
EXHIBIT:
WITNESS: DENNIS W. GOINS
TYPE OF EXHIBIT: SURREBUTTAL 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**

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

October 8, 2012

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MISSOURI PUBLIC SERVICE COMMISSION

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INTRODUCTION

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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 PREVIOUSLY FILE TESTIMONY IN THIS CASE?

A. Yes. I filed direct testimony on August 16, 2012, and rebuttal testimony on September 5, 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.

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

3 **A.** The purpose of my surrebuttal testimony is to respond to the rebuttal
4 testimony of KCPL witnesses Paul M. Normand and Tim M. Rush, and
5 Staff witness Michael S. Scheperle regarding cost of service. Witness
6 Normand sponsors KCPL's class cost-of-service study (COSS) that is
7 based on the Base-Intermediate-Peak (BIP) production cost allocation
8 method. Witness Rush sponsors KCPL's rate design. Witness Scheperle
9 sponsors the Staff's class cost-of-service study (COSS)—which is based
10 on a variant of KCPL's BIP Method—as well as Staff's *Rate Design and*
11 *Cost-of-Service Report* (CCOS Report).

12 **Q. ON THE BASIS OF YOUR REVIEW OF REBUTTAL**
13 **TESTIMONY FILED BY THESE WITNESSES, HAVE YOU**
14 **CHANGED ANY CONCLUSION OR RECOMMENDATION**
15 **PRESENTED IN YOUR DIRECT TESTIMONY?**

16 **A.** No. I continue to recommend that the Commission:
17 1. Reject KCPL's base-intermediate-peaking capacity methodology
18 (BIP Method) for allocating fixed production costs to rate classes.
19 Instead, KCPL should be required to use the four coincident peak
20 methodology (4CP Method) that it used in its jurisdictional
21 separation study.
22 2. Reject KCPL's proposed allocation of off-system sales margins.
23 Instead, the energy component of such margins should be allocated
24 using loss-adjusted kWh (energy) for each class.
25 3. Approve an across-the-board revenue spread of any rate increase
26 granted to KCPL. An across-the-board spread is both reasonable
27 and fair in this case.

1 **ALLOCATING DEMAND-RELATED**
2 **PRODUCTION COSTS**

3 **Q. IN THEIR REBUTTAL TESTIMONY, DID KCPL AND STAFF**
4 **ADDRESS THE PRINCIPAL DEFICIENCIES IN THE BIP**
5 **ALLOCATION METHODOLOGY DISCUSSED IN YOUR DIRECT**
6 **TESTIMONY?**

7 **A.** No. Both witness Normand and witness Scheperle simply ignored the
8 three major deficiencies in the BIP Method. In particular, the BIP Method:

9 1. Fails to recognize any meaningful capacity value of baseload
10 plants by allocating all baseload capacity costs on the basis of
11 class average demands—that is, energy use.

12 2. Is inconsistent with the 4CP Method that both KCPL and Staff
13 used to allocate fixed production costs in their jurisdictional
14 separation studies. This inconsistency causes two major
15 problems. First, allocating fixed production costs to the
16 Missouri retail jurisdiction using 4CP demands, and then using
17 the markedly different BIP Method to allocate these
18 jurisdictional fixed costs to Missouri rate classes creates major
19 interclass subsidies. For example, low load factor classes with
20 high summer peak demands that drive jurisdictional fixed
21 production costs under the 4CP Method are able—under the
22 BIP Method—to shift part of their responsibility for
23 jurisdictional costs to higher load factor classes. This result in
24 clearly inequitable, and also independent of any personal
25 judgment regarding whether the BIP Method is a reasonable
26 cost allocation methodology. (It is not.) Second, because the
27 4CP Method and the BIP Method reflect dramatically different
28 views regarding factors that drive KCPL’s fixed production
29 costs, using different jurisdictional and class allocation

1 methods creates a classic mismatch of cost drivers and class
2 cost responsibility. As a result, KCPL and Staff draw
3 incorrect conclusions from their BIP cost studies regarding
4 class cost responsibility.

5 3. Fails to align allocated plant and fuel costs properly by base,
6 intermediate, and peaking category, thereby overstating
7 (understating) the cost of serving higher (lower) load factor
8 customer classes. The BIP Method used by both KCPL and
9 Staff allocates a disproportionate share of expensive baseload
10 plant costs to higher load factor classes, but totally fails to
11 offset part of the higher capital cost allocated to these classes
12 by assigning them a fair and reasonable share of the lower fuel
13 costs of baseload capacity. Instead, both KCPL and Staff
14 allocate *system average fuel costs* to all classes. In other
15 words, under KCPL's BIP Method, higher load factor classes
16 get the higher baseload plant costs, but not the corresponding
17 savings from lower baseload fuel costs.

18 **Q. IN HIS REBUTTAL TESTIMONY, DID WITNESS NORMAND**
19 **IMPLICITLY AGREE WITH THE LAST OF THE THREE MAJOR**
20 **BIP DEFICIENCIES YOU CITED?**

21 **A.** Yes. Regarding the allocation of production plant, witness Normand said:

22 From both a planning and operation point of view, there are two
23 costs that represent production facilities: fixed and variable.
24 *Unless these two costs are synchronized in the allocation*
25 *process, a potentially severe and material misallocation will*
26 *occur in class cost allocation.*¹

¹ Normand Rebuttal at 7:2-5.

1 Because the BIP cost studies conducted by both KCPL and Staff fail to
2 synchronize the allocation of capacity (fixed) and fuel (variable) costs by
3 type of capacity, they create a *real*—not *potential*—misallocation of costs
4 among Missouri customer classes.

5 **Q. IS THE BIP METHOD “WELL RECOGNIZED IN THE**
6 **INDUSTRY” AS WITNESS NORMAND CLAIMS?**

7 **A.** No. Contrary to witness Normand’s assertion,² the BIP Method is an
8 arcane production cost allocation method that has never gained a strong
9 following among cost analysts or regulators.

10 **Q. DOES THE KANSAS CORPORATION COMMISSION’S**
11 **DECISION IN 2010 TO ADOPT THE BIP METHOD IN DOCKET**
12 **NO. 10-KCPE-415-RTS CHANGE YOUR OPINION THAT THE**
13 **BIP METHOD IS OUT OF THE MAINSTREAM?**

14 **A.** No. The Kansas decision is an anomaly—it represents one of the few
15 cases in the past 30 years in which a regulatory body has adopted the BIP
16 Method. In fact, witness Normand cited no regulatory commission other
17 than Kansas that had adopted the BIP Method in a recent case. Witness
18 Normand’s claim that the BIP Method is a well-recognized cost allocation
19 technique ignores the fact that most regulatory commissions have never
20 adopted it.

21 **Q. DID ANOTHER KCPL WITNESS DISAGREE WITH WITNESS**
22 **NORMAND THAT THE BIP METHOD IS SUPERIOR TO THE**
23 **COST METHODS THAT YOU AND MIEC/MECG WITNESS**
24 **BRUBAKER RECOMMENDED?**

25 **A.** Yes. I recommended the 4CP Method, while witness Brubaker
26 recommended an average and excess demand method to allocate fixed

² *Id.* at 3:20-21.

1 production costs. In his rebuttal testimony, KCPL witness Tim. M. Rush
2 commented on these two cost allocation methods as well as KCPL’s
3 recommended BIP Method. When asked whether he considered the BIP
4 Method superior to the other methods, witness Rush responded: “No. I
5 would not say that any one method is superior.”³ Although he did not
6 simply acknowledge the inherently fatal flaws in the BIP Method, witness
7 Rush’s statement clearly contradicts witness Normand’s repeated
8 assertions regarding the BIP Method’s alleged superiority as a cost
9 allocation methodology. More importantly, if witness Rush is correct that
10 none of the competing allocation methods is superior,⁴ his conclusion
11 implicitly supports picking a well-recognized and accepted cost allocation
12 method—for example, the 4CP Method—instead of the obscure BIP
13 Method that has never gained widespread acceptance by regulators and
14 cost analysts.

15 **Q. DO YOU AGREE WITH WITNESS SCHEPERLE THAT THE BIP**
16 **METHOD RECOGNIZES BOTH CAPACITY AND ENERGY**
17 **CONSIDERATIONS IN ALLOCATING FIXED PRODUCTION**
18 **COSTS?**

19 **A.** No. His claim that the “BIP methodologies [that is, the BIP Method as
20 applied by KCPL and Staff in their cost studies] give weight to both
21 capacity and energy considerations”⁵ is misleading, since the BIP Method
22 allocates *all baseload plant costs*—which comprise the bulk of KCPL’s
23 total fixed production costs—on the basis of energy, with *no weighting* for
24 the capacity value of baseload resources. Stated differently, the BIP
25 Method recognizes only energy considerations in allocating most of
26 KCPL’s fixed production costs.

³ Rush Rebuttal at 4:13.

⁴ I disagree with witness Rush on this point. As noted in my direct and rebuttal testimony, I consider the 4CP Method far superior to the BIP Method.

⁵ Scheperle Rebuttal at 9:18-19.

1 **Q. IS WITNESS SCHEPERLE CORRECT THAT THE 4CP METHOD**
2 **GIVES A FREE RIDE TO OFF-PEAK CONSUMERS?**

3 **A.** No. Witness Scheperle's claim⁶ rests on the incorrect assumption that
4 assigning little if any fixed production capacity costs to off-peak users
5 creates a free rider problem. Basis economic principles support allocating
6 little if any demand-related production costs to customers whose loads
7 occur primarily in off-peak periods (for example, Lighting customers). A
8 free-rider problem occurs if consumers avoid responsibility for costs for
9 which they are economically responsible. Off-peak loads simply utilize
10 production capacity that was built to serve peak demands. As a result,
11 they have no responsibility for a utility's cost of serving peak demands.

12 **Q. DOES WITNESS SCHEPERLE EXAGGERATE ANY POTENTIAL**
13 **FREE RIDER PROBLEM UNDER THE 4CP METHOD?**

14 **A.** Yes. The Lighting class cited by witness Scheperle as a potential free-
15 rider represents a miniscule portion of KCPL's total retail revenue. Even
16 if witness Scheperle is correct about the free-rider issue (which he is not),
17 rejecting a mainstream 4CP allocation method for the arcane BIP Method
18 that assumes no capacity value for baseload production plant is akin to
19 treating an infected fingernail by cutting off the patient's hand. There are
20 far simpler and more reasonable ways of addressing Staff's misplaced
21 free-rider concern in a 4CP class COSS—for example, by simply
22 including a specified fraction of the Lighting class' maximum off-peak
23 demands (say, 25 percent) as CP demands in a 4CP class COSS.

24 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

25 **A.** Yes.

⁶ *Id.* at 13:1-2.

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AFFIDAVIT

Commonwealth of Virginia)
County of Fairfax) SS

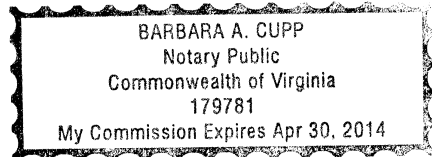
Dennis W. Goins, being first duly sworn, on his oath states:

- 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 Surrebuttal 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.

[Handwritten signature of Dennis W. Goins]
Dennis W. Goins

Subscribed and sworn to me this 1st day of October 2012.

[Handwritten signature of Barbara A. Cupp]
Notary Public



My Commission Expires: 4-30-14