

Exhibit No.:  
Issue: Revenue Requirement  
and Rate Design  
Witness: Chris B. Giles  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Kansas City Power & Light Company  
Case No.: HR-2011-0241  
Date Testimony Prepared: September 2, 2011

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: HR-2011-0241**

**DIRECT TESTIMONY**

**OF**

**CHRIS B. GILES**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**September 2011**

\*\*\* [REDACTED] \*\*\* Designates "Highly Confidential" Information  
Has Been Removed  
Pursuant To 4 CSR 240-2.135.

**DIRECT TESTIMONY**

**OF**

**CHRIS B. GILES**

**Case No. HR-2011-0241**

1   **Q:   Please state your name and business address.**

2   A:   My name is Chris B. Giles. My business address is 3301 South Trailridge Drive,  
3       Independence, Missouri 64055.

4   **Q:   By whom and in what capacity are you employed?**

5   A:   I am an independent regulated utility consultant. I am also affiliated with MODUS  
6       Strategic Solutions, LLC. I was retained by Kansas City Power & Light ("KCP&L" or  
7       "Company") to review and analyze testimony and related exhibits and work-papers in  
8       this proceeding and to provide testimony on behalf of KCP&L. I was retained by  
9       KCP&L exclusively from the period of July 1, 2009 to December 31, 2010 to conclude  
10      rate cases associated with KCP&L's comprehensive energy plan. I currently have a  
11      non-exclusive consulting relationship with KCP&L for regulatory services related to the  
12      La Cygne Environmental Project. I have been a consultant since my retirement in July  
13      2009 from my position as KCP&L's Vice President, Regulatory Affairs.

14   **Q:   As the Vice President, Regulatory Affairs, what were your responsibilities?**

15   A:   My responsibilities included all aspects of regulatory activities including cost of service,  
16      rate design, revenue requirements, and tariff administration.

17   **Q:   How long did you hold that position?**

18   A:   From March 2005 until June 2009.

1   **Q:    Were you employed with KCP&L prior to March 2005?**

2   A:    Yes, I was employed by KCP&L from 1975 until June of 2009. I was primarily  
3       involved in Regulatory Affairs activities during my entire career with KCP&L.

4   **Q:    What is your educational background?**

5   A:    I have a BA degree in economics and an MBA degree with concentrations in accounting  
6       and quantitative analysis from the University of Missouri at Kansas City.

7   **Q:    Have you previously testified in a proceeding at the Missouri Public Service  
8       Commission or before any other utility regulatory agency?**

9   A:    I have previously testified before both the Missouri Public Service Commission and  
10       Kansas Corporation Commission on numerous issues regarding utility rates and  
11       regulation.

12   **Q:    What is the purpose of your Direct Testimony?**

13   A:    The purpose of my Direct Testimony is to identify existing and potential subsidies of  
14       Veolia Energy Kansas City Inc.'s ("Veolia") regulated steam service and; provide  
15       recommendations to the Commission to ensure subsidies are eliminated or prevented  
16       when determining total and class revenue requirement of regulated steam service in this  
17       and future rate cases.

18                                   **REVENUE REQUIREMENT**

19   **Q:    Are you familiar with the revenue requirement calculated by Veolia in this case?**

20   A:    Yes, I have reviewed the Direct Testimony of Veolia's witnesses, exhibits, work-papers,  
21       and Veolia's responses to the Commission's Staff's data requests to the extent they were  
22       provided to me by Veolia.

1   **Q: Did you encounter difficulties in your review of Veolia's rate case?**

2   A: Yes. Veolia has unreasonably delayed discovery by KCP&L throughout this proceeding  
3       and has refused to provide information to the Company. KCP&L had to request  
4       Veolia's direct case (filed April 22, 2011) work-papers in a data request despite the  
5       Commission's Order<sup>1</sup> that the work-papers be provided automatically to the parties.  
6       KCP&L did not receive the work-papers until July 30, 2011. Moreover, KCP&L has  
7       not yet received responses from Veolia to 22 data requests of the Commission's Staff  
8       despite being ordered by the Commission to do so no later than July 22, 2011.<sup>2</sup> KCP&L  
9       reserves the right to file additional testimony once it receives the data requests in  
10      question.

11   **Q: Are you familiar with the corporate structure of the various companies affiliated**  
12      **with Veolia Kansas City?**

13   A: Yes, based on the testimony of Veolia's witnesses and research of public information it  
14      is my understanding that Veolia Kansas City (regulated steam service) and Veolia  
15      Missouri (unregulated chilled water service) are subsidiaries of Thermal North America,  
16      Inc. Thermal North America, Inc. is a subsidiary of Veolia Energy North America  
17      Holdings, Inc. Veolia North America Holdings, Inc. is a subsidiary of Veolia  
18      Environment S.A. a multinational French Company that provides five primary services:  
19      water supply, water management, waste management, energy, and transportation.  
20      Veolia Environment S.A. has 300,000 employees in 74 countries and 2009 revenue of  
21      \$34.6 billion.

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<sup>1</sup> See May 2, 2011 Order Setting Procedural Schedule, Notice of Hearing and Order Scheduling Notice at p. 4.

<sup>2</sup> See July 18, 2011 Order Granting Motion to Compel, Denying Order for Protective Order, and Denying Motion for Evidentiary Hearing.

1   **Q:    Do any of the witnesses for Veolia describe or mention Veolia Environment S.A. in**  
2       **Direct Testimony?**

3   A:    No, they do not.

4   **Q:    Did Veolia request an increase in regulated rates to match its revenue requirement**  
5       **in this case?**

6   A:    No, it did not. Pursuant to Veolia's testimony regulated revenue requirement in this case  
7       would require a rate increase of approximately \$3.69 million. However, Veolia has  
8       requested a rate increase of \$1.38 million.

9   **Q:    What does Veolia's request for a reduced rate case increase mean?**

10  A:    It means that Veolia's rates are being subsidized by its corporate parent.

11  **Q:    Does this represent a subsidy of regulated steam rates?**

12  A:    Yes, it does.

13  **Q:    Please explain.**

14  A:    Veolia's objective is to retain existing customers that use regulated steam service and to  
15       obtain new customers. A new customer may be a customer with an existing premise  
16       within Veolia's service area that converts some of its existing energy requirements from  
17       electricity or natural gas to steam or chilled water service. A new customer may also be  
18       a new premise located within Veolia's service area or located in an expanded service  
19       area. In either case customers may choose between steam, chilled water, electric, or gas  
20       for certain energy needs. I believe that Veolia intentionally prices below full cost of  
21       service to retain and attract customers. Where customers have a choice between  
22       regulated energy suppliers, prices should be based on the cost of providing the service.  
23       By intentionally pricing below cost Veolia sends an inaccurate price signal to its

1 regulated steam customers. The investment required to heat and cool a premise may be  
2 substantial. By pricing below cost Veolia may obtain or retain customers or influence a  
3 customer's investment decision that may likely prove to be more costly to the customer  
4 in the long run once Veolia increases prices to full cost.

5 **Q: Why doesn't KCP&L price below cost to compete with the below cost pricing of**  
6 **Veolia?**

7 A: KCP&L shareholders expect KCP&L to recover its full cost of service. Similarly, where  
8 regulated utilities compete for service, as is the case here, the Commission should  
9 require a regulated utility to set rates equal to its total revenue requirement. KCP&L  
10 does not have a huge multinational foreign firm to absorb losses associated with below  
11 cost pricing. Existing and new customers of Veolia are at risk of substantial rate  
12 increases when Veolia determines by its own volition or by directive of a higher  
13 corporate entity to increase rates to recover its costs. It is unlikely the parent of Veolia  
14 would be willing to indefinitely continue to provide subsidized service to regulated  
15 steam customers. When that time occurs customers will need to make substantial  
16 investment in equipment or pay uneconomic prices for energy compared to other  
17 alternatives. The Commission should not condone such a carrot and stick approach to  
18 providing energy service.

19 **Q: Do you have a recommendation for the Commission related to the total revenue**  
20 **requirement in this case?**

21 A: Yes, I recommend the Commission implement any increase in total revenue requirement  
22 determined by the Commission without regard to the discount (subsidy) proposed by  
23 Veolia.

1   **Q:    Is this the only concern regarding total revenue requirement in this case?**

2   A:    No, Veolia also subsidizes its regulated steam service by including its unregulated  
3       chilled water service in determining the revenue requirement for regulated steam  
4       service. All direct and allocable rate base, expenses, and revenue related to the  
5       unregulated Veolia Missouri chilled water service should be excluded from regulated  
6       steam service revenue requirement because these costs have nothing to do with the  
7       provision of regulated steam service. Alternatively the Commission could regulate the  
8       chilled water service. Schedule CBG-1 shows the amount of subsidy included in the  
9       revenue requirement increase of approximately \*\* [REDACTED] \*\*

10   **Q:    What is the impact of Veolia including its unregulated costs and revenue in  
11       determining revenue requirement in this case?**

12   A:    Based on the Class Cost of Service prepared by Veolia total revenue requirement for  
13       regulated steam service is understated by \*\* [REDACTED] \*\*

14                                   **AFFILIATE TRANSACTION RULE**

15   **Q:    Pursuant to the Commission's affiliate transaction rule (4 CSR 240-80.015) is  
16       Veolia Kansas City required to charge Veolia Missouri its tariffed rate for steam  
17       service?**

18   A:    No, the affiliate transaction rule requires charges to an affiliate to be at the higher of  
19       fully distributed cost or market. The rule sets a floor and no ceiling for pricing of  
20       regulated services to an unregulated affiliate.

21   **Q:    On what basis does Veolia Kansas City charge its unregulated affiliate Veolia  
22       Missouri for steam service?**

23   A:    Veolia Kansas City charges its unregulated affiliate, Veolia Missouri, tariff rate LCS.

1 **Q: Is it a requirement of this Commission that Veolia charge its affiliate a regulated**  
2 **tariff rate?**

3 A: No, Veolia must charge a minimum of fully distributed cost and may charge up to what  
4 the market will bear for unregulated service. Veolia can increase prices to its  
5 unregulated subsidiary at any time regardless of the outcome of this case and is not  
6 bound by regulation to charge its affiliate based on any regulated rate schedule.  
7 Including costs and revenues related to unregulated service in regulated revenue  
8 requirement currently results in a subsidy of regulated service and no limit exists to the  
9 amount of subsidy in future cases. Veolia may charge what the market will bear at any  
10 time for unregulated service.

11 **OTHER SUBSIDIES**

12 **Q: Are there additional subsidies included in Veolia's revenue requirement?**

13 A: Yes, Veolia also provides steam service to two large process steam customers under  
14 contracts. Based on the class cost of service study submitted by Veolia these customers  
15 also subsidize Veolia's regulated steam service.

16 **Q: Should this customer class be excluded in determining total revenue requirement in**  
17 **this case?**

18 A: Yes, these two customers are served under long-term contracts which were negotiated  
19 by Veolia. Revenue from these contracts is not based on tariffs. The revenue  
20 requirement of the regulated steam service customers should not be impacted by these  
21 long-term contracts, whether revenue generated from these contracts is less than, equal  
22 to, or exceed the total allocable and direct costs of serving these customers.



1 Q: What is the impact of Veolia including its process steam costs and revenues in  
2 determining revenue requirement in this case?

3 A: Based on the Class Cost of Service prepared by Veolia total revenue requirement for  
4 regulated steam service is understated by \*\* [REDACTED] \*\*

5 Q: What is the total subsidy included in the revenue requirement?

6 A: The total subsidy is \*\* [REDACTED] \*\* or \*\* [REDACTED] \*\* of the total increase requested by Veolia.  
7 Excluding these subsidies Veolia's total revenue requirement would be \*\* [REDACTED] \*\*  
8 million. Attached schedule CBG-1 shows these amounts.

9 **RATE DESIGN**

10 Q: Do any subsidies exist in Veolia's proposed rate design?

11 A: Yes, the most glaring is the Schedule Interruptible Heating Service ("IHS"). Based on  
12 the Class Cost of Service Study prepared by Veolia these \*\* [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED] \*\* This is no different than any other customer. This discount  
17 provides a subsidy so that these customers will continue to use steam service in lieu of  
18 an on-site gas or electric boiler.

19 Q: Do you have a recommendation regarding rate design and class cost of service?

20 A: Yes, I recommend the Commission allocate any rate increase granted in this proceeding  
21 consistent with exclusion of all costs and revenues of unregulated steam and process  
22 steam customers from revenue requirement to 1) the rates applicable to IHS customers  
23 on an equal percentage basis to equal the results of the class cost of service (an increase

1 of \*\*[REDACTED]\*\* or \*\*[REDACTED]\*\* and 2) the remainder of the increase on an equal  
2 percentage basis to the SCS and LCS schedules an increase of \*\*[REDACTED]\*\* or  
3 \*\*[REDACTED]\*\* Schedule CBG-2 shows the proposed rate design distribution. To the extent  
4 the Commission alters or approves a different revenue requirement in this proceeding I  
5 recommend the same allocation and rate design apply to each class on an equal  
6 percentage basis as described above.

7 **Q: What is the basis for your recommendation on revenue requirement and rate**  
8 **design?**

9 A: As described in various individuals Direct Testimony Veolia competes with other  
10 utilities for heating, cooling, and industrial process services. My recommendations in  
11 this proceeding will limit or eliminate current or potential subsidies in the prices of  
12 Veolia for regulated steam service. This will allow current and potential customers to  
13 have an accurate economic comparison of various alternative energy sources when  
14 making long-term investment decisions.

15 **Q: Does that conclude your testimony?**

16 A: Yes, it does.

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

In the Matter of Veolia Energy Kansas ) File No. HR-2011-0241  
City, Inc.'s Tariff to Increase Rates ) Tracking Nos. YH-2011-0532 and YH-2011-0533

**AFFIDAVIT OF CHRIS B. GILES**

**STATE OF MISSOURI**     )  
  ) ss  
**COUNTY OF JACKSON**    )

Chris B. Giles, being first duly sworn on his oath, states:

1.     My name is Chris B. Giles. I work in Independence, Missouri, and I am an independent regulated utility consultant.

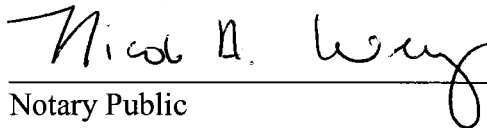
2.     Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of nine (9) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3.     I have knowledge of the matters set forth therein. 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.

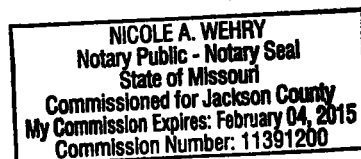


Chris B. Giles

Subscribed and sworn before me this 2<sup>nd</sup> day of September, 2011.

  
Notary Public

My commission expires: Feb 4, 2015



**SCHEDULES CBG-1 AND CBG-2**

**THESE DOCUMENTS CONTAIN  
HIGHLY CONFIDENTIAL  
INFORMATION NOT AVAILABLE  
TO THE PUBLIC**