missouri’s Tariff to Increase Revenues for Electric Service, April 29, 2015, pages 76-77.

1 service class rate elements are increased.² OPC Witness David Dismukes recommends
2 that the customer charge not be increased, but instead that the current customer charge be
3 maintained.³ DE Witness Martin Hyman recommends that the customer charge not be
4 increased, but further states that should the Commission decide to increase the residential
5 customer charge, it should increase it by no more than the percentage increase in the
6 residential energy charge.⁴

7 **Q. Please respond to the recommendation made by the OPC and DE that the**
8 **residential customer charge be maintained at the current level.**⁵

9 A. In my direct testimony, I recommended that the residential customer charge be increased
10 only by the same percentage that the other residential rate elements are increased. This
11 recommendation was made in response to KCP&L's proposal to increase the customer
12 charge drastically for the residential rate class only, thereby treating the residential class
13 differently than the other customer classes, without sufficient justification.⁶

14 However, I agree with OPC and DE that there are several policy reasons for maintaining
15 low customer charges. As described in my direct testimony, low customer charges
16 provide customers with greater control over their bills and send a strong price signal for
17 customers to consume electricity efficiently.⁷

² Rebuttal Testimony of Staff Witness Robin Kliethermes, 2:8-12; Rebuttal Testimony of Staff Witness Michael Scheperle, 5:6-9.

³ Amended Rebuttal Testimony of OPC Witness David Dismukes, 11:5-7.

⁴ Rebuttal Testimony of DE Witness Martin Hyman, 30:3-6

⁵ Amended Rebuttal Testimony of OPC Witness David E. Dismukes, 11:5-7; Rebuttal Testimony of DE Witness Martin R. Hyman, 47:14-15.

⁶ Direct Testimony of Tim Woolf, 16:1-17:9.

⁷ Direct Testimony of Tim Woolf, pp. 19:1-22:12.

1 Consequently, I would like to modify my recommendation regarding the residential
2 customer charge. I recommend that the residential customer charge be maintained at its
3 current level. If, however, the Commission finds that the residential customer charge
4 should be increased, I recommend that the percentage increase be no more than is applied
5 to the other residential rate elements.

6 **Q. Do you take a position regarding cost allocation among the customer classes?**

7 A. No, I take no position regarding cost allocation. My primary recommendation is that the
8 residential class should not be treated so differently from the other classes, unless there is
9 a good justification for doing so. In its application, the Company has proposed to increase
10 the residential customer charge by more than 177 percent, but the Company has neither
11 proposed a similar increase to the customer charge for any of the other classes nor offered
12 a good justification for this differential treatment.

13 **3. DECOUPLING**

14 **Q. What concerns and comments does Mr. Meyer offer related to your**
15 **recommendation to explore the option of revenue decoupling?**

16 A. Mr. Meyer raises several issues regarding decoupling: (1) that decoupling may be
17 prohibited in Missouri because it is retroactive ratemaking;⁸ (2) that decoupling serves a
18 different purpose than cost trackers and fuel adjustment clauses;⁹ (3) that there already
19 exists a mechanism to address lost revenues from energy efficiency;¹⁰ (4) that introducing

⁸ Rebuttal Testimony of MIEC Witness Greg R. Meyer, 7:5-17.

⁹ *Id.*, 6:13 - 7:2.

¹⁰ *Id.*, 6:4-6.

1 revenue decoupling would result in customer confusion and bill volatility;¹¹ (5) that
2 decoupling would violate the “all relevant factors” ratemaking concept,¹² and (6) that
3 decoupling would reduce a utility’s incentive to restore service after a storm.¹³ I address
4 each of these points below.

5 **Q. Please explain Mr. Meyer’s concern that decoupling may be prohibited in Missouri.**

6 A. On page 7 of his rebuttal testimony, Mr. Meyer quotes a court case that prohibits
7 retroactive ratemaking in Missouri. Mr. Meyer implies that decoupling is retroactive
8 ratemaking, and suggests that this ruling may prohibit decoupling in Missouri.

9 **Q. Do you agree with Mr. Meyer’s assessment?**

10 A. No. Decoupling is not a form of retroactive ratemaking. The quote used by Mr. Meyer
11 defines retroactive ratemaking as permitting a utility to “collect additional amounts
12 simply because they had additional past expenses not covered by either clause.”¹⁴
13 Decoupling does not allow a utility to collect additional amounts of revenues based on
14 costs that were not included in the rates. On the contrary, decoupling allows a utility to
15 recover the same amount of revenues that were allowed in the most recent rate case. This
16 is not retroactively adjusting costs or revenues; decoupling simply involves creation of a
17 mechanism to facilitate the collection of approved amounts.

¹¹ *Id.*, 8:3-22.

¹² *Id.*, 9:3-15.

¹³ *Id.*, 9:17 - 10:10.

¹⁴ Rebuttal Testimony of MIEC Witness Greg R. Meyer, 7:10-11 (quoting *State ex rel. Utility Consumers Council*, 585 S.W.2d 41, 59 (MO 1979)).

1 **Q. Mr. Meyer infers from your testimony that you are suggesting that decoupling could**
2 **be used to replace the FAC and certain trackers. Is this what you are suggesting?**

3 A. No. On page 23 of my direct testimony, I note that there is a similarity between higher
4 customer charges and several of the new ratemaking elements proposed by KCP&L (the
5 FAC and the cost trackers). My reason for identifying this similarity is to point out that
6 there is an underlying theme behind the increased customer charges, the FAC, and the
7 cost trackers: each of them is intended to more closely align revenues with costs. In other
8 words, in requesting higher customer charges, the FAC, and the cost trackers, the
9 Company is seeking greater certainty that revenues collected will match costs incurred.

10 On page 24 of my direct testimony, I address decoupling as it relates to increased
11 customer charges: “a revenue decoupling mechanism offers a far superior way to address
12 revenue sufficiency and volatility compared to increasing fixed customer charges.” I do
13 not suggest that decoupling serves the same specific function as the FAC or any of the
14 proposed cost trackers, but rather that decoupling helps to accomplish the same general
15 objective of improving the alignment of revenues and costs.

16 **Q. Mr. Meyer contends that decoupling is not necessary to encourage utility energy**
17 **efficiency programs, as the utilities are already permitted to recover lost revenues.**
18 **Do you agree with Mr. Meyer’s argument?**

19 A. No. The throughput portion of the demand-side incentive mechanism (DSIM) is designed
20 to allow KCP&L to recover a portion of the lost revenues resulting from energy
21 efficiency programs. However, the throughput DSIM suffers from many limitations
22 relative to a full decoupling mechanism. In particular, the throughput DSIM:

-
- 1 • Is highly contentious in its application.
 - 2 • Requires excessive emphasis on the measurement and verification of efficiency
 - 3 savings for the purpose of determining the value of the throughput DSIM.
 - 4 • Is designed on the basis of net shared benefits, which can deviate significantly over
 - 5 time, and will not allow for an accurate estimate or collection of lost revenues from
 - 6 energy efficiency programs.
 - 7 • Does not provide any incentive for a utility to undertake other initiatives designed to
 - 8 curtail electricity consumption, such as efficiency codes and standards, time-of-use
 - 9 rates, and distributed generation.
 - 10 • Does not address the issues raised in this docket regarding declining sales volumes,
 - 11 the inability to recover embedded fixed costs in rates, and the volatility of utility
 - 12 revenues.

13 Accordingly, if and when the Commission approves a decoupling mechanism, it will be
14 necessary to eliminate the throughput DSIM to ensure that the Company does not recover
15 any of the lost revenues twice.

16 **Q. Please respond to Mr. Meyer’s concern that revenue decoupling would cause**
17 **customer rates to be more volatile and cause customer confusion.**

18 A. Any decoupling adjustments will be based on deviations in revenues from one year to the
19 next, and are thus likely to be small. That is, rates are generally set on an ongoing basis to
20 recover the following year’s target revenues, and should use recently forecasted customer
21 counts and sales. Actual deviations from such forecasts are likely to be small, and

1 therefore decoupling adjustments will also be small. While fluctuations in the economy
2 and weather will cause some deviation from forecasts, it is reasonable to expect that such
3 adjustments will be both up and down, and will generally balance out over time.

4 In addition, decoupling mechanisms should include a cap on the adjustment, as described
5 on page 28 of my direct testimony. This helps to mitigate the volatility of the decoupling
6 adjustments. These caps tend to be on the order of one to three percent of revenues, and
7 an increase or decrease in customer rates of this magnitude is small relative to the
8 volatility that customers generally experience on a month-to-month basis as heating and
9 cooling needs change. In most instances, customers will not notice the decoupling
10 adjustments.

11 **Q. Mr. Meyer also raises a concern that revenue decoupling would address only the**
12 **revenue side of the equation and not the costs, thereby violating the “all relevant**
13 **factors” concept. Is this concern valid?**

14 A. Mr. Meyer raises an important concept in ratemaking: that all costs should be considered
15 when calculating the utility’s revenue requirement. This principle ensures that any cost
16 decreases are also considered when evaluating the revenues required to recover cost
17 increases. This is also why the revenue requirement under decoupling should always be
18 set through a full rate case, so that cost increases and decreases can be considered at the
19 same time.

20 Under decoupling, revenue requirements should be set in the same manner that revenue
21 requirements are currently set under traditional ratemaking. Therefore, Mr. Meyer’s
22 concern about “all relevant factors” is misplaced. Mr. Meyer appears to be concerned that

1 the decoupling adjustments would allow the Company to recover some amount of costs
2 that were not considered at the time rates were set. This is not how decoupling works.
3 The amount of revenues that a utility is allowed to collect under decoupling is based on
4 the costs identified in the rate case. Those costs are based on a consideration of “all
5 relevant factors” that are pertinent at the time of the rate case.

6 **Q. Mr. Meyer also expresses concern that decoupling would reduce a utility’s incentive**
7 **to restore service after a storm. Do you agree with his argument?**

8 A. No. Mr. Meyer suggests that, under decoupling, utilities would face reduced incentives to
9 restore power after a storm, as their revenues would no longer be tied to sales. While it
10 may be true in theory that financial incentives to restore power are slightly reduced, this
11 reduced incentive would not result in prolonged outages. As Mr. Meyer points out in his
12 rebuttal testimony: “a utility has every incentive to restore service quickly.”¹⁵ In addition
13 to the reasons cited by Mr. Meyer, utilities are at risk of public backlash from extended
14 outages, not only from customers but also from local politicians and community leaders.
15 The utilities are also required to report reliability data to the Commission,¹⁶ and the
16 Commission retains the authority to investigate outages and can impose penalties for
17 failure to maintain safe and adequate service.¹⁷ Relative to these existing incentives to
18 restore power after a storm, the small amount of increased revenues a utility might collect
19 under decoupling would not create a meaningful incentive to delay power restoration.

¹⁵ Rebuttal Testimony of MIEC Witness Greg R. Meyer, 9:21.

¹⁶ 4 CSR 240-23.010, <http://sos.mo.gov/adrules/csr/current/4csr/4c240-23.pdf>.

¹⁷ Public utilities are required to provide “safe and adequate” service according to Missouri Revised Statutes, Section 393.130.1 (<http://www.moga.mo.gov/mostatutes/stathtml/39300001301.html>). Section 386.570.1 of the Missouri Revised Statutes also provides for penalties for failing to comply with Missouri laws (<http://www.moga.mo.gov/mostatutes/stathtml/38600005701.HTML>).

1 **Q. Do you have any other comments regarding decoupling?**

2 A. Yes, I wish to respond to Company witness Tim Rush's comments regarding the benefits
3 of decoupling and the venue for investigating and implementing decoupling.

4 **Q. Please summarize Mr. Rush's comments regarding decoupling.**

5 A. Mr. Rush expresses appreciation of my proposal for decoupling and agrees that
6 decoupling would be helpful in enabling the Company to respond to fundamental changes
7 in the electric industry. However, Mr. Rush also states that because decoupling would
8 represent a significant change in the regulatory structure, it should be investigated
9 through a generic proceeding.¹⁸

10 **Q. Do you agree with Mr. Rush?**

11 A. Yes. I agree that it would be appropriate for the Commission to investigate decoupling in
12 a separate, generic proceeding. I note that on May 1, 2015, the Commission opened a
13 new proceeding to consider proposals to create a revenue decoupling mechanism for
14 utilities.¹⁹ This new docket would be an appropriate place to investigate decoupling for
15 KCP&L, as well as the other Missouri utilities.

¹⁸ Rebuttal Testimony of KCP&L Witness Tim M. Rush, 62:9-16.

¹⁹ Public Service Commission of the State of Missouri, In the Matter of a Working Case to Consider Proposals to Create a Revenue Decoupling Mechanism for Utilities, Notice of New Proceeding, File No. AW-2015-0282, issued May 1, 2015.

1 **4. CONCLUSIONS AND RECOMMENDATIONS**

2 **Q. Please summarize your conclusions and recommendations.**

3 A. I recommend that the Commission reject the Company's proposed residential customer
4 charge and direct the Company to instead maintain the customer charge at the current
5 level. Maintaining the customer charge at the current level is appropriate, as it will
6 maintain price signals that encourage conservation, empower customers to reduce their
7 bills, and is more closely aligned with actual customer-related costs than the Company's
8 proposal. If the Commission determines that an increase in the residential customer
9 charge is warranted, such an increase should be limited to the percentage increase applied
10 to other rate components, as I recommended in my direct testimony.

11 In addition, I recommend that decoupling be investigated in a separate proceeding, and
12 note that the Commission has opened such a proceeding. Relative to current ratemaking
13 practices, decoupling allows for a better alignment of utility costs and revenues. Contrary
14 to Mr. Meyer's assertions, decoupling does not represent a form of retroactive ratemaking
15 or single-issue ratemaking, as it only allows a utility to collect the amount of revenues
16 that were allowed in the most recent rate case. Decoupling will have little to no impact on
17 a utility's incentive to restore service after a storm. I also disagree with Mr. Meyer's
18 claim that decoupling would result in customer confusion and bill volatility, as any
19 decoupling adjustments will be small and should be subject to a cap on the order of one
20 to three percent. Finally, while the throughput DSIM enables KCP&L to recover a
21 portion of its lost revenues from energy efficiency, it suffers from many limitations that a
22 full decoupling mechanism does not, and therefore should be eliminated in favor of full
23 revenue decoupling.

1 **Q. Does this conclude your direct testimony?**

2 **A. Yes, it does.**

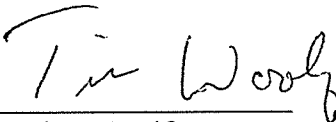
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light)
Company's Request for Authority to Implement a) Case No. ER-2014-0370
General Rate Increase for Electric Service)

AFFIDAVIT OF TIM WOOLF


County of Middlesex)
) ss
State of Massachusetts)

I, Tim Woolf, of lawful age and being duly sworn, state and affirm the following: that the foregoing prepared testimony in question and answer format constitutes my Surrebuttal Testimony in the above-captioned proceeding; that the answers set forth therein were given by me and that I have knowledge of the matters set forth in such answers; and that the answers contained therein are true and correct to the best of my information, knowledge, and belief.



Tim Woolf

SUBSCRIBED AND SWORN before me this 5 day of June, 2015.



Notary Public

My commission expires:

